

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

TTY BIOPHARM COMPANY LIMITED

FINANCIAL STATEMENTS

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

To the Board of Directors of TTY Biopharm Company Limited:

Opinion

We have audited the financial statements of TTY Biopharm Company Limited (“the Company”), which comprise the balance sheets as of December 31, 2017 and 2016, the statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other auditors (please refer to the Other Matter section of our report), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in the Republic of China (“the Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

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

1. Impairment of accounts receivable

Please refer to Notes 4(f), 5(a) and 6(c) of the 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 Company 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 for impairment allowances on accounts receivable.

Auditing procedures performed:

Our principal audit procedures included: assessing the default rate, which was calculated by the Company'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.

2. Inventory valuation

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

Key audit matters:

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

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 net realizable price and the current selling price, and evaluating the reasonableness of them; 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 PharmaEngine, Inc. Those statements were audited by other auditors whose report have been furnished to us, and our opinion, insofar as it relates to the amounts included for certain equity-accounted investees, are based solely on the report of the other auditors. The amount of long-term investment in the investee company represented 8.13% and 8.58% of the related total assets as of December 31, 2017 and 2016, respectively, and the related investment gains represented 4.39% and 9.29% of the profit before tax for the years ended December 31, 2017 and 2016, respectively.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 29, 2018

Notes to Readers

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

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

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

Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

| | December 31, 2017 | | December 31, 2016 | | December 31, 2017 | | December 31, 2016 | | |
|--|---------------------|------------|---------------------|------------|--|---------------------|-------------------|---------------------|------------|
| | Amount | % | Amount | % | Amount | % | Amount | % | |
| Assets | | | | | | | | | |
| Current assets: | | | | | | | | | |
| 1100 Cash and cash equivalents (notes 6(a) and (s)) | \$ 759,043 | 9 | 562,174 | 7 | 2100 Short-term loans (notes (f) and (s)) | \$ 1,650,000 | 19 | 1,249,010 | 15 |
| 1150 Notes receivable, net (notes 6(c) and (s)) | 47,640 | 1 | 32,288 | - | 2150 Notes payable (note 6(s)) | 36,882 | - | 16,099 | - |
| 1170 Accounts receivable, net (notes 6(c) and (s)) | 802,985 | 9 | 666,194 | 8 | 2170 Accounts payable (note 6(s)) | 58,555 | 1 | 57,909 | 1 |
| 1180 Accounts receivable due from related parties, net (notes 6(c), (s) and 7) | 52,641 | 1 | 48,805 | 1 | 2230 Current tax liabilities (note 6(m)) | 126,631 | 1 | 183,226 | 2 |
| 1200 Other receivables, net (notes 6(c), (s) and 7) | 82,383 | 1 | 44,103 | 1 | 2250 Current provisions | - | - | 3,805 | - |
| 130X Inventories (note 6(d)) | 622,503 | 7 | 525,006 | 6 | 2200 Other payables (notes 6(s)) | 432,245 | 5 | 415,493 | 5 |
| 1410 Prepayments | 14,412 | - | 25,923 | - | 2300 Other current liabilities (notes 6(s)) | 48,049 | 1 | 46,022 | 1 |
| 1476 Other current financial assets (notes 6(a) and (s)) | - | - | 5,550 | - | 2320 Long-term liabilities, current portion (note 6(j)) | 300,000 | 3 | 200,000 | 2 |
| 1470 Other current assets | 1,461 | - | 3,493 | - | | <u>2,652,362</u> | <u>30</u> | <u>2,171,564</u> | <u>26</u> |
| | <u>2,386,068</u> | <u>28</u> | <u>1,913,536</u> | <u>23</u> | | | | | |
| Non-current assets: | | | | | Non-Current liabilities: | | | | |
| 1523 Non-current available-for-sale financial assets, net (notes 6(f) and (s)) | 47,200 | 1 | 70,800 | 1 | 2540 Long-term loans (notes 6(j) and (s)) | 250,000 | 3 | 630,000 | 7 |
| 1550 Investments accounted for using equity method (note 6(c)) | 3,327,751 | 37 | 3,566,861 | 42 | 2570 Deferred tax liabilities (note 6(m)) | 298,136 | 3 | 314,729 | 4 |
| 1600 Property, plant and equipment (note 6(f)) | 2,513,641 | 29 | 2,536,258 | 30 | 2640 Net defined benefit liability, non-current (note 6(l)) | 54,310 | 1 | 44,621 | 1 |
| 1760 Investment property, net (notes 6(g)) | 77,644 | 1 | 77,999 | 1 | 2645 Guarantee deposits received (note 6(u)) | 10,759 | - | 10,607 | - |
| 1780 Intangible assets (note 6(h)) | 9,189 | - | 13,936 | - | 2650 Credit balance of investments accounted for using equity method (note 6(c)) | 4,336 | - | - | - |
| 1915 Prepayments for equipment | 165,320 | 2 | 181,472 | 2 | | <u>617,541</u> | <u>7</u> | <u>999,957</u> | <u>12</u> |
| 1920 Refundable deposits paid (notes 6(s) and 7) | 22,939 | - | 19,945 | - | | <u>3,269,903</u> | <u>37</u> | <u>3,171,521</u> | <u>38</u> |
| 1981 Cash surrender value of life insurance (note 6(s)) | 7,275 | - | 5,198 | - | Total liabilities | | | | |
| 1984 Other non-current financial assets, others (notes 6(a), (s) and 8) | 124,007 | 1 | 125,847 | 1 | Equity (note 6(n)): | | | | |
| 1840 Deferred tax assets (note 6(m)) | 25,324 | - | 25,761 | - | Share capital | 2,486,500 | 29 | 2,486,500 | 29 |
| 1900 Other non-current assets, others | 60,321 | 1 | 12,436 | - | Capital surplus: | | | | |
| | <u>6,380,611</u> | <u>72</u> | <u>6,636,513</u> | <u>77</u> | Capital surplus | 396,113 | 5 | 405,368 | 5 |
| | | | | | Retained earnings: | | | | |
| | | | | | Legal reserve | 722,945 | 8 | 603,613 | 7 |
| | | | | | Special reserve | 110,154 | 1 | 110,154 | 1 |
| | | | | | Total unappropriated retained earnings | 1,758,633 | 20 | 1,487,805 | 17 |
| | | | | | Other equity interest | 22,431 | - | 285,088 | 3 |
| | | | | | Total equity | <u>5,496,776</u> | <u>63</u> | <u>5,378,528</u> | <u>62</u> |
| Total assets | <u>\$ 8,766,679</u> | <u>100</u> | <u>\$ 8,550,049</u> | <u>100</u> | Total liabilities and equity | <u>\$ 8,766,679</u> | <u>100</u> | <u>\$ 8,550,049</u> | <u>100</u> |

See accompanying notes to financial statements.

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

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

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

| | | 2017 | | 2016 | |
|------|--|---------------------|------------|------------------|------------|
| | | Amount | % | Amount | % |
| 4000 | Operating revenue (notes 6(p) and 7) | \$ 3,672,040 | 100 | 3,344,262 | 100 |
| 5000 | Cost of sales (notes 6 (d) and 7) | <u>1,321,777</u> | <u>36</u> | <u>1,128,745</u> | <u>34</u> |
| | Gross profit | 2,350,263 | 64 | 2,215,517 | 66 |
| 5910 | Less: Unrealized profit (loss) from sales | 10,004 | - | 7,550 | - |
| 5920 | Add: Realized (profit) loss from sales | <u>7,550</u> | <u>-</u> | <u>9,319</u> | <u>-</u> |
| | Gross profit, net | <u>2,347,809</u> | <u>64</u> | <u>2,217,286</u> | <u>66</u> |
| 6000 | Operating expenses: | | | | |
| 6100 | Selling expenses | 689,514 | 19 | 594,375 | 18 |
| 6200 | General and administrative expenses | 226,955 | 6 | 238,537 | 7 |
| 6300 | Research and development expenses | <u>219,126</u> | <u>6</u> | <u>230,192</u> | <u>7</u> |
| | | <u>1,135,595</u> | <u>31</u> | <u>1,063,104</u> | <u>32</u> |
| | Net operating income | <u>1,212,214</u> | <u>33</u> | <u>1,154,182</u> | <u>34</u> |
| | Non-operating income and expenses (notes 6(r) and 7): | | | | |
| 7010 | Other income | 20,058 | 1 | 18,193 | 1 |
| 7020 | Other gains and losses | 225,646 | 6 | 63,090 | 2 |
| 7050 | Finance costs | (25,191) | (1) | (25,362) | (1) |
| 7070 | Share of profit of subsidiaries and associates accounted for using equity method (note 6(e)) | <u>130,971</u> | <u>4</u> | <u>221,934</u> | <u>7</u> |
| | | <u>351,484</u> | <u>10</u> | <u>277,855</u> | <u>9</u> |
| | Profit before tax | 1,563,698 | 43 | 1,432,037 | 43 |
| 7950 | Less: Income tax expense (note 6 (m)) | <u>218,967</u> | <u>6</u> | <u>238,713</u> | <u>7</u> |
| | Profit for the year | <u>1,344,731</u> | <u>37</u> | <u>1,193,324</u> | <u>36</u> |
| 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 | (9,701) | - | (2,282) | - |
| 8349 | Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | <u>(9,701)</u> | <u>-</u> | <u>(2,282)</u> | <u>-</u> |
| 8360 | Other components of other comprehensive income that may be reclassified to profit or loss | | | | |
| 8361 | Exchange differences on translation | (117,339) | (3) | (22,194) | (1) |
| 8362 | Unrealized gains (losses) on valuation of available-for-sale financial assets | (23,600) | (1) | (63,584) | (2) |
| 8380 | Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss | (141,661) | (4) | 7,061 | - |
| 8399 | Less: Income tax related to components of other comprehensive income that may be reclassified to profit or loss | <u>(19,943)</u> | <u>1</u> | <u>(3,794)</u> | <u>-</u> |
| | | <u>(262,657)</u> | <u>(7)</u> | <u>(74,923)</u> | <u>(3)</u> |
| 8300 | Other comprehensive income for the year, net of tax | <u>(272,358)</u> | <u>(7)</u> | <u>(77,205)</u> | <u>(3)</u> |
| | Total comprehensive income for the year | <u>\$ 1,072,373</u> | <u>30</u> | <u>1,116,119</u> | <u>33</u> |
| | Earnings per share, net of tax (Note 6(o)) | | | | |
| | Basic earnings per share | <u>\$ 5.41</u> | | <u>4.80</u> | |
| | Diluted earnings per share | <u>\$ 5.40</u> | | <u>4.79</u> | |

See accompanying notes to financial statements.

