

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

**with Independent Auditors' Report  
For the Years Ended December 31, 2019 and 2018**

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## Independent Auditors' Report

To the Board of Directors of TTY Biopharm Company Limited:

### Opinion

We have audited the accompanying financial statements of TTY Biopharm Company Limited (“the Company”), which comprise the balance sheets as of December 31, 2019 and 2018, the statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of another auditor (please refer to the Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and the report of another auditor, 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. Recognition of investments accounted for using equity method

Please refer to Notes 4(i) of the financial statements for the accounting principles on acquisitions.

Key audit matters:

During the year, the Company obtained the control over Chuang Yi Biotech Co., Ltd. and recognized the relevant loss of \$58,349 thousand. Whether the Company obtains the control over its acquired company depends on the Company’s judgments. Therefore, the acquisition of Chuang Yi Biotech Co., Ltd. is one of the important issues in performing our audit procedures.

Auditing procedures performed:

- Obtaining the information the Company used in evaluating whether it has control over Chuang Yi Biotech Co., Ltd. and discussing the matter with the management over the basis of judgment;
- Reviewing the accounting procedures, including the fair value of Chuang Yi Biotech Co., Ltd. at the date of acquisition;
- Reviewing the calculation in recognizing the relevant gain or loss.

## 2. Occurrence of revenue from selling pharmaceuticals and chemical drugs

Please refer to Notes 4(q) of the financial statements for the accounting principles on revenue recognition. Revenues are recognized by net values of contract prices, less sales returns and allowances, after controls of the products are transferred to the customers.

Key audit matters:

The Company's sales is mainly from the selling of pharmaceuticals and chemical drugs. Because the customers are diversity and numerous, it takes longer time to verify sales transactions. Therefore, the occurrence in sales transactions is one of the important issue in performing our audit procedures.

Auditing procedures performed:

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

## 3. Inventory valuation

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

Key audit matters:

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

Auditing procedures performed:

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

**Other Matter**

We did not audit the financial statements of PharmaEngine, Inc. Those statements were audited by another auditor, 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 another auditor. The amount of long-term investment in the investee company represented 9.12% and 6.85% of the related total assets as of December 31, 2019 and 2018, respectively, and the related investment gains represented 0.44% and 1.23% of the profit before tax for the years ended December 31, 2019 and 2018, respectively.

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

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

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

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

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

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

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

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

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)  
March 16, 2020

#### Notes to Readers

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

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



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

**Statements of Comprehensive Income**

For the years ended December 31, 2019 and 2018

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

	2019		2018	
	Amount	%	Amount	%
4000 <b>Operating revenue (note 6(p) and 7)</b>	\$ 4,044,660	100	3,555,620	100
5000 <b>Operating costs (note 6(d) and 7)</b>	1,453,178	36	1,246,982	35
<b>Gross profit</b>	2,591,482	64	2,308,638	65
5910 Less: Unrealized profit (loss) from sales	24,488	1	10,400	-
5920 Add: Realized profit (loss) from sales	10,400	-	10,004	-
<b>Gross profit, net</b>	2,577,394	63	2,308,242	65
6000 <b>Operating expenses (note 6(l) and 12):</b>				
6100 Selling expenses	850,894	21	760,967	21
6200 Administrative expenses	285,133	7	260,029	7
6300 Research and development expenses	231,026	6	230,595	6
6450 Reversal of expected credit losses	(5,500)	-	-	-
	1,361,553	34	1,251,591	34
<b>Net operating income</b>	1,215,841	29	1,056,651	31
<b>Non-operating income and losses (note 6(r) and 7):</b>				
7010 Other income	17,303	-	16,645	-
7020 Other gains and losses, net	(32,125)	(1)	527,982	15
7050 Finance costs, net	(14,717)	-	(17,202)	-
7070 Share of (loss) profit of subsidiaries and associates accounted for using equity method, net (note 6(e))	(3,633)	-	83,736	2
	(33,172)	(1)	611,161	17
<b>Profit before tax</b>	1,182,669	28	1,667,812	48
7950 Less: Income tax expenses (Note 6(m))	282,588	7	206,431	6
<b>Profit for the period</b>	900,081	21	1,461,381	42
8300 <b>Other comprehensive income:</b>				
8310 <b>Components of other comprehensive income (loss) that will not be reclassified to profit or loss</b>				
8311 Gains (losses) on remeasurements of defined benefit plans	2,438	-	(4,102)	-
8316 Unrealized gains from investments in equity instruments measured at fair value through other comprehensive income	6,320	-	1,520	-
8349 Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-
Components of other comprehensive income (loss) that will not be reclassified to profit or loss	8,758	-	(2,582)	-
8360 <b>Components of other comprehensive income (loss) that will be reclassified to profit or loss</b>				
8361 Exchange differences on translation	(29,894)	(1)	49,343	1
8380 Share of other comprehensive income (loss) of subsidiaries and associates accounted for using equity method, components of other comprehensive income that will be reclassified to profit or loss	10,880	-	(20,203)	(1)
8399 Income tax related to components of other comprehensive income that may be reclassified to profit or loss	6,008	-	(6,252)	-
Components of other comprehensive income that may be reclassified to profit or loss	(13,006)	(1)	22,888	-
8300 <b>Other comprehensive income for the period, net of tax</b>	(4,248)	(1)	20,306	-
<b>Total comprehensive income for the period</b>	\$ 895,833	20	1,481,687	42
<b>Earnings per share, net of tax (note 6(o))</b>				
Basic earnings per share	\$ 3.62		5.88	
Diluted earnings per share	\$ 3.61		5.87	

See accompanying notes to financial statements.



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

**Statements of Changes in Equity**

**For the years ended December 31, 2019 and 2018**  
**(Expressed in Thousands of New Taiwan Dollar)**

	Retained earnings						Total other equity interest			
	Share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	Total equity
<b>Balance on January 1, 2018</b>	2,486,500	396,113	722,945	110,154	1,758,633	(99,734)	-	122,165	22,431	5,496,776
Effects of retrospective application	-	-	-	-	(43)	-	-	(122,165)	2	(41)
Equity at beginning of period after adjustments	2,486,500	396,113	722,945	110,154	1,758,590	(99,734)	-	(122,165)	22,433	5,496,735
Profit for the period	-	-	-	-	1,461,381	-	-	-	-	1,461,381
Other comprehensive income	-	-	-	-	(4,102)	43,040	(18,632)	-	24,408	20,306
Total comprehensive income	-	-	-	-	1,457,279	43,040	(18,632)	-	24,408	1,481,687
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	134,473	-	(134,473)	-	-	-	-	-
Cash dividends of ordinary share distributed	-	-	-	-	(1,118,925)	-	-	-	-	(1,118,925)
Other changes in capital surplus:										
Changes in equity of investments accounted for using equity method	-	(10,703)	-	-	-	-	-	-	-	(10,703)
Disposal of investments accounted for using equity method	-	(36,591)	-	-	-	-	-	-	-	(36,591)
Changes in ownership interests in subsidiaries	-	-	-	-	(8,170)	-	-	-	-	(8,170)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	20	-	(20)	-	(20)	-
Profit for the period	2,486,500	348,819	857,418	110,154	1,954,321	(56,694)	103,515	-	46,821	5,804,033
Other comprehensive income	-	-	-	-	900,081	-	-	-	-	900,081
Total comprehensive income	-	-	-	-	2,438	(24,030)	17,344	-	(6,686)	(4,248)
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	-	-	902,519	(24,030)	17,344	-	(6,686)	895,833
Cash dividends of ordinary share distributed	-	-	146,138	-	(146,138)	-	-	-	-	-
Other changes in capital surplus:										
Changes in equity of investments accounted for using equity method	-	(10,305)	-	-	(1,118,925)	-	-	-	-	(1,118,925)
<b>Balance on December 31, 2019</b>	<b>2,486,500</b>	<b>358,514</b>	<b>1,003,556</b>	<b>110,154</b>	<b>1,591,777</b>	<b>(80,724)</b>	<b>120,859</b>	<b>-</b>	<b>40,135</b>	<b>5,570,636</b>

See accompanying notes to financial statements.

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

Statements of Cash Flows

For the years ended December 31, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollar)

	2019	2018
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 1,182,669	1,667,812
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	129,693	123,488
Amortization expense	6,505	5,790
Reversal of allowance for expected credit losses	(5,500)	-
Interest expense	14,717	17,202
Interest income	(2,495)	(2,406)
Share of loss (profit) of investments accounted for using equity method	3,633	(83,736)
Loss on disposal of property, plant and equipment	535	1,100
Allocation of deferred income	-	(988)
Gain on disposal of investments accounted for using equity method	-	(495,569)
Impairment loss and remeasurement profit on non-financial assets	58,349	-
Unrealized profit (loss) from sales	24,488	10,400
Realized loss (profit) from sales	(10,400)	(10,004)
<b>Total adjustments to reconcile profit (loss)</b>	<u>219,525</u>	<u>(434,723)</u>
<b>Changes in operating assets and liabilities:</b>		
Notes receivable	4,175	27,466
Accounts receivable	(87,158)	87,397
Other receivable	29,475	(28,464)
Inventories	(93,772)	(77,630)
Other current assets	5,759	(10,476)
<b>Total changes in operating assets</b>	<u>(141,521)</u>	<u>(1,707)</u>
Current contract liabilities	6,840	(16,215)
Notes payable	(1,677)	(34,485)
Accounts payable	33,325	81,385
Other payable	66,698	(19,577)
Other current liabilities	(8,752)	3,585
Net defined benefit liability	88	47
<b>Total changes in operating liabilities</b>	<u>96,522</u>	<u>14,740</u>
<b>Total changes in operating assets and liabilities</b>	<u>(44,999)</u>	<u>13,033</u>
<b>Total adjustments</b>	<u>174,526</u>	<u>(421,690)</u>
Cash inflow generated from operations	1,357,195	1,246,122
Interest received	2,495	2,406
Dividends received	65,002	98,442
Interest paid	(14,902)	(17,342)
Income taxes paid	(239,252)	(225,965)
<b>Net cash flows from operating activities</b>	<u>1,170,538</u>	<u>1,103,663</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of investments accounted for using equity method	(336,353)	-
Proceeds from disposal of investments accounted for using equity method	-	591,629
Acquisition of property, plant and equipment	(44,934)	(41,512)
Proceeds from disposal of property, plant and equipment	18	118
(Increase) decrease in refundable deposits	(5,767)	617
Acquisition of intangible assets	(640)	(12,117)
Acquisition of investment properties	(140)	-
Decrease (increase) in other financial assets	8,553	(36,967)
Increase in prepayments for business facilities	(28,425)	(26,211)
Decrease (increase) in other non-current assets	35,131	(6,083)
<b>Net cash flows (used in) from investing activities</b>	<u>(372,557)</u>	<u>469,474</u>
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	7,700,000	6,257,500
Decrease in short-term loans	(7,400,000)	(6,757,500)
Proceeds from long-term debt	-	300,000
Repayments of long-term debt	-	(500,000)
(Decrease) increase in guarantee deposits received	440	(7,640)
Payment of lease liabilities	(3,596)	-
Cash dividends paid	(1,118,925)	(1,118,925)
<b>Net cash flows used in financing activities</b>	<u>(822,081)</u>	<u>(1,826,565)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(24,100)</u>	<u>(253,428)</u>
<b>Cash and cash equivalents at beginning of period</b>	<u>505,615</u>	<u>759,043</u>
<b>Cash and cash equivalents at end of period</b>	<u>\$ 481,515</u>	<u>505,615</u>

See accompanying notes to financial statements.

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

**Notes to the Financial Statements**

**For the years ended December 31, 2019 and 2018**

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

**(1) Company history**

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

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

The financial statements were authorized for issue by the Board of Directors on March 16, 2020.

**(3) New standards and interpretations not yet adopted:**

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019

The Company assesses that the initial application 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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

(Continued)

## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

The Company assesses that the adoption of the abovementioned standards would not have any material impact on its financial statements.

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

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

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

- (a) Statement of compliance

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

- (b) Basis of preparation

- (i) Basis of measurement

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

- 1) Financial assets at fair value through other comprehensive income are measured at fair value;
- 2) The defined benefit liabilities are measured at fair value of the plan assets less the present value of the defined benefit obligation, and the upper-limit as explained in Note 4(r).

- (ii) Functional and presentation currency

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED****Notes to the Financial Statements****(c) Foreign currencies****(i) Foreign currencies transactions**

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the transaction dates. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at reporting date.

Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of translation.

All other foreign exchange gains and losses are presented in the statement of comprehensive income within other 'gains and losses'.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into New Taiwan Dollar at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into New Taiwan Dollar at average exchange rate. Exchange differences are recognized in other comprehensive income.

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 only 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 its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

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

**(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

(Continued)

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

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

A liability is classified as current under one of the following criteria, 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) The Company does not have an unconditional right to defer settlement of the liability 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 on hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purpose should be recognized as cash equivalents.

(f) Financial instruments

(i) Financial assets

On a regular way purchase or sales basis, financial assets are recognized and derecognized using trade date accounting or settlement date accounting.

On initial recognition, financial assets are classified as measured at: amortized cost and fair value through other comprehensive income (FVOCI) – equity investment. Financial assets are not reclassified subsequent to their initial recognition if the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

1) Financial assets measured at amortized cost

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

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

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

The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as of discounting is immaterial. Except for the short-term accounts and notes receivable, the other assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulated amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI )

Equity investment at FVOCI which is not held for trading , and for which, the Company may irrevocably elect to present subsequent changes in the fair value in other comprehensive income at initial recognition. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income and won't be reclassified to profit or loss.

3) Impairment of financial assets

The Company recognizes impairment provision for expected credit losses (ECL) on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and trade receivables, other receivable, guarantee deposit paid and other financial assets) and contract assets.

The Company measures impairment provision at an amount equal to lifetime ECL, except for the following which are measured as 12-month ECL:

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

Impairment provision for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

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

The Company assumes that the credit risk on a financial asset has increased significantly if the contract payment is overdue. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than it's payment term;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Impairment provision for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

4) **Derecognition of financial assets**

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(Continued)



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

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

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.

3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

4) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

When derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and presented the net amount in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using 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.

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**TTY BIOPHARM COMPANY LIMITED****Notes to the Financial Statements****(h) Investment in associates**

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

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

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

The Company recognizes any changes of its proportionate share in the investee within capital surplus, when the associate's equity changes due to reasons other than profit and loss or comprehensive income, which did not result in changes in actual significant influence.

Gains and losses resulting from transactions between the Company and an associate are recognized only to the extent of unrelated Company's interests in the associate.

When the Company's share of losses of an associate equals or exceeds its interest in an associate, it discontinues recognizing its share of further losses. After the recognized interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or 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.

In gaining control of associate in stages, the Company remeasures its previously held equity interest in the acquiree at its acquisition-date fair value, and recognizes the resulting gain or loss, if any, in profit or loss. In prior reporting periods, the Company may have recognized changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognized in other comprehensive income will be recognized on the same basis as would be required if the Company had disposed directly of the previously held equity interest. If the disposal of the equity interest required a reclassification to profit or loss, such an amount will be reclassified to profit or loss, if any.

(Continued)

**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

(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 at cost, less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation methods, useful lives, and residual value which are the same as those adopted for property, plant and equipment.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount) is recognized in profit or loss.

Rental income from investment property is recognized as other revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of total rental income, over the term of the lease.

(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.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company.

(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 estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

Buildings	2-60 years
Machinery equipment	1-29 years
Transportation equipment	5-8 years
Office and other equipment	1-30 years

(Continued)

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

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 reporting date and adjusted if appropriate.

(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

Applicable from January 1, 2019

(i) Identifying a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Company has the right to direct the use of the asset throughout the period of use only if either:
  - the customer has the right to direct how and for what purpose the asset is used throughout the period of use; or
  - the relevant decisions about how and for what purpose the asset is used are predetermined and:
    - the customer has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
    - the customer designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

When the lease is established or when the contract is being reassessed to determine whether there is lease, the Company allocates the price listed in the contract to individual lease components.

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

(ii) As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change in the lease term resulting from a change of the Company's assessment on whether it will exercise an option to purchase the underlying asset, or
- there is a change of its assessment on whether it will exercise an extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

(Continued)

## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Company presents the right-of-use asset and lease liability are non-significant; therefore, they are listed under “property, plant and equipment”, “other current liabilities” and “other non-current liabilities” in the balance sheet.

For the short-term leases and the leases for low-value asset, the Company does not recognize the right-of-use asset and lease liability. The lease payments associated with those leases are recognized as expenses on a straight-line basis over the lease term.

#### (iii) As a lessor

When the Company acts as a lessor, it determines whether each lease is a finance lease or an operating lease at lease commencement date. To classify each lease, the Company makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Company applies IFRS15 to allocate the consideration in the contract.

#### Applicable before January 1, 2019

#### (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. The 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 the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

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

(Continued)

**TTY BIOPHARM COMPANY LIMITED****Notes to the Financial Statements****(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 cost and the reduction of the outstanding liability. The finance cost 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 consolidated balance sheets.

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

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

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

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

**(m) Intangible assets****(i) Recognition and measurement**

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost, less accumulated amortization and any accumulated impairment losses.

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

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

(ii) 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 expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated over the cost of the asset less its residual value, and is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for current and comparative periods are as follows:

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

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(n) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

(o) Cash surrender value of life insurance

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

(Continued)



## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

(p) Provisions

A provision is recognized if, as a result of a past event, the Company has a present 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 recognition

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

1) Sale of goods

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

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

2) Authorization revenue

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

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

3) Financing components

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

(Continued)

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

(ii) Contract costs

1) Incremental costs of obtaining a contract

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

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

2) Costs to fulfil a contract

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

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

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

(r) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

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

(ii) Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to 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. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Other long-term employee benefits

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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 taxes comprise 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.