(English Translation of and Report Originally Issued in Chinese)
TTY BIOPHARM COMPANY LIMITED

Statements of Changes in Equity

For the years ended December 31, 2017 and 2016
(Expressed in Thousands of New Taiwan Dollars)

| | Retained earnings | | | | | | Total other equity interest | |
|---|-------------------|-----------------|---------------|-----------------|----------------------------------|---|--|-----------------------------|
| | Share capital | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Exchange differences on translation of foreign financial statements | Unrealized gains (losses) on available-for-sale financial assets | Total other equity interest |
| Balance at January 1, 2016 | 2,486,500 | 373,985 | 482,511 | 110,154 | 1,288,140 | 16,160 | 343,851 | 360,011 |
| Profit | - | - | - | - | 1,193,324 | - | - | - |
| Other comprehensive income | - | - | - | - | (2,282) | (18,522) | (56,401) | (74,205) |
| Total comprehensive income | - | - | - | - | 1,191,042 | (18,522) | (56,401) | (74,205) |
| Appropriation and distribution of retained earnings: | | | | | | | | |
| Legal reserve | - | - | 121,102 | - | (121,102) | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | (870,275) | - | - | - |
| Other changes in capital surplus: | | | | | | | | |
| Changes in equity of associates accounted for using equity method | - | 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 |
| Profit | - | - | - | - | 1,344,731 | - | - | - |
| Other comprehensive income | - | - | - | - | (9,701) | (97,372) | (165,285) | (262,657) |
| Total comprehensive income | - | - | - | - | 1,335,030 | (97,372) | (165,285) | (262,657) |
| Appropriation and distribution of retained earnings: | | | | | | | | |
| Legal reserve | - | - | 119,332 | - | (119,332) | - | - | - |
| Cash dividends of ordinary share | - | - | - | - | (944,870) | - | - | - |
| Other changes in capital surplus: | | | | | | | | |
| Changes in equity of associates accounted for using equity method | - | 5,070 | - | - | - | - | - | - |
| Disposal of investments accounted for using equity method | - | (14,325) | - | - | - | - | - | - |
| Balance at December 31, 2017 | 2,486,500 | 396,113 | 722,945 | 110,154 | 1,758,633 | (99,734) | 122,165 | 22,431 |

Note : The Company's remuneration of directors of \$14,950 and \$15,786 and remuneration of employees of \$24,040 and \$22,048 for the years ended December 31, 2017 and 2016, had been deducted from statements of comprehensive income for the years ended December 31, 2017 and 2016, respectively.

See accompanying notes to financial statements.

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

TTY BIOPHARM COMPANY LIMITED

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

| | 2017 | 2016 |
|--|--------------|-------------|
| Cash flows from (used in) operating activities: | | |
| Profit before tax | \$ 1,563,698 | 1,432,037 |
| Adjustments: | | |
| Adjustments to reconcile profit (loss): | | |
| Depreciation expense | 129,261 | 97,421 |
| Amortization expense | 5,447 | 10,436 |
| Interest expense | 25,191 | 25,362 |
| Interest income | (3,408) | (2,508) |
| Share of profit of subsidiaries and associates accounted for using equity method | (130,971) | (221,934) |
| Loss on disposal of property, plant and equipment | 1,938 | 117 |
| Allocation of deferred income | (1,010) | (1,010) |
| Gain on disposal of investments | (222,174) | - |
| Decrease in current provisions | (3,805) | - |
| Unrealized profit (loss) from sales | 10,004 | 7,550 |
| Realized loss (profit) from sales | (7,550) | (9,319) |
| Total adjustments to reconcile profit (loss) | (197,077) | (93,885) |
| Changes in operating assets and liabilities: | | |
| Notes receivable | (15,352) | (5,268) |
| Accounts receivable | (140,627) | 113,776 |
| Other receivable | (8,834) | (8,466) |
| Inventories | (100,497) | (32,841) |
| Other current assets | 13,543 | 13,498 |
| Notes payable | 20,783 | (3,143) |
| Accounts payable | 646 | (72,570) |
| Other payable | 18,395 | 79,684 |
| Other current liabilities | 2,027 | 6,011 |
| Net defined benefit liability | (12) | (136) |
| Net changes in operating assets and liabilities | (209,928) | 90,545 |
| Total adjustments | (407,005) | (3,340) |
| Cash provided by operating activities | 1,156,693 | 1,428,697 |
| Interest received | 3,408 | 2,508 |
| Dividends received | 133,732 | 92,823 |
| Interest paid | (25,074) | (25,404) |
| Income taxes paid | (271,775) | (171,521) |
| Net cash flows from operating activities | 996,984 | 1,327,103 |
| Cash flows from (used in) investing activities: | | |
| Acquisition of investments accounted for using equity method | (50,000) | (25,059) |
| Proceeds from disposal of investments accounted for using equity method | 213,714 | - |
| Acquisition of property, plant and equipment | (83,027) | (88,445) |
| Proceeds from disposal of property, plant and equipment | 114 | 220 |
| (Increase) decrease in refundable deposits paid | (2,994) | 620 |
| Acquisition of intangible assets | (700) | (1,437) |
| Decrease (increase) in other financial assets | 7,390 | (501) |
| Increase in prepayments for equipment | (10,922) | (28,226) |
| Increase in other non-current assets | (49,962) | (2,789) |
| Net cash flows used in investing activities | 23,613 | (145,617) |
| Cash flows from (used in) financing activities: | | |
| Increase in short-term loans | 8,719,000 | 6,263,020 |
| Decrease in short-term loans | (8,318,010) | (6,214,010) |
| Proceeds from long-term loans | 250,000 | 630,000 |
| Repayments of long-term loans | (530,000) | (500,000) |
| Increase in guarantee deposits received | 152 | 7,976 |
| Decrease in other current liabilities | - | (426,725) |
| Cash dividends paid | (944,870) | (870,275) |
| Net cash flows used in financing activities | (823,728) | (1,110,014) |
| Net increase in cash and cash equivalents | 196,869 | 71,472 |
| Cash and cash equivalents at beginning of period | 562,174 | 490,702 |
| Cash and cash equivalents at end of period | \$ 759,043 | 562,174 |

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)
TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements
For the years ended December 31, 2017 and 2016
(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 are producing a variety of pharmaceuticals and chemical drugs. Please refer to Note 14.

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

The financial statements were authorized for issuance by the Board of Directors on March 29, 2018.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

| <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 "Presentation of Financial Statements-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 "Impairment of Non-Financial Assets- Recoverable Amount Disclosures for Non-Financial Assets" | January 1, 2014 |
| Amendments to IAS 39 "Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| Annual Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 |
| IFRIC 21 "Levies" | January 1, 2014 |

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

The Company believes that the adoption of the above IFRSs would not have any material impact on its financial statements.

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017:

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|--------------------------------|
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative" | January 1, 2017 |
| Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |
| Annual Improvements to IFRS Standards 2014–2016 Cycle: | |
| Amendments to IFRS 12 | January 1, 2017 |
| Amendments to IFRS 1 and Amendments to IAS 28 | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |

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

(i) IFRS 9 "Financial Instruments"

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

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the underlying is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

to the measurement requirements for investments which do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Company believes that the new classification requirements will not have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Company had equity investments classified as available-for-sale with a fair value of \$47,200 that are held for long-term strategic purposes. At initial application of IFRS 9, these investments are measured as FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses will be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Company estimated that there will be no effect for the application of IFRS 9 on January 1, 2018.

2) Impairment-Financial assets and contract assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Company estimated that there will be no effect for the application of IFRS 9’s impairment requirements on January 1, 2018.

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Company's assessment included an analysis to identify data gaps against current processes and the Company plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Company will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

1) Sales of goods

For the sales of products, revenue is currently recognized based on the individual terms of each sales agreement when (i) the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer, (ii) sales and costs can be measured reliably and their recoverability is probable and (iii) there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods. The Company estimated that the application of IFRS 15 will not have any material impact on its financial statements.

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

2) Transition

The Company plans to adopt IFRS 15 using the cumulative effect method. Therefore, the comparative information will not be restated. The cumulative effect of initially applying IFRS 15 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2018. The Company plans to use the practical expedient in paragraph C5(a) of IFRS 15, under which, for contracts that are completed at the date of the initial application, January 1, 2018 will not be restated.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(iv) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

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

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

| <u>New, Revised or Amended Standards and Interpretations</u> | <u>Effective date per IASB</u> |
|--|---|
| 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 16 "Leases" | January 1, 2019 |
| IFRS 17 "Insurance Contracts" | January 1, 2021 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Amendments to IFRS 9 "Prepayment features with negative compensation" | January 1, 2019 |
| Amendments to IAS 28 "Long-term interests in associates and joint ventures" | January 1, 2019 |
| Annual Improvements to IFRS Standards 2015–2017 Cycle | January 1, 2019 |
| Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" | January 1, 2019 |

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

Those which may be relevant to The Company are set out below:

| <u>Issuance / Release Dates</u> | <u>Standards or Interpretations</u> | <u>Content of amendment</u> |
|-------------------------------------|---|---|
| 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 Company is evaluating the impact on its financial position and financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Company completes its evaluation.

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

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

(b) Basis of preparation

(i) Basis of measurement

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

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

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

(ii) Functional and presentation currency

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

(c) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate 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.

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. Translation differences are recognized in other comprehensive income, and 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 Company 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 Company 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.

(Continued)

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

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.

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

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

- (i) It is expected to be realized, or is intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current:

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

(e) Cash and cash equivalents

Cash 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 Company's overall cash management are considered to be a component of cash and cash equivalents in the statement of cash flows.

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

(f) Financial instruments

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

(i) Financial assets

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

1) Available-for-sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, and changes therein, other than impairment losses, interest 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.

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

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

(Continued)

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

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

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 Company uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than 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 be reversed 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.

(Continued)

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

Impairment losses recognized on an available-for-sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. 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 other financial assets are recognized in non-operating income and expenses.

4) Derecognition of financial assets

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

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 Company separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

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

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

(Continued)

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

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.

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(g) Inventories

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

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

(h) Investment in associates

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

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

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

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

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 Company's ownership percentage of the associate, the Company recognizes the Company'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 Company and an associate are eliminated to the extent of the Company's interest in the associate. Unrealized losses on transactions with associates are eliminated in the same way, except to the extent that the underlying asset is impaired.

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

(i) Subsidiaries

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

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

(j) Investment property

Investment property is the property 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 value at the date of reclassification becomes its cost for subsequent accounting.

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

(k) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

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

| | |
|-------------------------|-------------|
| Buildings | 10-55 years |
| Machinery and equipment | 5-10 years |

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

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.

(l) Lease

(i) Lessor

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

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

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

(ii) Lessee

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

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

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

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TTY BIOPHARM COMPANY LIMITED
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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 Company 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 Company recognizes the amount by which its fair value is less than carrying amount as loss on sale of assets.

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

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

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

(m) Intangible assets

(i) Research and development

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

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

- 1) The technical feasibility of completing the intangible asset so that it will be available for use or sale.

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

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

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

(ii) Other intangible assets

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

(iii) Subsequent expenditure

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

(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.

(n) Impairment of non-financial assets

The Company 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).

(Continued)

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

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. Such is deemed as an impairment loss, which shall be recognized immediately in profit or loss.

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

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

(o) Cash surrender value of life insurance

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

(p) Provisions

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

(q) Revenue

(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 Company provides consulting and management services for customers. Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

(iii) Commissions

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

(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”.

(r) Employee benefits

(i) Defined contribution plan

Obligations for contributions to the defined contribution pension plans 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 Company's net obligation in respect of the defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted from the aforesaid discounted present value. The discount rate is the yield at the reporting date on (market yields of high-quality corporate bonds or government bonds) bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

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

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.

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Notes to the Financial Statements

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and change in the present value of the defined benefit obligation.

(iii) Other long-term employee benefits

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

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

(iv) Short-term employee benefits

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

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

(s) Income taxes

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

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

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

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

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

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Notes to the Financial Statements

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

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

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

(t) Earnings per share

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

(u) Operating segments

Please refer to the consolidated financial statements of TTY Biopharm Company Limited for the years ended December 31, 2017 and 2016.

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

The preparation of the financial statements in conformity with the Regulations Governing the Preparation of Financial Reports by Security Issuers requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

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TTY BIOPHARM COMPANY LIMITED

Notes to the Financial Statements

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 Company 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 Company estimates the net realizable value of inventories for obsolescence and unmarketable items at the end of the reporting period and then writes down the cost of inventories to net realizable value. The net realizable value of the inventory is mainly determined based on assumptions as to future demand within a specific time horizon. Due to the rapid industrial transformation, there may be significant changes in the net realizable value of inventories. 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, 2017</u> | <u>December 31, 2016</u> |
|---------------|------------------------------|------------------------------|
| Cash on hand | \$ 1,956 | 3,302 |
| Cash in banks | 560,267 | 528,872 |
| Time deposits | <u>196,820</u> | <u>30,000</u> |
| | <u>\$ 759,043</u> | <u>562,174</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(t) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(b) Available-for-sale financial assets

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|------------------------------------|------------------------------|------------------------------|
| Stocks listed on domestic markets: | | |
| Lumosa Therapeutics Co., Ltd. | \$ <u>47,200</u> | <u>70,800</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

- (i) As of December 31, 2017 and 2016, the aforesaid available-for-sale financial assets were not pledged as collateral.
- (ii) If the stock price changes at the reporting date, the changes in other comprehensive income of the Company 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.):

| Stock Price | For the years ended December 31 | | | |
|-----------------|--|-----------------------|--|-----------------------|
| | 2017 | | 2016 | |
| | Other comprehensive income, net of tax | Profit, net of tax | Other comprehensive income, net of tax | Profit, net of tax |
| Increase by 10% | \$ 4,720 | - | 7,080 | - |
| Decrease by 10% | \$ (4,720) | - | (7,080) | - |

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

| | December 31, 2017 | December 31, 2016 |
|--------------------------------|----------------------|----------------------|
| Notes receivables | \$ 47,640 | 32,288 |
| Accounts receivables | 881,910 | 746,283 |
| Other receivables | 82,383 | 44,103 |
| Less: Allowance for impairment | (26,284) | (31,284) |
| | \$ 985,649 | 791,390 |

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

| | December 31, 2017 | December 31, 2016 |
|----------------------------|----------------------|----------------------|
| Past due less than 90 days | \$ 3,884 | 1,812 |
| Past due 91-180 days | - | 1,485 |
| Past due 181-365 days | - | 5,422 |
| | \$ 3,884 | 8,719 |

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

| | Individually assessed impairment | Collectively assessed impairment | Total |
|---------------------------------|--|--|---------|
| Balance as of January 1, 2017 | \$ 20,394 | 10,890 | 31,284 |
| Reversal of impairment loss | - | (5,000) | (5,000) |
| Balance as of December 31, 2017 | \$ 20,394 | 5,890 | 26,284 |

(Continued)

TTY BIOPHARM COMPANY LIMITED
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| | Individually assessed impairment | Collectively assessed impairment | Total |
|---------------------------------|---|---|---------------|
| Balance as of January 1, 2016 | \$ 20,539 | 24,190 | 44,729 |
| Amounts written off | (145) | - | (145) |
| Reversal of impairment loss | - | (13,300) | (13,300) |
| Balance as of December 31, 2016 | <u>\$ 20,394</u> | <u>10,890</u> | <u>31,284</u> |

- (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 Company 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 evaluating the uncollectible amounts deriving from OEM, revenues from sales abroad, hospitals, and others.
- (ii) As of December 31, 2017 and 2016, notes receivable and accounts receivable were not pledged as collateral.

(d) Inventories

| | December 31, 2017 | December 31, 2016 |
|--|------------------------------|------------------------------|
| Merchandise | \$ 154,605 | 109,961 |
| Finished goods | 101,497 | 114,986 |
| Work in process | 108,060 | 102,487 |
| Raw materials | 183,436 | 207,832 |
| Materials | <u>29,650</u> | <u>31,064</u> |
| Subtotal | 577,248 | 566,330 |
| Goods in transit | <u>97,919</u> | <u>16,689</u> |
| Total | 675,167 | 583,019 |
| Less: Allowance for inventory market decline and obsolescence | <u>(49,664)</u> | <u>(58,013)</u> |
| Net amount | <u>\$ 625,503</u> | <u>525,006</u> |

The cost of inventories recognized as cost of goods sold and expense for the years ended December 31, 2017 and 2016, amounted to \$1,297,756 and \$1,089,982, respectively. The main item was the costs arising from selling goods. For the years ended December 31, 2017 and 2016, the inventory reversal of gain from valuation of inventories at net realizable value or write-down to net realizable value was recognized as an (decrease) increase in cost of goods sold of \$(8,349) and \$38,763, respectively.

(Continued)

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As of December 31, 2017 and 2016, the aforesaid inventories were not pledged as collateral.

(e) Investments accounted for using equity method

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

| | <u>December 31,</u> <u>2017</u> | <u>December 31,</u> <u>2016</u> |
|--------------|------------------------------------|------------------------------------|
| Subsidiaries | \$ 2,298,985 | 2,559,103 |
| Associates | <u>1,024,430</u> | <u>1,007,758</u> |
| | <u>\$ 3,323,415</u> | <u>3,566,861</u> |

(i) Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2017 and 2016.

(ii) Associates

- 1) As of December 31, 2017 and 2016, the carrying value of associates which had a quoted market price amounted to \$771,239 and 792,619, respectively, while fair value amounted to \$4,386,636 and 4,545,226, respectively.
- 2) Chuang Yi Biotech Co., Ltd.'s shares were listed on the emerging market in January 2016. Chuang Yi Biotech Co., Ltd. launched a cash capital increase and the Company invested \$25,059 for 626,465 shares in 2016, resulting in a decrease in ratio from 27.84% to 27.54%. As the Company did not subscribe in proportion to the shareholding ratio in 2016, such increase was credited to capital surplus of \$2,068.
- 3) For the years ended December 31, 2017 and 2016, 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 \$5,070 and \$29,315, respectively. The Company sold the shares of PharmaEngine, Inc, and such change was credited to capital surplus of \$14,325 and recognized a gain on disposal investment of \$222,174. The Company decrease in proportion to the shareholding ratio for the year ended December 31, 2017 and 2016, such ratio decreased from 19.30% to 18.22% and 19.32% to 19.30%, respectively.