(Continued)

## TTY BIOPHARM COMPANY LIMITED

### Notes to the Financial Statements

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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 recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - 1) the same taxable entity; or
  - 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are 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 profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(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 is 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 is 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.

(Continued)

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

(u) Operating segments

Please refer to the consolidated financial statements of TTY Biopharm Company Limited for the years ended December 31, 2019 and 2018.

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

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

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

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

- Valuation of inventories

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

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

(a) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand	\$ 2,308	2,382
Cash in banks	466,292	503,233
Time deposits	<u>12,915</u>	<u>-</u>
	<u>\$ 481,515</u>	<u>505,615</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) Please refer to Note 6(s) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(Continued)

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

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

	December 31, 2019	December 31, 2018
Equity instrument measured at fair value through other comprehensive income:		
Domestic common stock—Lumosa Therapeutics Co., Ltd.	\$ 55,040	48,720

- (i) The Company holds such equity instrument as long-term strategic investment that is not held for trading purposes; thus, it is categorized as equity instrument measured at fair value through other comprehensive income.
- (ii) No strategic investments were disposed and there were no transfers of any cumulative gain or loss within equity relating to these investments for the year ended December 31, 2019.
- (iii) Please refer to Note 6(s) for credit and market risk information.
- (iv) The above financial assets were not pledged as collateral.

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

	December 31, 2019	December 31, 2018
Notes receivables—operating	\$ 15,070	18,579
Notes receivables—non-operating	-	1,595
Notes receivables—related parties	929	-
Accounts receivables	842,113	762,410
Accounts receivables—related parties	50,558	32,103
Less: Allowance for expected credit losses	(20,784)	(26,284)
	\$ 887,886	788,403

The Company estimated the expected credit losses for all of notes receivable and accounts receivable using a simple approach. Notes receivable and accounts receivable are grouped by the customers' ability to pay on each contract as well as its forward-looking information. An analysis of expected credit loss on notes and accounts receivable as of are as follows:

	December 31, 2019		
	Face value of notes and accounts receivable	Weighted average loss rate	Allowance for expected credit losses
Not yet overdue	\$ 877,930	0%~1%	1,038
Past due less than 90 days	11,506	4%~6%	518
Past due 91-180 days	15	55%~60%	9
Past due more than 181 days	19,219	100%	19,219
	\$ 908,670		20,784

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
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	<b>December 31, 2018</b>		
	<b>Face value of notes and accounts receivable</b>	<b>Weighted average loss rate</b>	<b>Allowance for expected credit losses</b>
Not yet overdue	\$ 790,080	0%~1%	5,920
Past due less than 90 days	4,327	4%~6%	216
Past due 91-180 days	306	55%~60%	174
Past due more than 181 days	19,974	100%	19,974
	<b>\$ 814,687</b>		<b>26,284</b>

The movement in the allowance for notes and accounts receivable were as follows:

	<b>For the Years Ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Balance at January 1	\$ 26,284	26,284
Reversal of expected credit losses	(5,500)	-
Balance at December 31	<b>\$ 20,784</b>	<b>26,284</b>

As of December 31, 2019 and 2018, the accounts receivable and notes receivable for the Company were not pledged as collateral.

(d) Inventories

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Merchandise	\$ 246,459	188,493
Finished goods	147,440	127,517
Work in process	125,802	92,944
Raw materials	158,831	208,287
Materials	36,514	32,666
Subtotal	715,046	649,907
Goods in transit	123,244	90,602
Total	838,290	740,509
Less: Allowance for inventory market decline and obsolescence	(41,385)	(37,376)
Net amount	<b>\$ 796,905</b>	<b>703,133</b>

The cost of inventories recognized as operating cost for the years ended December 31, 2019 and 2018 amounted to \$1,445,722 and \$1,253,118, respectively. The main item was the costs from selling goods. The cost for the year ended December 31, 2019 included the amount of \$4,009, which the Company wrote down from cost to net realizable value. The cost for the year ended December 31, 2018 included the amount of \$12,288, resulting from of the reversal of allowance for inventory market decline and obsolescence.

As of December 31, 2019 and 2018, the aforesaid inventories were not pledged as collateral.

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**TTY BIOPHARM COMPANY LIMITED**  
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(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, 2019</u>	<u>December 31, 2018</u>
Subsidiaries	\$ 2,281,983	2,314,503
Associates	<u>1,101,045</u>	<u>901,819</u>
	<u>\$ 3,383,028</u>	<u>3,216,322</u>

(i) Subsidiaries

Please refer to the consolidated financial report for the years ended December 31, 2019 and 2018.

(ii) Associates

- 1) As of December 31, 2019 and 2018 the carrying value of associates had a quoted market price amounted to \$782,858 and \$631,554, respectively, while fair value amounted to \$1,771,876 and \$2,745,907, respectively.
- 2) For the years ended December 31, 2019 and 2018, PharmaEngine, Inc. amortized stock compensation cost, exercised employee stock options, and repurchased the treasury stocks, which resulted in a change in the shareholding ratio, and such change was (debit) credit of \$(10,305) and \$(10,703), respectively, to its capital reserve. In September 2019, the Company acquired 2.06% of the shares of PharmaEngine, Inc. for \$237,461 in cash. For the year ended December 31, 2018, the Company disposed its investment shares of PharmaEngine, Inc. for a gain of \$495,569, which was included in the "other gains or losses" in the income statement. For the years ended December 31, 2019 and 2018, the Company's shareholding ratio rose from 15.52% to 17.76% and declined from 18.22% to 15.52%, respectively.
- 3) In 2019, the Company acquired 10.58% of Chuang Yi Biotech Co., Ltd.'s shares for \$98,892 in cash. For the years ended December 31, 2019, the Company obtained control over Chuang Yi Biotech Co., Ltd. ,which eventually became one of the Company's subsidiaries, resulting in the Company to recognize the loss of \$58,349. For the years ended December 31, 2019, the Company's shareholding ratio rose from 27.54% to 38.12%.

(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, 2019</u>	<u>December 31, 2018</u>
PharmaEngine, Inc.	Research for new drugs and drug development especially for Asian diseases	Taiwan	17.76 %	15.52 %

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

- Summary financial information on PharmaEngine, Inc.

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Current assets	\$ 3,578,332	3,820,100
Non-current assets	65,060	26,685
Current liabilities	(138,443)	(152,671)
Non-current liabilities	<u>(21,954)</u>	<u>-</u>
Net assets	<u>\$ 3,482,995</u>	<u>3,694,114</u>
Net assets attributable to non-controlling interests	<u>\$ 782,858</u>	<u>573,462</u>
Net assets attributable to investee owners	<u>\$ 2,700,137</u>	<u>3,120,652</u>
	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Revenue	<u>\$ 314,040</u>	<u>293,430</u>
Profit for the period	\$ 42,550	129,362
Other comprehensive loss	<u>(220)</u>	<u>(46)</u>
Comprehensive income	<u>\$ 42,330</u>	<u>129,316</u>
Comprehensive income attributable to non-controlling interests	<u>\$ 5,107</u>	<u>20,497</u>
Comprehensive income attributable to investee owners	<u>\$ 37,223</u>	<u>108,819</u>
	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Net assets attributable to the Company, January 1	\$ 573,462	712,642
Retained earnings impacted by applying new standard for the period	-	(41)
Changes in capital surplus of affiliated companies for the period	(10,305)	(10,703)
Comprehensive income attributable to the Company for the period	5,107	20,497
Cash dividends received from associates	(22,867)	(45,734)
Acquisition of investments for the period	237,461	-
Disposal of investments for the period	<u>-</u>	<u>(103,199)</u>
Net assets attributable to the Company, December 31	<u>782,858</u>	<u>573,462</u>
Carrying amount of interest in associates, December 31	<u>\$ 782,858</u>	<u>573,462</u>

(Continued)

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

(iv) Summary financial information on individually insignificant associates

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

	December 31, 2019	December 31, 2018
Carrying amount of interest in individually insignificant associates	\$ <b>318,187</b>	<b>328,357</b>
	<b>For the years ended December 31,</b>	<b>2019</b>
	<b>2019</b>	<b>2018</b>
Attributable to the Company:		
Profit for the period	\$ 46,019	32,422
Other comprehensive income (loss)	13,928	(8,737)
Comprehensive income	\$ <b>59,947</b>	<b>23,685</b>

(v) Collateral

As of December 31, 2019 and 2018 the investments in the aforesaid equity-accounted investees were not pledged as collateral.