(iii) 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, 2017</u> | <u>December 31, 2016</u> |
| PharmaEngine, Inc. | Research for new drugs and drug development especially for Asian diseases | Taiwan | 18.22 % | 19.30 % |

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Notes to the Financial Statements

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, 2017</u> | <u>December 31, 2016</u> |
|--|--|--------------------------|
| Current assets | \$ 4,071,199 | 3,935,733 |
| Non-current assets | 39,732 | 23,528 |
| Current liabilities | (199,899) | (150,038) |
| Non-current liabilities | - | (10,445) |
| Net assets | <u>\$ 3,911,032</u> | <u>3,798,778</u> |
| Net assets attributable to non-controlling interests | <u>\$ 712,642</u> | <u>733,329</u> |
| Net assets attributable to investee owners | <u>\$ 3,198,390</u> | <u>3,065,449</u> |
| | <u>For the years ended December 31</u> | |
| | <u>2017</u> | <u>2016</u> |
| Revenue | <u>\$ 853,677</u> | <u>1,134,782</u> |
| Profit for the year | \$ 387,063 | 689,625 |
| Other comprehensive income | 187 | (253) |
| Comprehensive income | <u>\$ 387,250</u> | <u>689,372</u> |
| Comprehensive income attributable to non-controlling interests | <u>\$ 68,640</u> | <u>133,049</u> |
| Comprehensive income attributable to investee owners | <u>\$ 318,610</u> | <u>556,323</u> |
| | <u>For the years ended December 31</u> | |
| | <u>2017</u> | <u>2016</u> |
| Net assets attributable to the Company, January 1 | \$ 733,329 | 610,352 |
| Recognition of capital surplus due to change in associates | 5,070 | 29,315 |
| Comprehensive income attributable to the Company | 68,640 | 133,049 |
| Cash dividends received from associates | (59,086) | (39,387) |
| Disposal of associates | (35,311) | - |
| Net assets attributable to the Company, December 31 | <u>712,642</u> | <u>733,329</u> |
| Carrying amount of interest in associates, December 31 | <u>\$ 712,642</u> | <u>733,329</u> |

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Notes to the Financial Statements

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

| | December 31, 2017 | December 31, 2016 |
|--|--|------------------------------|
| Carrying amount of interest in individually insignificant associates | \$ 311,788 | 274,429 |
| | For the years ended December 31 | 2017 |
| Attributable to the Company: | | |
| Profit for the year | \$ 45,088 | 27,276 |
| Other comprehensive income | 480 | (10,707) |
| Comprehensive income | \$ 45,568 | 16,569 |

- (v) Collateral

As of December 31, 2017 and 2016, the investments in the aforesaid equity-accounted investees were not pledged as collateral.

- (f) Property, plant and equipment

The cost, depreciation, and impairment loss of the property, plant and equipment of the Company for the years ended December 31, 2017 and 2016, were as follows:

| | <u>Land</u> | <u>Building and construction</u> | <u>Machinery and equipment</u> | <u>Transportation equipment</u> | <u>Office equipment</u> | <u>Construction in progress</u> | <u>Total</u> |
|------------------------------|-------------------|----------------------------------|--------------------------------|---------------------------------|-------------------------|---------------------------------|------------------|
| Cost: | | | | | | | |
| Balance on January 1, 2017 | \$ 810,323 | 1,238,924 | 655,763 | 3,171 | 400,206 | 126,957 | 3,235,344 |
| Additions | - | 11,902 | 1,548 | 2,584 | 19,022 | 47,971 | 83,027 |
| Disposals | - | (4,233) | (620) | - | (10,021) | - | (14,874) |
| Reclassifications | - | 21,774 | - | - | 22,034 | (18,494) | 25,314 |
| Balance on December 31, 2017 | \$ 810,323 | 1,268,367 | 656,691 | 5,755 | 431,241 | 156,434 | 3,328,811 |
| Balance on January 1, 2016 | \$ 810,323 | 776,651 | 395,162 | 4,371 | 352,660 | 546,098 | 2,885,265 |
| Additions | - | 32,277 | 14,848 | - | 11,520 | 29,800 | 88,445 |
| Disposals | - | (5,346) | (635) | (1,200) | (4,494) | - | (11,675) |
| Reclassifications | - | 435,342 | 246,388 | - | 40,520 | (448,941) | 273,309 |
| Balance on December 31, 2016 | \$ 810,323 | 1,238,924 | 655,763 | 3,171 | 400,206 | 126,957 | 3,235,344 |
| Depreciation: | | | | | | | |
| Balance on January 1, 2017 | \$ - | 203,771 | 235,682 | 1,234 | 258,399 | - | 699,086 |
| Depreciation for the year | - | 58,186 | 41,101 | 478 | 29,141 | - | 128,906 |
| Disposals | - | (4,179) | (591) | - | (8,052) | - | (12,822) |
| Balance on December 31, 2017 | \$ - | 257,778 | 276,192 | 1,712 | 279,488 | - | 815,170 |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

| | <u>Land</u> | <u>Building and construction</u> | <u>Machinery and equipment</u> | <u>Transportation equipment</u> | <u>Office equipment</u> | <u>Construction in progress</u> | <u>Total</u> |
|------------------------------|-------------------|----------------------------------|--------------------------------|---------------------------------|-------------------------|---------------------------------|------------------|
| Balance on January 1, 2016 | \$ - | 172,949 | 204,849 | 1,838 | 233,722 | - | 613,358 |
| Depreciation for the year | - | 36,165 | 31,461 | 396 | 29,044 | - | 97,066 |
| Disposals | - | (5,343) | (628) | (1,000) | (4,367) | - | (11,338) |
| Balance on December 31, 2016 | <u>\$ -</u> | <u>203,771</u> | <u>235,682</u> | <u>1,234</u> | <u>258,399</u> | <u>-</u> | <u>699,086</u> |
| Carrying amounts: | | | | | | | |
| Balance on December 31, 2017 | <u>\$ 810,323</u> | <u>1,010,589</u> | <u>380,499</u> | <u>4,043</u> | <u>151,753</u> | <u>156,434</u> | <u>2,513,641</u> |
| Balance on January 1, 2016 | <u>\$ 810,323</u> | <u>603,702</u> | <u>190,313</u> | <u>2,533</u> | <u>118,938</u> | <u>546,098</u> | <u>2,271,907</u> |
| Balance on December 31, 2016 | <u>\$ 810,323</u> | <u>1,035,153</u> | <u>420,081</u> | <u>1,937</u> | <u>141,807</u> | <u>126,957</u> | <u>2,536,258</u> |

(i) Collateral

As of December 31, 2017 and 2016, the property, plant and equipment were not pledged as collateral.

(ii) Property, plant and equipment under construction

New plant is already under construction. As of the reporting date, expenditures incurred amounted to \$156,434, including capitalized loan cost.

(g) Investment property

| | <u>Land</u> | <u>Building and construction</u> | <u>Total</u> |
|--|------------------|----------------------------------|---------------|
| Cost or deemed cost: | | | |
| Balance on January 1, 2017 | <u>\$ 69,152</u> | <u>15,526</u> | <u>84,678</u> |
| Balance on December 31, 2017 | <u>\$ 69,152</u> | <u>15,526</u> | <u>84,678</u> |
| 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> |
| Depreciation and impairment loss: | | | |
| Balance on January 1, 2017 | \$ - | 6,679 | 6,679 |
| Depreciation | - | 355 | 355 |
| Balance on December 31, 2017 | <u>\$ -</u> | <u>7,034</u> | <u>7,034</u> |
| Balance on January 1, 2016 | \$ - | 6,324 | 6,324 |
| Depreciation | - | 355 | 355 |
| Balance on December 31, 2016 | <u>\$ -</u> | <u>6,679</u> | <u>6,679</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

| | <u>Land</u> | <u>Building and construction</u> | <u>Total</u> |
|------------------------------|------------------|--------------------------------------|-------------------|
| Carrying amount: | | | |
| Balance on December 31, 2017 | \$ <u>69,152</u> | <u>8,492</u> | <u>77,644</u> |
| Balance on January 1, 2016 | \$ <u>69,152</u> | <u>9,202</u> | <u>78,354</u> |
| Balance on December 31, 2016 | \$ <u>69,152</u> | <u>8,847</u> | <u>77,999</u> |
| Fair value: | | | |
| Balance on December 31, 2017 | | | \$ <u>103,193</u> |
| Balance on December 31, 2016 | | | \$ <u>129,395</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, 2017 and 2016, investment properties were not pledged as collateral.
- (h) Intangible assets

The components of the costs of intangible assets, amortization, and impairment loss thereon for the years ended December 31, 2017 and 2016, were as follows:

| | <u>Computer software</u> | <u>Patent and franchise</u> | <u>Total</u> |
|--|------------------------------|---------------------------------|-----------------|
| Cost: | | | |
| Balance on January 1, 2017 | \$ 35,269 | - | 35,269 |
| Additions | 700 | - | 700 |
| Disposals | <u>(4,611)</u> | <u>-</u> | <u>(4,611)</u> |
| Balance on December 31, 2017 | \$ <u>31,358</u> | <u>-</u> | <u>31,358</u> |
| Balance on January 1, 2016 | \$ 35,909 | 22,556 | 58,465 |
| Additions | 1,437 | - | 1,437 |
| Disposals | <u>(2,077)</u> | <u>(22,556)</u> | <u>(24,633)</u> |
| Balance on December 31, 2016 | \$ <u>35,269</u> | <u>-</u> | <u>35,269</u> |
| Amortization and Impairment Loss: | | | |
| Balance on January 1, 2017 | \$ 21,333 | - | 21,333 |
| Amortization for the year | 5,447 | - | 5,447 |
| Disposals | <u>(4,611)</u> | <u>-</u> | <u>(4,611)</u> |
| Balance on December 31, 2017 | \$ <u>22,169</u> | <u>-</u> | <u>22,169</u> |
| Balance on January 1, 2016 | \$ 17,742 | 17,788 | 35,530 |
| Amortization for the year | 5,668 | 4,768 | 10,436 |
| Disposals | <u>(2,077)</u> | <u>(22,556)</u> | <u>(24,633)</u> |
| Balance on December 31, 2016 | \$ <u>21,333</u> | <u>-</u> | <u>21,333</u> |

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TTY BIOPHARM COMPANY LIMITED

Notes to the Financial Statements

| | <u>Computer software</u> | <u>Patent and franchise</u> | <u>Total</u> |
|------------------------------|------------------------------|---------------------------------|---------------|
| Carrying amount: | | | |
| Balance on December 31, 2017 | \$ <u>9,189</u> | <u>-</u> | <u>9,189</u> |
| Balance on January 1, 2016 | \$ <u>18,167</u> | <u>4,768</u> | <u>22,935</u> |
| Balance on December 31, 2016 | \$ <u>13,936</u> | <u>-</u> | <u>13,936</u> |

Amortization expenses for intangible assets for the years ended December 31, 2017 and 2016, that were recorded as operating expenses and operating costs, respectively, were as follows:

| | <u>For the years ended December 31</u> | |
|--------------------|--|---------------|
| | <u>2017</u> | <u>2016</u> |
| Operating costs | \$ 347 | 347 |
| Operating expenses | <u>5,100</u> | <u>10,089</u> |
| | \$ <u>5,447</u> | <u>10,436</u> |

As of December 31, 2017 and 2016, the aforementioned intangible assets were not pledged as collateral.

(i) Short-term loans

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------------|------------------------------|------------------------------|
| Secured bank loans | \$ <u>1,650,000</u> | <u>1,249,010</u> |
| Unused credit line | \$ <u>1,170,000</u> | <u>1,455,990</u> |
| Range of interest rates | <u>0.91%~1.02%</u> | <u>1.00%~1.05%</u> |

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

(j) Long-term loans

| | <u>December 31, 2017</u> | | | |
|-----------------------|--------------------------|----------------------|-----------------|-------------------|
| | <u>Currency</u> | <u>Interest rate</u> | <u>Maturity</u> | |
| Unsecured bank loans | NTD | 1.115%~1.298% | 2020 | \$ 550,000 |
| Less: Current portion | | | | <u>(300,000)</u> |
| Total | | | | \$ <u>250,000</u> |
| Unused credit line | | | | \$ <u>430,000</u> |

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

| | December 31, 2016 | | | |
|-----------------------|-------------------|---------------|----------|-------------------|
| | Currency | Interest rate | Maturity | Amount |
| Unsecured bank loans | NTD | 1.135%~1.298% | 2018 | \$ 830,000 |
| Less: Current portion | | | | <u>(200,000)</u> |
| Total | | | | <u>\$ 630,000</u> |
| Unused credit line | | | | <u>\$ -</u> |

(k) Operating leases

(i) Leases as lessee

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

| | December 31, 2017 | December 31, 2016 |
|----------------------------|----------------------|----------------------|
| Less than one year | \$ 2,608 | 3,710 |
| Between one and five years | <u>6,017</u> | <u>8,530</u> |
| | <u>\$ 8,625</u> | <u>12,240</u> |

(ii) Leases as lessor

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

| | December 31, 2017 | December 31, 2016 |
|----------------------------|----------------------|----------------------|
| Less than one year | \$ 11,536 | 7,894 |
| Between one and five years | 5,974 | 20,360 |
| More than five years | <u>-</u> | <u>110</u> |
| | <u>\$ 17,510</u> | <u>28,364</u> |

(l) Employee benefits

(i) Defined benefit plans

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

| | December 31, 2017 | December 31, 2016 |
|---|----------------------|----------------------|
| Present value of defined benefit obligation | \$ 117,605 | 115,353 |
| Fair value of plan assets | <u>(63,295)</u> | <u>(70,732)</u> |
| Net defined benefit liabilities (assets) | <u>\$ 54,310</u> | <u>44,621</u> |

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TTY BIOPHARM COMPANY LIMITED

Notes to the Financial Statements

The Company's employee benefit liabilities were as below:

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------|------------------------------|------------------------------|
| Vacation liability | \$ <u>10,719</u> | <u>13,183</u> |

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

1) Composition of plan assets

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

The balance of labor pension reserve account for the Company is \$63,295 as of December 31, 2017. 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 present value of the defined benefit obligations for the Company were as follows:

| | <u>For the years ended December 31</u> | |
|---|--|----------------|
| | <u>2017</u> | <u>2016</u> |
| Defined benefit obligation, January 1 | \$ 115,353 | 113,021 |
| Current service costs and interest | 2,645 | 3,019 |
| Re-measurement of the net defined benefit liability (asset) | | |
| — Return on plan assets excluding interest income | 9,436 | 1,704 |
| Benefits paid | <u>(9,829)</u> | <u>(2,391)</u> |
| Defined benefit obligation, December 31 | <u>\$ 117,605</u> | <u>113,021</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

3) Movements in the fair value of plan assets

The movements in the fair value of plan assets for the Company were as follows:

| | <u>For the years ended December 31</u> | |
|---|--|---------------|
| | <u>2017</u> | <u>2016</u> |
| Fair value of plan assets, January 1 | \$ 70,732 | 70,546 |
| Re-measurement of the net defined benefit liability (asset) | | |
| — Return on plan assets excluding interest income | 667 | 499 |
| Contributions made | 1,725 | 2,078 |
| Benefits paid | (9,829) | (2,391) |
| Fair value of plan assets, December 31 | <u>\$ 63,295</u> | <u>70,546</u> |

4) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2017 and 2016, were as follows:

| | <u>For the years ended December 31</u> | |
|---|--|--------------|
| | <u>2017</u> | <u>2016</u> |
| Current service cost | \$ 1,145 | 1,289 |
| Net interest of net liabilities for defined benefit obligations | 1,500 | 1,730 |
| Curtailment or settlement gains | (933) | (1,077) |
| | <u>\$ 1,712</u> | <u>1,942</u> |

| | <u>For the years ended December 31</u> | |
|-----------------------------------|--|--------------|
| | <u>2017</u> | <u>2016</u> |
| Operating costs | \$ 655 | 764 |
| Selling expenses | 472 | 394 |
| Administrative expenses | 265 | 470 |
| Research and development expenses | 320 | 314 |
| | <u>\$ 1,712</u> | <u>1,942</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

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

The Company's re-measurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2017 and 2016, was as follows:

| | For the years ended December 31 | |
|---------------------------------|--|-----------------------|
| | <u>2017</u> | <u>2016</u> |
| Accumulated amount, January 1 | \$ (3,064) | (5,346) |
| Recognized during the period | <u>9,701</u> | <u>2,282</u> |
| Accumulated amount, December 31 | <u><u>\$ 6,637</u></u> | <u><u>(3,064)</u></u> |

- 6) Actuarial assumptions

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

| | <u>2017.12.31</u> | <u>2016.12.31</u> |
|------------------------------|-------------------|-------------------|
| Discount rate | 1.15 % | 1.30 % |
| Future salary increases rate | 3.00 % | 3.00 % |

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is \$1,686.

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

- 7) Sensitivity analysis

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

| | Influence of defined benefit obligation | |
|------------------------|--|--------------------------|
| | <u>Increase by 0.50%</u> | <u>Decrease by 0.50%</u> |
| December 31, 2017 | | |
| Discount rate | \$ (5,364) | 5,757 |
| Future salary increase | 5,063 | (4,786) |
| December 31, 2016 | | |
| Discount rate | (5,447) | 5,858 |
| Future salary increase | 5,179 | (4,885) |

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.

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2017 and 2016.

(ii) Defined contribution plans

The Company 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 Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contributions to the Bureau of Labor Insurance amounted to \$22,147 and \$20,418 for the years ended December 31, 2017 and 2016, respectively.

(m) Income taxes

(i) Income tax expense

The components of income tax in 2017 and 2016 were as follows:

| | <u>For the years ended December 31</u> | |
|--|--|----------------|
| | <u>2017</u> | <u>2016</u> |
| Current tax expense | | |
| Current period | \$ 223,074 | 236,260 |
| Adjustment for prior periods | <u>(7,894)</u> | <u>5,950</u> |
| | <u>215,180</u> | <u>242,210</u> |
| Deferred tax expense | | |
| Origination and reversal of temporary difference | <u>3,787</u> | <u>(3,497)</u> |
| Income tax expense | <u>\$ 218,967</u> | <u>238,713</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>2017</u> | <u>2016</u> |
| Items that may be reclassified subsequently to profit and loss: | | |
| Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income | \$ 19,943 | 3,794 |
| | <u>\$ 19,943</u> | <u>3,794</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

Income tax calculated on pre-tax financial income was reconciled with income tax expense for the years ended December 31, 2017 and 2016, as follows:

| | For the years ended December 31 | |
|--|--|-----------------------|
| | 2017 | 2016 |
| Profit before income tax | \$ <u>1,563,698</u> | <u>1,432,037</u> |
| Income tax using the Company's domestic tax rate | \$ 265,829 | 243,446 |
| Share of profit of investments accounted for using equity method | (21,004) | (36,387) |
| Non-deductible expenses | 7,542 | 5,951 |
| Tax incentives | (3,825) | (4,250) |
| Change in provision in prior periods | (7,894) | 5,950 |
| Undistributed earnings additional tax at 10% | 12,684 | 21,964 |
| Gains derived from securities transactions | (37,770) | - |
| Others | <u>3,405</u> | <u>2,039</u> |
| | <u>\$ 218,967</u> | <u>238,713</u> |

(ii) Deferred tax assets and liabilities

The movements in deferred tax assets and liabilities for the years ended December 31, 2017 and 2016, were as follows:

| | <u>Gain on foreign investments</u> | <u>Reserve for land revaluation increment tax</u> | <u>Total</u> |
|--|------------------------------------|---|-----------------------|
| Deferred tax liabilities: | | | |
| Balance, January 1, 2017 | \$ 253,858 | 60,871 | 314,729 |
| Recognized in profit or loss | 3,350 | - | 3,350 |
| Recognized in other comprehensive income | <u>(19,943)</u> | <u>-</u> | <u>(19,943)</u> |
| Balance, December 31, 2017 | <u>\$ 237,265</u> | <u>60,871</u> | <u>298,136</u> |
| Balance, January 1, 2016 | \$ 255,614 | 60,871 | 316,485 |
| Recognized in profit or loss | 2,038 | - | 2,038 |
| Recognized in other comprehensive income | <u>(3,794)</u> | <u>-</u> | <u>(3,794)</u> |
| Balance, December 31, 2016 | <u>\$ 253,858</u> | <u>60,871</u> | <u>314,729</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

| | <u>Defined benefit plans</u> | <u>Gain or loss on valuation of inventory</u> | <u>Others</u> | <u>Total</u> |
|------------------------------|----------------------------------|---|----------------|---------------|
| Deferred tax assets: | | | | |
| Balance, January 1, 2017 | \$ 5,833 | 9,862 | 10,066 | 25,761 |
| Recognized in profit or loss | <u>(3)</u> | <u>(1,419)</u> | <u>985</u> | <u>(437)</u> |
| Balance, December 31, 2017 | <u>\$ 5,830</u> | <u>8,443</u> | <u>11,051</u> | <u>25,324</u> |
| Balance, January 1, 2016 | \$ 5,856 | 3,272 | 11,098 | 20,226 |
| Recognized in profit or loss | <u>(23)</u> | <u>6,590</u> | <u>(1,032)</u> | <u>5,535</u> |
| Balance, December 31, 2016 | <u>\$ 5,833</u> | <u>9,862</u> | <u>10,066</u> | <u>25,761</u> |

(iii) Examination and Approval

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

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

| | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--|------------------------------|
| Unappropriated earnings generated in and after 1998 | (Note) | \$ <u>1,487,805</u> |
| Balance of imputation tax credit account | (Note) | \$ <u>110,951</u> |
| | <u>For the years ended December 31</u> | |
| | <u>2017 (Estimated)</u> | <u>2016 (Actual)</u> |
| Creditable ratio for earnings distribution to R.O.C. residents | (Note) | <u>18.57 %</u> |

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

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective from January 1, 2018, companies will no longer required to establish, record, calculate, or distribute the ICA due to the abolishment of the imputation tax system.