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2019 and 2018, were as follows:

	Land	Building and construction	Machinery and equipment	Transporta tion equipment	Office equipment	Construction in progress	Total
<b>Cost:</b>							
Balance on January 1, 2019	\$ 810,323	1,290,633	660,975	5,755	456,259	148,911	3,372,856
Additions	-	12,141	6,216	-	19,279	15,035	52,671
Disposals	-	(3,316)	(6,566)	-	(3,031)	-	(12,913)
Reclassifications	-	3,555	2,895	-	12,146	(14,161)	4,435
Balance on December 31, 2019	\$ <b>810,323</b>	<b>1,303,013</b>	<b>663,520</b>	<b>5,755</b>	<b>484,653</b>	<b>149,785</b>	<b>3,417,049</b>
Balance on January 1, 2018	\$ 810,323	1,268,367	656,691	5,755	431,241	156,434	3,328,811
Additions	-	6,353	5,035	-	20,718	9,406	41,512
Disposals	-	(1,194)	(2,671)	-	(1,354)	-	(5,219)
Reclassifications	-	17,107	1,920	-	5,654	(16,929)	7,752
Balance on December 31, 2018	\$ <b>810,323</b>	<b>1,290,633</b>	<b>660,975</b>	<b>5,755</b>	<b>456,259</b>	<b>148,911</b>	<b>3,372,856</b>
<b>Depreciation:</b>							
Balance on January 1, 2019	\$ -	315,241	310,602	2,606	305,853	-	934,302
Depreciation for the year	-	63,389	35,764	894	29,287	-	129,334
Disposals	-	(3,316)	(6,305)	-	(2,739)	-	(12,360)
Balance on December 31, 2019	\$ -	<b>375,314</b>	<b>340,061</b>	<b>3,500</b>	<b>332,401</b>	-	<b>1,051,276</b>

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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, 2018	\$ -	257,778	276,192	1,712	279,488	-	815,170
Depreciation for the year	-	58,657	36,228	894	27,354	-	123,133
Disposals	-	(1,194)	(1,818)	-	(989)	-	(4,001)
Balance on December 31, 2018	<u>\$ -</u>	<u>315,241</u>	<u>310,602</u>	<u>2,606</u>	<u>305,853</u>	<u>-</u>	<u>934,302</u>
<b>Carrying amounts:</b>							
Balance on December 31, 2019	<u>\$ 810,323</u>	<u>927,699</u>	<u>323,459</u>	<u>2,255</u>	<u>152,252</u>	<u>149,785</u>	<u>2,365,773</u>
Balance on January 1, 2018	<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 December 31, 2018	<u>\$ 810,323</u>	<u>975,392</u>	<u>350,373</u>	<u>3,149</u>	<u>150,406</u>	<u>148,911</u>	<u>2,438,554</u>

## (i) Collateral

As of December 31, 2019 and 2018, 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 \$149,785, and there were no capitalized loan cost for the years ended December 31, 2019 and 2018.

(iii) The increase in right-of-use assets for the period amounting to \$7,737, and the carrying value at the end of the period amounting to \$4,096, were recognized as "Building and construction".

## (g) Investment property

	<u>Land</u>	<u>Building and construction</u>	<u>Total</u>
<b>Cost or deemed cost:</b>			
Balance on January 1, 2019	\$ 69,152	15,526	84,678
Additions	-	140	140
Balance on December 31, 2019	<u>\$ 69,152</u>	<u>15,666</u>	<u>84,818</u>
Balance on January 1, 2018	<u>\$ 69,152</u>	<u>15,526</u>	<u>84,678</u>
Balance on December 31, 2018	<u>\$ 69,152</u>	<u>15,526</u>	<u>84,678</u>
<b>Depreciation and impairment loss:</b>			
Balance on January 1, 2019	\$ -	7,389	7,389
Depreciation	-	359	359
Balance on December 31, 2019	<u>\$ -</u>	<u>7,748</u>	<u>7,748</u>
Balance on January 1, 2018	\$ -	7,034	7,034
Depreciation	-	355	355
Balance on December 31, 2018	<u>\$ -</u>	<u>7,389</u>	<u>7,389</u>

(Continued)

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

	<u>Land</u>	<u>Building and construction</u>	<u>Total</u>
<b>Carrying amount:</b>			
Balance on December 31, 2019	\$ <u>69,152</u>	<u>7,918</u>	<u>77,070</u>
Balance on January 1, 2018	\$ <u>69,152</u>	<u>8,492</u>	<u>77,644</u>
Balance on December 31, 2018	\$ <u>69,152</u>	<u>8,137</u>	<u>77,289</u>
<b>Fair value:</b>			
Balance on December 31, 2019			\$ <u>165,606</u>
Balance on December 31, 2018			\$ <u>178,586</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, 2019 and 2018, the Company's investment properties were not pledged as collateral.

(h) Intangible assets

The costs, amortization and impairment of the intangible assets of the Company for the years ended December 31, 2019 and 2018, were as follows:

	<u>Computer software</u>	<u>Patent and franchise</u>	<u>Total</u>
<b>Cost:</b>			
Balance on January 1, 2019	\$ 30,703	27,852	58,555
Additions	640	-	640
Reclassifications	<u>(556)</u>	<u>-</u>	<u>(556)</u>
Balance on December 31, 2019	\$ <u>30,787</u>	<u>27,852</u>	<u>58,639</u>
Balance on January 1, 2018	\$ 31,358	-	31,358
Additions	1,221	10,896	12,117
Disposals	(1,876)	-	(1,876)
Reclassifications	<u>-</u>	<u>16,956</u>	<u>16,956</u>
Balance on December 31, 2018	\$ <u>30,703</u>	<u>27,852</u>	<u>58,555</u>
<b>Amortization and impairment loss:</b>			
Balance on January 1, 2019	\$ 24,690	1,393	26,083
Amortization for the period	3,720	2,785	6,505
Reclassifications	<u>(556)</u>	<u>-</u>	<u>(556)</u>
Balance on December 31, 2019	\$ <u>27,854</u>	<u>4,178</u>	<u>32,032</u>
Balance on January 1, 2018	\$ 22,169	-	22,169
Amortization for the period	4,397	1,393	5,790
Disposals	<u>(1,876)</u>	<u>-</u>	<u>(1,876)</u>
Balance on December 31, 2018	\$ <u>24,690</u>	<u>1,393</u>	<u>26,083</u>

(Continued)

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

	<u>Computer software</u>	<u>Patent and franchise</u>	<u>Total</u>
<b>Carrying amount:</b>			
Balance on December 31, 2019	\$ <u>2,933</u>	<u>23,674</u>	<u>26,607</u>
Balance on January 1, 2018	\$ <u>9,189</u>	<u>-</u>	<u>9,189</u>
Balance on December 31, 2018	\$ <u>6,013</u>	<u>26,459</u>	<u>32,472</u>

Amortization expenses for intangible assets for the years ended December 31, 2019 and 2018 were recorded under statements of comprehensive income, were as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Operating costs	\$ 354	322
Operating expenses	<u>6,151</u>	<u>5,468</u>
	<u>\$ 6,505</u>	<u>5,790</u>

As of December 31, 2019 and 2018 the aforementioned intangible assets were not pledged as collateral.

(i) Short-term loans

The short-term loans were summarized as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unsecured bank loans	\$ <u>1,450,000</u>	<u>1,150,000</u>
Unused credit lines	\$ <u>1,077,017</u>	<u>1,170,321</u>
Range of interests rates	<u>0.86%~0.98%</u>	<u>0.92%~0.96%</u>

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

(j) Long-term loans

The long-term loans were summarized as follows:

	<u>December 31, 2019</u>			
	<u>Currency</u>	<u>Interest rate</u>	<u>Maturity</u>	<u>Amount</u>
Unsecured bank loans	NTD	1.146%~1.180%	2020	\$ 350,000
Less: Current portion				<u>(350,000)</u>
Total				<u>\$ -</u>
Unused credit lines				<u>\$ 450,000</u>

(Continued)

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

## (k) Operating leases

## (i) Leases as lessee

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

	<b>December 31, 2018</b>
Less than one year	\$ 2,987
Between one and five years	<u>3,825</u>
	<u>\$ 6,812</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:

	<b>December 31, 2018</b>
Less than one year	\$ 13,037
Between one and five years	<u>16,069</u>
	<u>\$ 29,106</u>

## (l) Employee benefits

## (i) Defined benefit plans

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

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Present value of defined benefit obligation	\$ 123,179	122,955
Fair value of plan assets	<u>(67,070)</u>	<u>(64,496)</u>
Net defined benefit liabilities (assets)	<u>\$ 56,109</u>	<u>58,459</u>

The Company's employee benefit liabilities were as below:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Vacation liability	<u>\$ 7,138</u>	<u>10,719</u>

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

1) Composition of plan assets

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to \$67,070 as of December 31, 2019. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

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

	<b>For the years ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Defined benefit obligation, January 1	\$ 122,955	117,605
Current service costs and interest	2,253	2,572
Remeasurement loss (gain)		
— Return on plan assets excluding interest income	(111)	6,102
Benefits paid	(1,918)	(3,324)
Defined benefit obligations, December 31	<u>\$ 123,179</u>	<u>122,955</u>

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

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

	<b>For the years ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Fair value of plan assets, January 1	\$ 64,496	63,295
Remeasurement loss (gain)		
— Return on plan assets excluding interest income	2,958	2,694
Contributions made	1,534	1,831
Benefits paid	(1,918)	(3,324)
Fair value of plan assets, December 31	<u>\$ 67,070</u>	<u>64,496</u>

(Continued)

**TTY BIOPHARM COMPANY LIMITED**  
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4) Expenses recognized in profit or loss

The Company's pension expenses recognized in profit or loss for the years ended December 31, 2019 and 2018, were as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Current service cost	\$ 1,029	1,264
Net interest of net liabilities for defined benefit obligation	1,224	1,308
Curtailment or settlement gains	<u>(632)</u>	<u>(693)</u>
	<u>\$ 1,621</u>	<u>1,879</u>
Operating costs	\$ 536	626
Selling expenses	498	572
Administrative expenses	255	291
Research and development expenses	<u>332</u>	<u>390</u>
	<u>\$ 1,621</u>	<u>1,879</u>

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

The Company's remeasurement of the net defined benefit liability (asset) recognized in other comprehensive income for the years ended December 31, 2019 and 2018, were as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Accumulated amount, January 1	\$ 10,739	6,637
Recognized during the year	<u>(2,438)</u>	<u>4,102</u>
Accumulated amount, December 31	<u>\$ 8,301</u>	<u>10,739</u>

6) Actuarial assumptions

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

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Discount rate	0.74 %	1.03 %
Future salary increase rate	3.00 %	3.00 %

(Continued)



**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

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 \$1,481.

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

7) Sensitivity analysis

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

	<b>Influences of defined defined benefit obligation</b>	
	<b><u>Increased 0.5%</u></b>	<b><u>Decreased 0.5%</u></b>
December 31, 2019		
Discount rate (Fluctuation of 0.5%)	\$ (4,784)	5,105
Future salary increasing rate (Fluctuation of 0.5%)	4,407	(4,189)
December 31, 2018		
Discount rate (Fluctuation of 0.5%)	\$ (5,335)	5,711
Future salary increasing rate (Fluctuation of 0.5%)	4,988	(4,726)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(ii) Defined contribution plans

The Company allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs incurred from the contributions to the Bureau of Labor Insurance amounted to \$24,146 and \$23,088 for the years ended December 31, 2019 and 2018, respectively.

(Continued)

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

## (m) Income taxes

## (i) Income tax expense

The components of income tax in the years ended December 31, 2019 and 2018 were as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Current tax expense		
Current period	\$ 278,214	226,516
Adjustment for prior periods	(778)	2,362
	<u>277,436</u>	<u>228,878</u>
Deferred tax expense		
Origination and reversal of temporary differences	5,152	(63,707)
Adjustment in tax rate	-	41,260
	<u>5,152</u>	<u>(22,447)</u>
Income tax expense	<u>\$ 282,588</u>	<u>206,431</u>

The amount of income tax recognized in other comprehensive income for 2019 and 2018 was as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Items that may be reclassified subsequently to profit or loss:		
Share of other comprehensive income of subsidiaries and associates accounted for using equity method	<u>\$ 6,008</u>	<u>(6,252)</u>

Reconciliation of income tax and profit before tax for 2019 and 2018 is as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Profit before income tax	\$ 1,182,669	1,667,812
Income tax using the Company's domestic tax rate	\$ 236,534	333,562
Adjustment in tax rate	-	41,260
Share of profit of investments accounted for using equity method	2,214	62,697
Change in unrecognized temporary differences	-	(78,010)
Non-deductible expenses	25,727	12,910
Tax-exempt income	-	(4,000)
Change in provision in prior periods	(778)	2,362
Undistributed earnings additional tax	9,609	8,163
Gains derived from securities transactions	-	(99,114)
Others	<u>9,282</u>	<u>(73,399)</u>
	<u>\$ 282,588</u>	<u>206,431</u>

(Continued)

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

## (ii) Deferred tax assets and liabilities

## 1) Unrecognized deferred tax liabilities

The Company is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2019 and 2018. Also, management considers it probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details are as follows:

	December 31, 2019	December 31, 2018
Aggregate amount of temporary differences related to investments in subsidiaries	\$ <u>(390,051)</u>	<u>(390,051)</u>
Unrecognized deferred tax liabilities	\$ <u>(78,010)</u>	<u>(78,010)</u>

## 2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2019 and 2018 were as follows:

	Gain on foreign investments	Reserve for land revaluation increment tax	Total	
<b>Deferred tax liabilities:</b>				
Balance on January 1, 2019	\$ 217,829	60,871	278,700	
Recognized in profit or loss	9,385	-	9,385	
Recognized in other comprehensive income	<u>(6,008)</u>	<u>-</u>	<u>(6,008)</u>	
Balance on December 31, 2019	<u>\$ 221,206</u>	<u>60,871</u>	<u>282,077</u>	
Balance on January 1, 2018	\$ 237,265	60,871	298,136	
Recognized in profit or loss	(25,688)	-	(25,688)	
Recognized in other comprehensive income	<u>6,252</u>	<u>-</u>	<u>6,252</u>	
Balance on December 31, 2018	<u>\$ 217,829</u>	<u>60,871</u>	<u>278,700</u>	
<b>Deferred tax assets:</b>				
	Defined benefit plan	Gain or loss on valuation of inventory	Others	Total
Balance on January 1, 2019	\$ 6,868	7,475	7,740	22,083
Recognized in profit or loss	<u>(13)</u>	<u>802</u>	<u>3,444</u>	<u>4,233</u>
Balance on December 31, 2019	<u>\$ 6,855</u>	<u>8,277</u>	<u>11,184</u>	<u>26,316</u>
Balance on January 1, 2018	\$ 5,830	8,443	11,051	25,324
Recognized in profit or loss	<u>1,038</u>	<u>(968)</u>	<u>(3,311)</u>	<u>(3,241)</u>
Balance on December 31, 2018	<u>\$ 6,868</u>	<u>7,475</u>	<u>7,740</u>	<u>22,083</u>

(Continued)

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

(iii) Assessment of tax

The Company's tax returns for the year through 2015 and 2017 were assessed by the Taipei National Tax Administration.

(n) Capital and other equity

As of December 31, 2019 and 2018, the number of authorized ordinary shares were 350,000,000 shares with par value of \$10 per share and the total value of authorized ordinary shares amounted to \$3,500,000. The paid-in capital were both \$2,486,500.

(i) Capital surplus

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Share capital	\$ 484	484
Long term investment	<u>338,030</u>	<u>348,335</u>
	<u>\$ 338,514</u>	<u>348,819</u>

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

(ii) Retained earnings

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

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

1) Legal reserve

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

(Continued)

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

2) Special reserve

The Company has selected 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.

In accordance with the aforesaid Ruling, a special reserve is set aside from the current year's net income after tax and prior year's undistributed earnings at an amount equal to the debit balance of contra accounts in shareholders' equity. When the debit balance of any of these contra accounts in shareholders' equity is reversed, the related special reserve can be reversed. The subsequent reversals of contra accounts in shareholder's equity shall qualify for additional distributions. As of December 31, 2019 and 2018, the special reserve appropriated from the undistributed earnings both amounted to \$110,154.

3) Earnings distribution

On June 25, 2019 and June 20, 2018, the general meeting of shareholders resolved to appropriate 2018 and 2017 earnings, respectively. The appropriation and dividends per share were as follows:

	2018		2017	
	Amount per share (dollars)	Amount	Amount per share (dollars)	Amount
Dividends distributed to ordinary shareholders:				
Cash	\$ 4.50	<u>1,118,925</u>	4.50	<u>1,118,925</u>

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

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Available for-sale investments	Total
Balance on January 1, 2019	\$ (56,694)	103,515	-	46,821
Share of exchange differences of subsidiaries and associates accounted for using equity method	(24,030)	-	-	(24,030)
Unrealized gains and losses on financial assets measured at fair value through other comprehensive income	-	6,320	-	6,320
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income, associates and joint ventures accounted for using equity method	-	11,024	-	11,024
Balance on December 31, 2019	<u>\$ (80,724)</u>	<u>120,859</u>	<u>-</u>	<u>40,135</u>

(Continued)

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

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Available for-sale investments	Total
Balance on January 1, 2018	\$ (99,734)	-	122,165	22,431
Effects of retrospective application	-	122,167	(122,165)	2
Balance on January 1, 2018 after adjustments	(99,734)	122,167	-	22,433
Share of exchange differences of subsidiaries and associates accounted for using equity method	43,034	-	-	43,034
Disposal of affiliated companies using the equity method reclassified to profit or loss	6	-	-	6
Unrealized gains and losses on financial assets measured at fair value through other comprehensive income	-	1,520	-	1,520
Disposal of investments in equity instruments at fair value through other comprehensive income	-	(20)	-	(20)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income, associates and joint ventures accounted for using equity method	-	(20,152)	-	(20,152)
Balance on December 31, 2018	<u>\$ (56,694)</u>	<u>103,515</u>	<u>-</u>	<u>46,821</u>

(o) Earnings per share

The calculation of basic earnings per share and diluted earnings per share were as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Basic earnings per share		
Profit attributable to ordinary shareholders	<u>\$ 900,081</u>	<u>1,461,381</u>
Weighted average number of ordinary shares	<u>248,650</u>	<u>248,650</u>
	<u>\$ 3.62</u>	<u>5.88</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders (diluted)	<u>\$ 900,081</u>	<u>1,461,381</u>
Weighted average number of ordinary shares	248,650	248,650
Effect of employees' compensation	349	373
Weighted average number of ordinary shares (diluted)	<u>248,999</u>	<u>249,023</u>
	<u>\$ 3.61</u>	<u>5.87</u>