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Notes to the Financial Statements

(n) Capital and other equity

As of December 31, 2017 and 2016, 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 are 248,650 thousand common shares.

(i) Capital surplus

The components of capital surplus were as follows:

| | December 31, 2017 | December 31, 2016 |
|----------------------|----------------------|----------------------|
| Share capital | \$ 484 | 484 |
| Long term investment | <u>395,629</u> | <u>404,884</u> |
| | <u>\$ 396,113</u> | <u>405,368</u> |

According to the R.O.C. Company Act amended in 2012, capital surplus can only be used to offset a deficit, and 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 dividend policy in which earnings distribution cannot be less than 50% of distributable earnings, and dividend payment has to be 70% 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.

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Notes to the 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, 2017 and 2016, 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 2016 and 2015 was decided via the general meeting of shareholders held on June 16, 2017 and June 24, 2016, respectively. The relevant dividends distributions to shareholders were as follows:

| | 2016 | | 2015 | |
|---|-------------------------------|----------------|-------------------------------|----------------|
| | Amount per share (dollars) | Amount | Amount per share (dollars) | Amount |
| Dividends distributed to ordinary shareholders: | | | | |
| Cash | \$ 3.80 | <u>944,870</u> | 3.50 | <u>870,275</u> |

(iii) Other equity accounts (net of tax)

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

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

| | 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 | - | (63,584) | (63,584) |
| Unrealized gains (losses) on available-for-sale financial assets of associates accounted for using equity method | - | 7,183 | 7,183 |
| Balance, December 31, 2016 | <u>\$ (2,362)</u> | <u>287,450</u> | <u>285,088</u> |

(o) Earnings per share

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

| | <u>For the years ended December 31</u> | |
|--|--|------------------|
| | <u>2017</u> | <u>2016</u> |
| Basic earnings per share | | |
| Profit attributable to ordinary shareholders | \$ <u>1,344,731</u> | <u>1,193,324</u> |
| Weighted-average number of ordinary shares | <u>248,650</u> | <u>248,650</u> |
| | <u>\$ 5.41</u> | <u>4.80</u> |
| Diluted earnings per share | | |
| Profit attributable to ordinary shareholders (diluted) | \$ <u>1,344,731</u> | <u>1,193,324</u> |
| Weighted-average number of ordinary shares | 248,650 | 248,650 |
| Employee stock bonus | <u>337</u> | <u>259</u> |
| Weighted-average number of ordinary shares (diluted) | <u>248,987</u> | <u>248,909</u> |
| | <u>\$ 5.40</u> | <u>4.79</u> |

(p) Revenue

The details of revenue of the years ended December 31, 2017 and 2016 were as follows:

| | <u>For the years ended December 31</u> | |
|----------------------|--|------------------|
| | <u>2017</u> | <u>2016</u> |
| Sale of goods | \$ 3,545,283 | 3,270,853 |
| Rendering of service | 14,545 | 42,803 |
| License | <u>112,212</u> | <u>30,606</u> |
| | <u>\$ 3,672,040</u> | <u>3,344,262</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

(q) 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% ~ 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 years ended December 31, 2017 and 2016, remuneration of employees of \$24,040 and \$22,048, and directors' and supervisors' remuneration amounting to \$14,950 and \$15,786, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2017 and 2016. There was no difference between the amount approved by the Board of Directors meeting and the amount recognized in the financial statements.

(r) Non-operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2017 and 2016 were as follows:

| | For the years ended December 31 | |
|-----------------|--|---------------|
| | 2017 | 2016 |
| Interest income | \$ 3,408 | 2,508 |
| Rental income | 16,650 | 15,685 |
| | \$ 20,058 | 18,193 |

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2017 and 2016 were as follows:

| | For the years ended December 31 | |
|---|--|---------------|
| | 2017 | 2016 |
| Foreign exchange losses | \$ (29,121) | (4,434) |
| Losses on disposal of property, plant and equipment | (1,938) | (117) |
| Gain on disposal of investment | 222,174 | - |
| Gain on reversal of uncollectable account | 5,000 | 13,300 |
| Other | 29,531 | 54,341 |
| | \$ 225,646 | 63,090 |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

(iii) Finance costs

The details of finance costs for the years ended December 31, 2017 and 2016 were as follows:

| | For the years ended December 31 | |
|-------------------|--|-------------|
| | 2017 | 2016 |
| Interest expenses | \$ 25,191 | 25,362 |

(s) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum credit exposure. Such maximum credit exposure on December 31, 2017 and 2016, amounted to \$1,946,113 and \$1,580,904, respectively.

2) Credit risk concentrations

In order to lower the credit risk on accounts receivable, the Company continually evaluates clients' financial situation and also assesses the possibility of collecting accounts receivable and recognizes an "allowance for doubtful accounts". Bad debt losses are always within the administrative personnel's expectations. As of December 31, 2017 and 2016, the accounts receivable from the Company's top ten customers represented 38% and 41%, 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.

| | Carrying amount | Contractu al cash flows | Within 1 year | 2-3 years | 4-5 years |
|---|----------------------------|--|--------------------------|------------------|------------------|
| December 31, 2017 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Unsecured bank loans | \$ 2,200,000 | 2,211,658 | 1,959,046 | 252,612 | - |
| Non-interest-bearing liabilities (including related parties) | 527,682 | 527,682 | 527,682 | - | - |
| | \$ 2,727,682 | 2,739,340 | 2,486,728 | 252,612 | - |
| December 31, 2016 | | | | | |
| Unsecured bank loans | \$ 2,079,010 | 2,105,184 | 1,467,918 | 637,266 | - |
| Non-interest-bearing liabilities (including related parties) | 489,501 | 489,501 | 489,501 | - | - |
| | \$ 2,568,511 | 2,594,685 | 1,957,419 | 637,266 | - |

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

| | December 31, 2017 | | | December 31, 2016 | | |
|--------------------------|---------------------|------------------|-----------|---------------------|------------------|---------|
| | Foreign Currency | Exchange Rate | NTD | Foreign Currency | Exchange Rate | NTD |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | \$ 29,887 | 29.76 | 889,450 | 11,248 | 32.25 | 362,742 |
| RMB | 4,438 | 4.57 | 20,257 | 4,744 | 4.62 | 21,904 |
| JPY | 59,592 | 0.26 | 15,744 | 66,488 | 0.28 | 18,324 |
| EUR | 2,621 | 35.57 | 93,223 | 3,350 | 33.90 | 113,567 |
| <u>Nonmonetary items</u> | | | | | | |
| USD | 47,304 | 29.76 | 1,407,763 | 750 | 32.25 | 24,173 |
| RMB | 51,156 | 4.57 | 233,526 | 52,206 | 4.62 | 241,037 |
| THB | 240,536 | 0.92 | 221,293 | 216,982 | 0.91 | 196,368 |

2) Sensitivity analysis

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

A 1% of appreciation of each major foreign currency against the Company's functional currency as of December 31, 2017 and 2016, would have increased or decreased the after-tax net income by \$8,455 and \$4,287, respectively. The analysis is performed on the same basis for both periods.

3) Gains or losses on monetary item

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange are summarized as a single amount. For the years ended December 31, 2017 and 2016, the foreign exchange gain, including both realized and unrealized, amounted to \$29,121 and \$4,434, respectively.

(iv) Interest rate analysis

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

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TTY BIOPHARM COMPANY LIMITED

Notes to the Financial Statements

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

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

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

If the interest rate had increased/decreased by 0.25%, the Company's after-tax net income would have decreased/increased by \$2,142 and \$3,422 for the years ended December 31, 2017 and 2016, 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, 2017 | | | | |
|--|---------------------|---------------|----------|----------|---------------|
| | Book Value | Fair Value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Available-for-sale financial assets | \$ 47,200 | 47,200 | - | - | 47,200 |
| Loans and receivables | | | | | |
| Cash and cash equivalents | 759,043 | - | - | - | - |
| Notes receivable and accounts receivable (including related party) | 903,266 | - | - | - | - |
| Other receivables | 82,383 | - | - | - | - |
| Other financial assets | 124,007 | - | - | - | - |
| Cash surrender value of life insurance | 7,275 | - | - | - | - |
| Refundable deposits | 22,939 | - | - | - | - |
| Total | <u>\$ 1,946,113</u> | <u>47,200</u> | <u>-</u> | <u>-</u> | <u>47,200</u> |
| Financial liabilities measured at amortized cost | | | | | |
| Bank loans | \$ 2,200,000 | - | - | - | - |
| Notes payable and accounts payable (including related party) | 95,437 | - | - | - | - |
| Other payables | 432,245 | - | - | - | - |
| Guarantee deposit received | 10,759 | - | - | - | - |
| Total | <u>\$ 2,738,441</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

(Continued)

TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

| | December 31, 2016 | | | | |
|--|---------------------|---------------|----------|----------|---------------|
| | Book Value | Fair Value | | | Total |
| | | Level 1 | Level 2 | Level 3 | |
| Available-for-sale financial assets | \$ 70,800 | 70,800 | - | - | 70,800 |
| Loans and receivables | | | | | |
| Cash and cash equivalents | 562,174 | - | - | - | - |
| Notes receivable and accounts receivable (including related party) | 747,287 | - | - | - | - |
| Other receivables | 44,103 | - | - | - | - |
| Other financial assets | 131,397 | - | - | - | - |
| Cash surrender value of life insurance | 5,198 | - | - | - | - |
| Refundable deposits | 19,945 | - | - | - | - |
| Total | <u>\$ 1,580,904</u> | <u>70,800</u> | <u>-</u> | <u>-</u> | <u>70,800</u> |
| Financial liabilities measured at amortized cost | | | | | |
| Bank loans | \$ 2,079,010 | - | - | - | - |
| Notes payable and accounts payable (including related party) | 74,008 | - | - | - | - |
| Other payables | 415,493 | - | - | - | - |
| Guarantee deposit received | 10,607 | - | - | - | - |
| Total | <u>\$ 2,579,118</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

2) Fair value hierarchy

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

- a) Level 1: quoted prices (unadjusted) in active markets for identified assets or liabilities.
- b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- 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:

(Continued)

TTY BIOPHARM COMPANY LIMITED

Notes to the Financial Statements

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

5) Transfer between levels

There was no change in valuation techniques for financial instruments measured at fair value for the years ended in December 31, 2017 and 2016, so there was no transfer between levels.