(Continued)

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

## (p) Revenue from contracts with customers

## (i) Disaggregation of revenue

<b>For the year ended December 31, 2019</b>				
	<b>Oncology Business Unit</b>	<b>Health Care Unit</b>	<b>Domestic Cardiovascular and Gastrointestina l Drugs Business Unit</b>	<b>Total</b>
<b>Primary geographical markets:</b>				
Taiwan	\$ 2,249,496	229,488	785,891	3,264,875
European countries	418,933	-	-	418,933
Other countries	324,706	35,378	768	360,852
	<u>\$ 2,993,135</u>	<u>264,866</u>	<u>786,659</u>	<u>4,044,660</u>
<b>Major products/services lines:</b>				
Medicine and health food	\$ 2,881,233	264,866	786,659	3,932,758
Services	25,932	-	-	25,932
Royalty	85,970	-	-	85,970
	<u>\$ 2,993,135</u>	<u>264,866</u>	<u>786,659</u>	<u>4,044,660</u>
<b>For the year ended December 31, 2018</b>				
	<b>Oncology Business Unit</b>	<b>Health Care Unit</b>	<b>Domestic Cardiovascular and Gastrointestina l Drugs Business Unit</b>	<b>Total</b>
<b>Primary geographical markets:</b>				
Taiwan	\$ 1,947,082	207,219	707,112	2,861,413
European countries	450,794	-	-	450,794
Other countries	215,162	27,674	577	243,413
	<u>\$ 2,613,038</u>	<u>234,893</u>	<u>707,689</u>	<u>3,555,620</u>
<b>Major products/services lines:</b>				
Medicine and health food	\$ 2,458,362	234,893	707,689	3,400,944
Services	67,042	-	-	67,042
Royalty	87,634	-	-	87,634
	<u>\$ 2,613,038</u>	<u>234,893</u>	<u>707,689</u>	<u>3,555,620</u>

## (ii) Contract balances

	<b>December 31, 2019</b>	<b>December 31, 2018</b>	<b>January 1, 2018</b>
Contract liability balances	<u>\$ 12,177</u>	<u>5,337</u>	<u>21,552</u>

For details on accounts receivable and allowance for expected credit losses, please refer to Note 6(c).

The beginning balance of contract liability recognized as revenue for the years ended December 31, 2019 and 2018 were \$3,287 and \$20,292, respectively.

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**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

(q) Employee compensation and directors' remuneration

In accordance with the articles of incorporation, the Company should contribute 0.5% to 10% of the profit before tax as employee compensation and no more than 2% as directors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

For the years ended December 31, 2019 and 2018, the Company estimated its employee compensation amounted to \$23,195 and \$23,893, and directors' remuneration amounted to \$14,950 and \$14,950, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the compensation to employees and remuneration to directors of each period, multiplied by the percentage of compensation to employees and remuneration to directors as specified in the Company's articles. These compensations and remunerations were expensed under operating costs or operating expenses during 2019 and 2018. If there's any difference between the amount resolved at the Board of Directors meeting and the estimated amount, the Company will treat the difference as changes in accounting estimates and charged to profit or loss.

Related information would be available at the Market Observation Post System website.

(r) Non-operating income and expenses

(i) Other income

The details of other income for the years ended December 31, 2019 and 2018 were as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Interest income	\$ 2,495	2,406
Rent revenue	<u>14,808</u>	<u>14,239</u>
	<u>\$ 17,303</u>	<u>16,645</u>

(ii) Other gains and losses

The details of other gains and losses for the years ended December 31, 2019 and 2018 were as follows:

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Losses on disposal of property, plant and equipment	\$ (535)	(1,100)
Gains on disposal of investments (Note)	22,255	495,569
Foreign exchange (losses) gains	(11,533)	4,829
Impairment losses of non-financial assets	(80,604)	-
Other gains and losses	<u>38,292</u>	<u>28,684</u>
	<u>\$ (32,125)</u>	<u>527,982</u>

(Note) As of December 31, 2019, gains or losses on remeasurement of Chuang Yi Biotech Co., Ltd.'s 27.54% shares owned by the Company before business combination at fair value.

(Continued)



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

(iii) Finance costs

The details of finance costs for the years ended December 31, 2019 and 2018 were as follows:

	<b>For the years ended December 31</b>	
	<b>2019</b>	<b>2018</b>
Interest expense	\$ 14,643	17,202
Other finance costs	74	-
	<b>\$ 14,717</b>	<b>17,202</b>

(s) Financial instruments

(i) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum amount exposed to credit risk. Such maximum credit exposure on December 31, 2019 and 2018, amounted to \$908,670 and \$814,687, respectively.

2) Concentrations of credit risk

In order to lower the credit risk on accounts receivable, the Company continually evaluates clients' financial situation and also assesses the possibility of collecting accounts receivable and recognizes an "allowance for doubtful accounts". Bad debt losses are always within the administrative personnel's expectations. As of December 31, 2019 and 2018, the accounts receivable from the Company's top ten customers represented 27% and 26%, respectively, of accounts receivable.

3) Credit risk of receivables

Please refer to Note 6(c) for information of credit risk exposure of accounts receivables and notes receivables.

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

(Continued)

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

## (ii) Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Within 1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>
<b>December 31, 2019</b>					
Non-derivative financial liabilities					
Bank loans	\$ 1,800,000	1,803,106	1,803,106	-	-
Non-interest-bearing liabilities (including related parties)	646,701	646,701	646,701	-	-
Guarantee deposit received	<u>3,559</u>	<u>3,559</u>	<u>3,559</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,450,260</u>	<u>2,453,366</u>	<u>2,453,366</u>	<u>-</u>	<u>-</u>
<b>December 31, 2018</b>					
Non-derivative financial liabilities					
Bank loans	\$ 1,500,000	1,507,059	1,155,290	351,769	-
Non-interest-bearing liabilities (including related parties)	555,329	555,329	555,329	-	-
Guarantee deposit received	<u>3,119</u>	<u>3,119</u>	<u>3,119</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,058,448</u>	<u>2,065,507</u>	<u>1,713,738</u>	<u>351,769</u>	<u>-</u>

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 significant exposure of financial assets and liabilities to foreign currency risk were as follows:

	<u>December 31, 2019</u>			<u>December 31, 2018</u>		
	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>	<u>Foreign Currency</u>	<u>Exchange Rate</u>	<u>NTD</u>
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	\$ 12,568	29.98	376,787	12,865	30.72	395,151
CNY	4,330	4.31	18,638	4,151	4.47	18,562
JPY	124,946	0.27	34,346	62,702	0.28	17,444
EUR	405	33.59	13,612	778	35.20	27,372
<u>Nonmonetary items</u>						
USD	47,993	29.98	1,438,824	47,280	30.72	1,452,218
CNY	51,489	4.31	221,659	52,386	4.47	234,272
THB	265,077	1.01	267,728	240,499	0.95	229,244

(Continued)

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

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 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 strengthening (weakening) of 1% of the NTD against the USD, CNY, JPY and EUR as of December 31, 2019 and 2018 would have increased (decreased) the net profit after tax by \$3,547 and \$3,668, 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, 2019 and 2018, the foreign exchange (loss)gain, including both realized and unrealized, amounted to \$(11,533) and \$4,829, respectively.

(iv) Interest rate analysis

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

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

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

If the interest rate had increased/decreased by 0.25%, the Company's after-tax net income would have increased/decreased by \$3,600 and \$3,000 for the years ended December 31, 2019 and 2018, respectively, assuming all other variable factors remained constant.