(t) Financial risk management

(i) Overview

The nature and the extent of the Company's risks arising from financial instruments, which include credit risk, liquidity risk, and market risk, are discussed below. Also, the Company'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 financial statements.

(ii) Risk management framework

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

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

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

(iii) Credit risk

Credit risk means the potential loss of the Company 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 Company's credit policy is to transact with creditworthy customers and to obtain collateral to mitigate risks arising from financial loss due to default. The Company 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 Company uses other publicly available financial information and the records of transactions with its customers. The Company 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 Company did not have any collateral or other credit enhancements to avoid credit risk of financial assets.

2) Investment

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

3) Guarantees

The Company did not provide any endorsement or guarantee as of December 31, 2017 and 2016.

(iv) Liquidity risk

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

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TTY BIOPHARM COMPANY LIMITED

Notes to the Financial Statements

(v) Market risk

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

(u) Capital management

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

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

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

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

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

| | December 31, 2017 | December 31, 2016 |
|---------------------------------|----------------------|----------------------|
| Total liabilities | \$ 3,269,903 | 3,171,521 |
| Less: cash and cash equivalents | <u>(759,043)</u> | <u>(562,174)</u> |
| Net debt | 2,510,860 | 2,609,347 |
| Total capital | <u>5,496,776</u> | <u>5,378,528</u> |
| Adjusted capital | <u>\$ 8,007,636</u> | <u>7,987,875</u> |
| Debt to equity ratio | <u>31.36 %</u> | <u>32.67 %</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

(7) Related-party transactions:

(a) Ultimate parent company

The Company is the ultimate parent company.

(b) List of subsidiaries

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

| <u>Name of related party</u> | <u>Relationship with the Group</u> |
|---|--|
| TSH Biopharm Co., Ltd. | A Subsidiary |
| Xudong Haipu International Co., Ltd. | A Subsidiary |
| Worldco International Co., Ltd. | A Subsidiary |
| American Taiwan Biopharma Phils Inc. | A Subsidiary |
| Enhax Inc. | A Subsidiary (Note A) |
| American Taiwan Biopharm (Thailand) | An associate |
| Chuang Yi Biotech Co., Ltd. | An associate |
| Pharmira Laboratories, Inc. | An associate (Note B) |
| TOT Biopharm Co., Ltd. | The entity's director is the president of the Company (Note C) |
| TOT Biopharm International Co., Ltd. | The entity's director is the president of the Company (Note C) |
| Lumosa Therapeutics Co., Ltd. | The entity's director is the president of the Company (Note C) |
| Center Laboratories, Inc. | The entity's director is the president of the Company (Note C) |
| TPG Biologics, Inc. | The entity's director is the president of the Company (Note C) |
| Mycenax Biotech Inc. | The entity's director is the president of the Company (Note C) |
| Shengbang Pharmaceutical Technology Co., Ltd. | The entity's director is the president of the Company (Note C) |

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

Note B: The Group did not subscribe in the cash capital increase of the entity. Therefore, the Group lost its significant influence in February 2016.

Note C: The entity was no longer a related party of the Group since June 24, 2016 due to its newly elected board of directors.

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Notes to the Financial Statements

(c) Significant transactions with related parties

(i) Operating revenue

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

| | For the years ended December 31 | |
|-----------------------|--|----------------|
| | 2017 | 2016 |
| Subsidiaries | \$ 118,074 | 129,571 |
| Associates | 64,257 | 44,252 |
| Other related parties | - | 1,822 |
| | <u>\$ 182,331</u> | <u>175,645</u> |

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

(ii) Service revenue

| Recognized item | Category | December 31, 2017 | December 31, 2016 |
|------------------------|-----------------------|------------------------------|------------------------------|
| Service revenue | Subsidiaries | \$ 2,516 | 4,386 |
| | Other related parties | - | 3,815 |
| | | <u>\$ 2,516</u> | <u>8,201</u> |

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

(iii) License revenue

| Recognized item | Category | December 31, 2017 | December 31, 2016 |
|------------------------|---|------------------------------|------------------------------|
| License revenue | Subsidiaries-Worldco International Co., Ltd. | <u>\$ 39,200</u> | <u>24,270</u> |

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Notes to the Financial Statements

(iv) Purchase of goods from related parties

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

| <u>Recognized item</u> | <u>Category</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|------------------------|-----------------------|------------------------------|------------------------------|
| Purchases | Subsidiaries | \$ 8,388 | 8,937 |
| | Other related parties | - | 20,743 |
| | | <u>\$ 8,388</u> | <u>29,680</u> |

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

(v) Rental revenue

| <u>Recognized item</u> | <u>Category</u> | <u>For the years ended December 31</u> | |
|------------------------|--|--|--------------|
| | | <u>2017</u> | <u>2016</u> |
| Rental revenue | Subsidiaries-TSH Biopharm Co., Ltd. | \$ 4,167 | 3,651 |
| | Subsidiaries | 60 | - |
| | Associates-Chuang Yi Biotech Co., Ltd. | 3,137 | 2,645 |
| | Other related parties | - | 161 |
| | | <u>\$ 7,364</u> | <u>6,457</u> |

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

(vi) Other income

| <u>Recognized item</u> | <u>Category</u> | <u>For the years ended December 31</u> | |
|------------------------|--|--|---------------|
| | | <u>2017</u> | <u>2016</u> |
| Other income | Subsidiaries-TSH Biopharm Co., Ltd. | \$ 6,388 | 6,128 |
| | Subsidiaries | 67 | - |
| | Associates-American Taiwan Biopharm (Thailand) | 13,242 | 12,968 |
| | Associates | 1,339 | 1,382 |
| | Other related parties | 2,000 | 22,599 |
| | | <u>\$ 23,036</u> | <u>43,077</u> |

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Notes to the Financial Statements

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

(d) Assets and liabilities with related parties

| <u>Recognized item</u> | <u>Category</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------------------|---|------------------------------|------------------------------|
| Accounts receivable | Subsidiaries | \$ 43,668 | 35,137 |
| | Associates | 8,973 | 13,668 |
| | | <u>\$ 52,641</u> | <u>48,805</u> |
| Other receivables | Subsidiaries | \$ 14,836 | 8,922 |
| | Associates | 8,183 | 1,573 |
| | Other related parties-TOT Biopharm Co., Ltd. | - | 17,126 |
| | | <u>\$ 23,019</u> | <u>27,621</u> |
| Refundable deposits paid | Other related parties | <u>\$ -</u> | <u>582</u> |
| Other payables | Other related parties | <u>\$ -</u> | <u>6,150</u> |
| Guarantee deposit received | Subsidiaries | \$ 723 | 622 |
| | Associates | 522 | 470 |
| | | <u>\$ 1,245</u> | <u>1,092</u> |

(e) Key management personnel compensation

| | <u>For the years ended December 31</u> | |
|---|--|---------------|
| | <u>2017</u> | <u>2016</u> |
| Salaries and other short-term employee benefits | \$ 65,274 | 53,950 |
| Post-employment benefits | 645 | 434 |
| | <u>\$ 65,919</u> | <u>54,384</u> |

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TTY BIOPHARM COMPANY LIMITED
Notes to the Financial Statements

(8) Pledged assets:

As of December 31, 2017 and 2016, pledged assets were as follows:

| <u>Asset</u> | <u>Purpose of pledge</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------------|--------------------------|------------------------------|------------------------------|
| Other financial asset—noncurrent | Provisional guarantee | \$ <u>120,010</u> | <u>120,010</u> |

(9) Commitments and contingencies:

- (a) The Company signed an agreement with Taiwan Liposome Company, Ltd. for Liposome research in October 1997. The Company obtained an exclusive license to produce and sell in 2001, and paid the royalty by a certain proportion of pre-tax net sales. The payment based on such agreement amounted to \$41,352 and \$36,361 for the years ended December 31, 2017 and 2016, respectively.
- (b) Due to the purchase of equipment, construction engineering, and entrusted research, the total price of unfinished contracts amounted to \$279,077 and \$261,293, and the unpaid amount was \$56,803 and \$52,920 as of December 31, 2017 and 2016, respectively.
- (c) As of December 31, 2017 and 2016, performance bonds from financial institutions for the sale of medicine amounted to \$57,189 and \$17,659, respectively.
- (d) In June 2015, the Taipei District Prosecutors Office filed a lawsuit against the ex-chairman of the company, Rong-Jin Lin, for the offense of breach of trust under the Securities and Exchange Act. According to the verdict, the ex-chairman was found guilty for violating the Securities and Exchange act on September 1, 2017. The ex-chairman was later handed over to the civil court for further trial on a different case in September 6, 2017.
- (e) On May 31, 2016, the Company filed a request with the Swiss Cantonal Court of Zug to nullify all 13 licensing agreements it had entered into with Inopha AG (Inopha), and demanded that Inopha return all the benefits it had gained from the agreements. The case is still in progress.
- (f) On May 30, 2016, Janssen Pharmaceutica NV (Janssen) filed a request for arbitration with the WIPO Arbitration and Mediation Center, at the Company's request, to confirm whether the royalties belong to the Company or Inopha AG. The case was suspended.
- (g) With regard to the litigation of generic Risperidone, Center Laboratories, Inc. initiated an action for a declaratory judgment confirming the contractual relation against the Company in Taipei District Court on July 1, 2016. Taipei District Court rendered the judgment on March 1, 2018 confirming the contractual relation. The Company is not satisfied with the judgment which did not consider the facts and evidence comprehensively in time and the Company will appeal to fight for its rights.