(v) Fair value of financial instruments

1) Categories and fair value of financial instruments

The fair value of financial assets at fair value through other comprehensive income is measured on a recurring basis. The carrying amount and fair value of the Company's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value and lease liabilities, disclosure of fair value information is not required:

(Continued)

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

		December 31, 2019				
		Book Value	Fair Value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at fair value through other comprehensive income						
Domestic stock in listed company at Taipei Exchange	\$	55,040	55,040	-	-	55,040
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	481,515	-	-	-	-
Notes and accounts receivable (including related parties)		887,886	-	-	-	-
Other receivables (including related parties)		51,926	-	-	-	-
Other financial asset		152,421	-	-	-	-
Cash surrender value of life insurance		13,657	-	-	-	-
Refundable deposits paid		28,089	-	-	-	-
		<u>1,615,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b>\$</b>	<b><u>1,670,534</u></b>	<b><u>55,040</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>55,040</u></b>
Financial liabilities measured at amortized cost						
Bank loans	\$	1,800,000	-	-	-	-
Notes and accounts payable (including related parties)		173,985	-	-	-	-
Other payables (including related parties)		472,716	-	-	-	-
Guarantee deposit received		3,559	-	-	-	-
<b>Total</b>	<b>\$</b>	<b><u>2,450,260</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
		December 31, 2018				
		Book Value	Fair Value			Total
			Level 1	Level 2	Level 3	
Financial assets measured at fair value through other comprehensive income						
Domestic stock in listed company at Taipei Exchange	\$	48,720	48,720	-	-	48,720
Financial assets measured at amortized cost						
Cash and cash equivalents	\$	505,615	-	-	-	-
Notes and accounts receivable (including related parties)		788,403	-	-	-	-
Other receivables (including related parties)		81,401	-	-	-	-
Other financial asset		160,974	-	-	-	-
Cash surrender value of life insurance		13,357	-	-	-	-
Refundable deposits paid		22,322	-	-	-	-
		<u>1,572,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b>\$</b>	<b><u>1,620,792</u></b>	<b><u>48,720</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>48,720</u></b>
Financial liabilities measured at amortized cost						
Bank loans	\$	1,500,000	-	-	-	-
Notes and accounts payable (including related parties)		142,337	-	-	-	-
Other payables (including related parties)		412,992	-	-	-	-
Guarantee deposit received		3,119	-	-	-	-
<b>Total</b>	<b>\$</b>	<b><u>2,058,448</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

(Continued)

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

2) Fair value hierarchy

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

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

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

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

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

4) Valuation techniques for financial instruments measured at fair value

Non-derivative financial instruments

A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. Whether transactions are taking place 'regularly' is a matter of judgment and depends on the facts and circumstances of the market for the instrument.

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

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

5) Transfer between levels

There was no change in valuation techniques for financial instruments measured at fair value for the years ended December 31, 2019 and 2018, so there was no transfer between levels.

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

(t) Financial risk management

(i) Overview

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

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

The following likewise discusses the Company's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risk exposures, please refer to the respective notes in the accompanying financial statements.

(ii) Risk management framework

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

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

(iii) Credit risk

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

1) Accounts receivables 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 assesses the ratings based on other publicly available financial information and the records of transactions with its customers. The Company continuously monitor the exposure to credit risk and counterparty credit ratings, and to evaluate the customers' credit ratings and credit limits via annual review and approval 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.

(Continued)

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

2) Investment

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

3) Guarantees

The Company did not provide any endorsement or guarantee as of December 31, 2019 and 2018.

(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 far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

(v) Market risk

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

(u) Capital management

The Company's objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, to maintain the interest of other related parties, 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 dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabilities.

The Company and other entities in the same industry use the debt-to-equity ratio to manage capital. This ratio is the total net debt divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents. The total amount of capital represents all the equity components (that is, share capital, capital surplus, retained earnings, and other equity) plus net debt.

(Continued)

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

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

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Total liabilities	\$ 3,009,587	2,564,718
Less: cash and cash equivalents	<u>(481,515)</u>	<u>(505,615)</u>
Net debt	2,528,072	2,059,103
Total capital	<u>5,570,636</u>	<u>5,804,033</u>
Adjusted capital	<u>\$ 8,098,708</u>	<u>7,863,136</u>
Debt to equity ratio	<u>31.22 %</u>	<u>26.19 %</u>

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

(a) Ultimate parent company

The Company is the ultimate parent company.

(b) Names and relationship with related parties

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

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

Note: As of December 31, 2019, the Company obtained control over Chuang Yi Biotech Co., Ltd. and listed it as a subsidiary of the Company. Before that date, Chuang Yi Biotech Co., Ltd. was an associate of the Company.

(c) Significant transactions with related parties

(i) Operating revenue

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Subsidiaries	\$ 138,250	114,089
Associates	<u>86,248</u>	<u>62,145</u>
	<u>\$ 224,498</u>	<u>176,234</u>

(Continued)



**TTY BIOPHARM COMPANY LIMITED**

**Notes to the Financial Statements**

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

(ii) Service revenue

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Service revenue	Subsidiaries	\$ <u>5,475</u>	<u>102</u>

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

(iii) Royalty revenue

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Royalty revenue	Subsidiaries-Worldco International Co., Ltd.	\$ <u>51,617</u>	<u>74,786</u>

(iv) Purchases

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Purchases	Subsidiaries	\$ <u>-</u>	<u>7,856</u>

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

(v) Rent revenue

<u>Recognized item</u>	<u>Category</u>	<u>For the years ended December 31</u>	
		<u>2019</u>	<u>2018</u>
Rent revenue	Subsidiaries-TSH Biopharm Co., Ltd.	\$ 4,167	4,167
	Subsidiaries	180	180
	Subsidiaries-Chuang Yi Biotech Co., Ltd.	3,137	3,137
		<u>\$ 7,484</u>	<u>7,484</u>

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

(Continued)

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

## (vi) Other income

<u>Recognized item</u>	<u>Category</u>	<u>For the years ended December 31</u>	
		<u>2019</u>	<u>2018</u>
Other income	Subsidiaries-TSH Biopharm Co., Ltd.	\$ 6,111	5,393
	Subsidiaries	1,170	361
	Associates-American Taiwan Biopharm (Thailand)	12,562	11,765
	Associates	<u>932</u>	<u>101</u>
		<u>\$ 20,775</u>	<u>17,620</u>

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

## (d) Assets and liabilities with related parties

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Notes receivable	Subsidiaries	\$ 929	-
Accounts receivable	Subsidiaries	22,890	15,947
	Associates	<u>27,668</u>	<u>16,156</u>
		<u>\$ 51,487</u>	<u>32,103</u>
Other receivables	Subsidiaries-American Taiwan Biopharma Phils Inc.	\$ 6,882	9,757
	Subsidiaries	6,789	1,874
	Associates-American Taiwan Biopharm (Thailand)	16,481	12,241
	Associates	<u>-</u>	<u>315</u>
		<u>\$ 30,152</u>	<u>24,187</u>
Contract liabilities-current	Subsidiaries-EnhancX Inc.	<u>\$ 1,051</u>	<u>921</u>

(Continued)

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

<u>Recognized item</u>	<u>Category</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Guarantee deposit received	Subsidiaries-TSH Biopharm Co., Ltd.	\$ 693	693
	Subsidiaries	30	30
	Subsidiaries-Chuang Yi Biotech Co., Ltd.	522	522
		<u>\$ 1,245</u>	<u>1,245</u>

The information about the expected credit losses for accounts receivable, please refer to Note 6(c).

(e) Key management personnel compensation

	<u>For the years ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 70,931	75,504
Post-employment benefits	685	652
	<u>\$ 71,616</u>	<u>76,156</u>

(8) Pledged assets:

As of December 31, 2019 and 2018, pledged assets were as follows:

<u>Asset</u>	<u>Purpose of pledge</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Other financial asset-non-current	Guarantee for provision attachment	\$ <u>149,380</u>	<u>139,380</u>

(9) Commitments and contingencies:

- (a) The Company signed an agreement with Taiwan Liposome Company, Ltd. for Liposome research in October 1997. The Company obtained an exclusive license to produce and sell Liposome product in 2001, and paid the royalty by a certain proportion of pre-tax net sales. The payment based on such agreement amounted to \$42,459 and \$43,293 for the years ended December 31, 2019 and 2018, respectively.
- (b) Due to the purchase of equipment, construction engineering, and entrusted research, the total price of unfinished contracts amounted to \$199,815 and \$284,208, and the unpaid amount was \$33,425 and \$48,335 as of December 31, 2019 and 2018, respectively.
- (c) As of December 31, 2019 and 2018, the financial institutions provide guarantee for the sale of medicine amounted to \$92,983 and \$49,679, respectively.

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

- (d) In June 2015, the Taipei District Prosecutors Office filed a charge against the ex-chairman of the Company, Rong Jin Lin, for the offense of aggravated breach of trust under the Securities and Exchange Act. According to the verdict rendered by the Taipei District Court on September 1, 2017, the ex-chairman was found guilty for violating the Securities and Exchange Act. Currently, the case has been appealed and moved to the second instance at the Taiwan High Court. The relevant incidental civil action was later transferred to the civil court for further trial as a different case in September 6, 2017. Further on April 23, 2018, the Taipei District Prosecutors Office requested the Taiwan High Court to hear the case of ex-chairman Rong-Jin Lin's offense of the Securities and Exchange Act because of the dispute of contract relevant with Risperidone entered into by and between the Company and Center Laboratories, Inc. together with the aforementioned case in a consolidated procedure. As of June 29, 2018, the Group supplemented and raised the amount of its damage claim against the ex-chairman in the incidental civil action of the second appeal.
- (e) On May 31, 2016, the Company filed a request with the Swiss Cantonal Court of Zug to nullify all 13 licensing agreements it had entered into with Inopha AG (Inopha), and demanded that Inopha return all the benefits it had gained from the agreements. The case is still in progress.
- (f) On May 30, 2016, Janssen Pharmaceutica NV (Janssen) filed a request for arbitration with the WIPO Arbitration and Mediation Center, at the Company's request, to confirm whether the royalties belong to the Company or Inopha. The case was suspended.
- (g) With regard to the dispute of Risperidone Contract entered by and between the Company and Center Laboratories, Inc. (CLI), a lawsuit against the Company was brought up in the Taipei District Court on July 1, 2016. The Taipei District Court previously ruled in favor of CLI on March 1, 2018. However, the Company disagreed with the decision made by the Taipei District Court, and thus, made an appeal to the Taiwan High Court, wherein its appeal had been dismissed on March 11, 2020. Therefore, the Company will make an appeal to the Supreme Court reasonably after the receipt of the verdict made by the Taiwan High Court.