(10) Losses Due to Major Disasters:None

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Notes to the Financial Statements

(11) Subsequent Events:

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return. This increase does not affect the amounts of the current and deferred income taxes recognized on December 31, 2017. However, it will increase the Company's current and deferred tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and unused tax losses recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by \$4,215 and \$52,612, respectively.

(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 | | | | | |
|----------------------------|---------------------------------|-------------------|---------|----------------|-------------------|---------|
| | 2017 | | | 2016 | | |
| | Operating Cost | Operating expense | Total | Operating Cost | Operating expense | Total |
| Employee benefit | | | | | | |
| Salary | \$ 211,569 | 412,395 | 623,964 | 217,411 | 386,346 | 603,757 |
| Health and labor insurance | 16,607 | 27,225 | 43,832 | 15,525 | 23,605 | 39,130 |
| Pension | 8,688 | 15,171 | 23,859 | 8,392 | 13,968 | 22,360 |
| Others | 8,614 | 58,823 | 67,437 | 15,366 | 64,496 | 79,862 |
| Depreciation | 103,482 | 25,779 | 129,261 | 66,379 | 31,042 | 97,421 |
| Amortization | 347 | 5,100 | 5,447 | 347 | 10,089 | 10,436 |

The Company had total employees of 520 and 512 in the years 2017 and 2016, respectively.

- (b) Seasonality of operations:

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

- (c) The Company donated \$40,520 and \$26,297 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, 2017 and 2016, respectively.

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Notes to Financial Statements

(13) Other disclosures:

(a) Information on significant transactions:

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

(i) Loans to other parties:

(In Thousands of New Taiwan Dollars)

| Number | Name of lender | Name of borrower | Account name | Related party | Highest balance of financing to other parties during the period (Note 4) | Ending balance (Note 5) | Actual usage amount during the period | Range of interest rates during the period | Purposes of fund financing for the borrower (Note 1) | Transaction amount for business between two parties | Reasons for short-term financing | Allowance for bad debt | Collateral | | Individual funding loan limits (Note 2) | Maximum limit of fund financing (Note 3) |
|--------|---------------------------------------|-------------------------------------|----------------------------------|---------------|--|-------------------------|---------------------------------------|---|--|---|----------------------------------|------------------------|------------|-------|---|--|
| | | | | | | | | | | | | | Item | Value | | |
| 1 | Worldco International Co., Ltd. | Worldco Biotech Pharmaceutical Ltd. | Receivables from related parties | Yes | 50,592 USD 1,700 | 50,592 USD 1,700 | 50,592 USD 1,700 | 0.5% | 2 | - | Operating capital | - | - | - | 233,527 CNY 51,156 | 233,527 CNY 51,156 |
| 1 | Worldco International Co., Ltd. | The Company | Receivables from related parties | Yes | 74,400 CNY 2,500 | 74,400 USD 2,500 | - | 0.9% | 2 | - | Operating capital | - | - | - | 93,409 CNY 20,462 | 93,409 CNY 20,462 |
| 2 | Xudong Haijia International Co., Ltd. | The Company | Receivables from related parties | Yes | 505,920 USD 17,000 | 505,920 USD 17,000 | - | 0.9% | 2 | - | Operating capital | - | - | - | 550,352 USD 18,493 | 550,352 USD 18,493 |

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Notes to Financial Statements

The exchange rate of USD to NTD as of the reporting date is 1:29.76, and the average exchange rate of USD to NTD as of the reporting date is 1:30.403.

The exchange rate of CNY to NTD as of the reporting date is 1:4.565, and the average exchange rate of CNY to NTD as of the reporting date is 1:4.504.

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, 2017.
- 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, 2017 (excluding investment in subsidiaries, associates and joint ventures):

| Name of holder | Category and name of security | Relationship with company | Account title | Ending balance | | | Note |
|----------------|-------------------------------|---------------------------|--|--------------------------|----------------|-----------------------------|--------|
| | | | | Shares/Units (thousands) | Carrying value | Percentage of ownership (%) | |
| The Company | Lumosa Therapeutics Co., Ltd. | Note | Available-for-sale financial assets – noncurrent | 1,600 | 47,200 | 1.68 % | 47,200 |

(In Thousands of New Taiwan Dollars)

Note : A director of the Company 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:

| Name of company | Related party | Nature of relationship | Transaction details | | | Transactions with terms different from others | | | Notes/Accounts receivable (payable) | | |
|-----------------|------------------------|------------------------|---------------------|---------|-------------------------------------|---|------------|---------------|-------------------------------------|---|------|
| | | | Purchase/Sale | Amount | Percentage of total purchases/sales | Payment terms | Unit price | Payment terms | Ending balance | Percentage of total notes/accounts receivable (payable) | Note |
| The Company | TSH Biopharm Co., Ltd. | Subsidiary | Sale | 113,819 | 3.10 % | 30 days | Normal | | 14,805 | 1.64% | |

(In Thousands of New Taiwan Dollars)

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

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Notes to Financial Statements

(ix) Trading in derivative instruments:None

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2017 (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 | | Shares (thousands) | Balance as of December 31, 2017 | Percentage of ownership | Carrying value | Net income (losses) of investee | Share of profits/losses of investee | Note |
|------------------|--------------------------------------|-------------|------------------------------|----------------------------|-------------------|--------------------|---------------------------------|-------------------------|----------------|---------------------------------|---|------|
| | | | | December 31, 2017 | December 31, 2016 | | | | | | | |
| The Company | Xudong Haiju International Co., Ltd. | Cayman Is. | Investing activities | 303,998 | 303,998 | 25,000 | 100.00 % | 1,375,865 | (6,902) | (6,902) | Subsidiary | |
| " | Worldco International Co., Ltd. | Hong Kong | Selling chemical medicine | 158,254 | 158,254 | 39,600 | 100.00 % | 233,526 | (4,732) | (4,732) | Subsidiary | |
| " | American Taiwan Biopharm Pflis Inc. | Philippines | Selling chemical medicine | 32,904 | 32,904 | 481 | 87.00 % | (4,336) | (6,952) | (6,048) | Subsidiary | |
| " | TSH Biopharm Co., Ltd. | Taiwan | Selling chemical medicine | 227,449 | 227,449 | 21,687 | 56.48 % | 645,434 | 64,971 | 36,464 | Subsidiary | |
| " | Enhanc Inc. | Taiwan | Developing chemical medicine | 50,000 | - | 5,000 | 29.41 % | 48,496 | (5,113) | (1,504) | Subsidiary | |
| " | PharmaEngine, Inc. | Taiwan | Developing chemical medicine | 350,659 | 371,070 | 26,809 | 18.22 % | 712,642 | 387,063 | 68,605 | Investments accounted for using equity method | |
| " | American Taiwan Biopharm | Thailand | Selling chemical medicine | 2,966 | 2,966 | 380 | 40.00 % | 221,293 | 65,895 | 26,348 | Investments accounted for using equity method | |
| " | Gligio International Limited | Hong Kong | Selling chemical medicine | 2,685 | 2,685 | 620 | 40.00 % | 31,898 | 46,130 | 18,452 | Investments accounted for using equity method | |
| " | Chuang Yi Biotech Co., Ltd. | Taiwan | Selling functional food | 82,059 | 82,059 | 6,326 | 27.54 % | 58,597 | 4,023 | 278 | Investments accounted for using equity method | |

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(c) Information on investment in Mainland China:

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

| Name of investee | Main businesses and products | Total amount of paid-in capital | Method of investment (Note 1) | Accumulated outflow of investment from Taiwan as of | | Net income (losses) of the investee | Percentage of ownership | Investment income (losses) (Note 2) | Book value | Accumulated remittance of earnings in current period |
|---|--|---------------------------------|-------------------------------|---|----------------------|-------------------------------------|-------------------------|-------------------------------------|----------------------|--|
| | | | | January 1, 2017 | December 31, 2017 | | | | | |
| Worldco Biotech Pharmaceutical Ltd. | Marketing consulting regarding chemical medicine | 303,552 USD | (2) | 323,433 CNY | 323,433 CNY | (2,238) (497) | 100 % | (2,238) (497) CNY | (67,599) (14,808) | - |
| Worldco Biotech (Chengdu) Pharmaceutical Ltd. | Selling chemical medicine | 54,323 CNY | (2) | 91,893 20,130 CNY | 91,893 20,130 CNY | (432) (96) | 100 % | (432) (96) CNY | 50,188 10,594 | - |

(In Thousands of New Taiwan Dollars)

The exchange rate of USD to NTD as of the reporting date is 1:29.76, and the average exchange rate of USD to NTD as of the reporting date is 1:30.403.

The exchange rate of CNY to NTD as of the reporting date is 1:4.565, and the average exchange rate of CNY to NTD as of the reporting date is 1:4.504.

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 financial report was audited by an international accounting firm in cooperation with an accounting firm registered in the R.O.C.

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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, 2017 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|--|--|---------------------------|
| NTD423,982 | 1,390,625 (USD 46,728) | NTD3,298,066 |

(iii) Significant transactions: Please refer to Note 7.

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Notes to the Financial Statements

(14) Segment information:

Please refer to the consolidated financial report for the years ended December 31, 2017 and 2016.