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

**(11) Subsequent Events: None**

**(12) Other:**

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

By item	For the years ended December 31,					
	2019			2018		
	Operating Cost	Operating expense	Total	Operating Cost	Operating expense	Total
Employee benefit						
Salary	\$ 214,072	453,642	667,714	206,134	435,843	641,977
Health and labor insurance	17,430	31,108	48,538	16,362	29,431	45,793
Pension	9,051	16,716	25,767	8,666	16,292	24,958
Director's remuneration	-	29,819	29,819	-	32,206	32,206
Others	18,281	46,325	64,606	14,239	45,437	59,676
Depreciation	103,758	25,935	129,693	100,343	23,145	123,488
Amortization	354	6,151	6,505	322	5,468	5,790

(Continued)

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

For the years ended December 31, 2019 and 2018, the information of the number of employees and employee benefit expense was as follows:

	<u>2019</u>	<u>2018</u>
Number of employees	<u>569</u>	<u>530</u>
Number of directors who were not employees	<u>7</u>	<u>8</u>
The average employee benefit	<u>\$ 1,435</u>	<u>1,480</u>
The average salaries and wages	<u>\$ 1,188</u>	<u>1,230</u>
Percentage of average employee salary expense	<u>(3.41)%</u>	

- (b) The Company donated \$45,993 and \$43,531 to related medical foundations and associations to support non-profit organizations developing drugs and promoting disease prevention and correct dosage for the years ended December 31, 2019 and 2018, respectively.

(Continued)

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

**(13) Other disclosures:**

(a) Information on significant transactions:

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

(i) Loans to other parties:

(In Thousands of New Taiwan Dollar)

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		
0	The Company	Chuang Yi Biotech Co., Ltd.	Receivables from related parties	Yes	50,000	-	-	6.756%	2	-	Operating capital	-	-	-	1,114,127	1,114,127
1	Worldco International Co., Ltd.	Worldco Biotech Pharmaceutical Ltd. (Beijing)	Receivables from related parties	Yes	50,966 USD 1,700	35,976 USD 1,200	35,976 USD 1,200	0.5%	2	-	Operating capital	-	-	-	221,660 CNY 51,489	221,660 CNY 51,489
1	Worldco International Co., Ltd.	The Company	Receivables from related parties	Yes	74,950 USD 2,500	74,950 USD 2,500	-	0.9%	2	-	Operating capital	-	-	-	88,666 CNY 20,596	88,666 CNY 20,596
2	Xudong Haipu International Co., Ltd.	The Company	Receivables from related parties	Yes	509,660 USD 17,000	-	-	0.9%	2	-	Operating capital	-	-	-	559,966 USD 18,678	559,966 USD 18,678

The exchange rate of USD to NTD as of the reporting date is 1:29.980.

The exchange rate of CNY to NTD as of the reporting date is 1:4.305.

(Continued)

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

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, 2019.

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

(iii) Securities held as of December 31, 2019 (excluding investment in subsidiaries, associates and joint ventures):

Name of holder	Category and name of security	Relationship with company	Account title	(In Thousands of New Taiwan Dollar)		
				Shares/Units (thousands)	Ending balance	Note
				Carrying value	Percentage of ownership (%)	Fair value
The Company	Lumosa Therapeutics Co., Ltd. common stock	-	Financial assets measured at fair value through other comprehensive income-non-current	1,600	1.36 %	55,040
				55,040		-

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

- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: 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\$100 million or 20% of the capital stock:

(In Thousands of New Taiwan Dollar)

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	128,895	3.19 %	30 days	Normal		17,658	1.94%	

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

(Continued)



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

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2019		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership			
The Company	Xudong Haiyu International Co., Ltd.	Cayman Is.	Investing activities	303,998	303,998	25,000	100.00 %	1,388,365	11,597	Subsidiary
The Company	Worldco International Co., Ltd.	Hong Kong	Selling chemical medicine	158,254	158,254	39,600	100.00 %	221,659	(4,438)	Subsidiary
The Company	American Taiwan Biopharma Phils Inc.	Philippines	Selling chemical medicine	32,904	32,904	481	87.00 %	(4,205)	1,359	Subsidiary
The Company	TSH Biopharm Co., Ltd.	Taiwan	Selling chemical medicine	227,449	227,449	21,687	56.48 %	627,040	47,007	Subsidiary
The Company	EnhancX Biopharm Inc.	Taiwan	Developing chemical medicine	50,000	50,000	5,000	20.83 %	36,321	(25,891)	Subsidiary
The Company	Chuang Yi Biotech Co., Ltd.	Taiwan	Selling functional food	180,951	82,039	10,282	38.12 %	12,803	(289,739)	Subsidiary
The Company	PharmaEngine, Inc.	Taiwan	Developing chemical medicine	536,559	299,098	25,867	17.76 %	782,858	(84,299)	Subsidiary
The Company	American Taiwan Biopharm (Thailand)	Thailand	Selling chemical medicine	2,966	2,966	380	40.00 %	267,728	42,550	Investments accounted for using equity method
The Company	Gligio International Limited (HK)	Hong Kong	Selling chemical medicine	2,685	2,685	620	40.00 %	50,459	45,602	Investments accounted for using equity method
Xudong Haiyu International Co., Ltd.	EnhancX Biopharm Inc.	Taiwan	Developing chemical medicine	70,000	70,000	7,000	29.17 %	50,864	18,241	Investments accounted for using equity method
Xudong Haiyu International Co., Ltd.	TTY Biopharm Korea Co., Ltd.	Korea	Selling chemical medicine	43,834	43,834	318	100.00 %	31,989	(7,389)	Subsidiary
Xudong Haiyu International Co., Ltd.	TTY Biopharm Mexico S.A. de C.V.	Mexico	Selling chemical medicine	13,822	13,822	8,750	50.00 %	9,032	(7,696)	Subsidiary
Worldco International Co., Ltd.	TTY Biopharm Mexico S.A. de C.V.	Mexico	Selling chemical medicine	13,822	13,822	8,750	50.00 %	9,032	(7,696)	Subsidiary
EnhancX Biopharm Inc.	EnhancX Biopharm B.V.	Netherlands	Developing chemical medicine	3,538	-	100	100.00 %	2,928	(444)	Subsidiary
TSH Biopharm Co., Ltd.	Chuang Yi Biotech Co., Ltd.	Taiwan	Selling functional food	40,252	-	1,320	4.89 %	1,926	(289,739)	Subsidiary
Chuang Yi Biotech Co., Ltd.	Immortal Fame Global Ltd.	Samoa	Import and export trading and investment activities	16,820	16,820	568	100.00 %	4,307	(3,123)	Subsidiary
Chuang Yi Biotech Co., Ltd.	Chuang Yi (Hongkong) Biotech Co., Ltd.	Hong Kong	Selling functional food	4,734	-	-	100.00 %	2,827	(1,834)	Subsidiary

Note: Net income (losses) of investee was calculated at the level of the consolidated group.

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

(c) Information on investment in Mainland China:

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

(In Thousands of New Taiwan Dollar)

Name of investee	Main businesses and products	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2019	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2019	Net income (losses) of the investee	Percentage of ownership	Investment income (losses) (Note 2)	Book value	Accumulated remittance of earnings in current period
					Outflow	Inflow						
Worldco Biotech Pharmaceutical Ltd. (Beijing)	Marketing consulting regarding chemical medicine	305,796 USD	(2)	323,433	-	-	323,433 CNY	(1,164) (260)	100 %	CNY (1,164) (260) CNY	(68,075) (15,813)	-
Worldco Biotech Pharmaceutical Ltd. (Chengdu)	Selling chemical medicine	51,230 CNY	(2)	86,660 20,130 CNY	-	-	86,660 20,130 CNY	501 112 CNY	100 %	CNY 501 CNY 112	47,510 11,036	-
Chuang Yi (Shanghai) Trading Co., Ltd.	Selling functional food	14,990 500 USD	(2)	14,990 500 USD	-	-	14,990 500 USD	(3,043)	100.00 %	(3,043)	4,112	-

The exchange rate of USD to NTD as of the reporting date is 1:29.980, and the average exchange rate of USD to NTD as of the reporting period is 1:30.891. The exchange rate of CNY to NTD as of the reporting date is 1:4.305, and the average exchange rate of CNY to NTD as of the reporting period is 1:4.477.

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

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

Note 2): The investment income (loss) was audited by the parent company's auditors in Taiwan.

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

(Continued)

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

(ii) Limitation on investment in Mainland China:

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
NTD 438,972	NTD 1,415,895 (USD 47,228 )	NTD 3,342,382

(iii) Significant transactions: None

**(14) Segment information:**

Please refer to the consolidated financial report for the years ended December 31, 2019 and 2018.