Stock Code:1762

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

2018
Annual Report

Annual Report available on:
Market Observation Post System website,http://mops.twse.com.tw
The Company's website, http://www.ccsb.com.tw
Printed on April 30, 2019

Note to Readers:

This English-version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

I. Spokesperson, Deputy Spokesperson:

Item	Name	Title	Tel	Email
Spokesperson	Quan-Wen Chen	Business Division Vice President	(02)8684-3318	cw.chen@ccsb.com.tw
Deputy Spokesperson	Kuan-Chieh Wang	Financial Department Managers,	(02)8684-3318	eason@ccsb.com.tw

II. Addresses and Tel. of the Head office and factory sites

Address: No.1, Dongxing St., Shulin Dist., New Taipei City

Tel: (02)8684-3318

III. Stock transfer agency:

Name: Share Administration Department, Yuanta Securities Co., Ltd.

Address: B1F., No.210, Sec. 3, Chengde Rd., Datong Dist., Taipei City

Website: http://www.yuanta.com.tw

Tel: (02) 25865859

IV. Certified public accountants (CPAs) who audited the company's annual financial report for the most recent fiscal year:

CPA name: Shufen Yu, Shu-Qiong Zhang

Auditor's firm: PwC Taiwan

Address: 27F, No.333, Keelung Road Section I, Hsin Yi District, Taipei

Website: http://www.pwc.com/tw

Tel: (02)2729-6666

V. Name of overseas exchange where securities are listed, and the methods for inquiring the foreign-listed securities: none.

VI. The Company's website http://www.ccsb.com.tw

Table of Contents

One. Report to Shareholders

Ladies and gentlemen, our cherished shareholders:

The summary of the company's 2018 business dynamics will be presented to all shareholders, and we look forward to your review and feedback.

I. The 2018 Business Report:

(I) Implementation results of the business plan

1. Active Pharmaceutical Ingredient (API) production:

(1) In 2018, 144 tons of APIs, 50 tons of biotech products, and 94 tons of non-biotech products have been produced.

(2) The number 1 selling biotech product for this company is Mycophenolate Mofetil. We provide excellent quality and stable supply, are the most important supplier in the U.S., and account for approximately 40% of U.S. market. We have accomplished production process optimization and capacity expansion plan to improve the price competitiveness of our products. Our customer has submitted the application for their drug registration. After FDA approval, it is expected to gradually increase the market share every year.

(3) Everolimus, an anti-rejection and anti-cancer drug, is expected to be launched at the end of this year and early next year. Customers in the US, Europe and India have started to ship goods since the second half of last year to prepare for the drug listing.

(4) Biotech product Tacrolimus has excellent quality, and its demand has gradually increased in the U.S. and Japan after reaching the market. After the batch volume increase and performance validation, we plan to continue to increase the production capacity and supply as well as expand the market development momentum. The global market share is expected to gradually increase each year.

(5) Ethyl Icosapentate, a lipid-lowering drug, has been developed by several US pharmaceutical companies with the company's APIs, challenging the US Paragraph IV, and our US customers are expected to be listed around the middle of the next year.

(6) In 2018, the company once again accepted the US FDA official cGMP system inspection, successfully passed, and continued to maintain the excellent inspection record of cGMP. In addition to the official inspections, the customers' cGMP inspections have all passed smoothly. The cGMP requirements for APIs have become increasingly stringent. The company's cGMP implementation and manufacturing specifications have been recognized and confirmed by our customers and the officials in U.S., E.U., and Japan; which will help to open up the E.U., U.S., and Japan based global markets.

2. API sales:

In 2018, the consolidated turnover was NT$1,019,452,000; the operating target was NT$1,245,047,000; and the completion rate was 81.88%. The domestic products include Pravastatin, Tacrolimus, Methocarbamol, and Guaifenesin; which yielded NT$160,890,000 and accounted for 18.78% of the turnover. The export products were primarily based on Pravastatin, Tacrolimus, Everolimus, Methocarbamol, and Mycophenolate Mofetil; which yielded NT$858,562,000 and accounted for 84.22% of the turnover.

2018 Consolidated Sales Analysis Table Unit: NT$ thousand

Product / Sales	Biotechnology products	Non-biotechnology products	Total	Percentage of total Turnover
Domestic sales	60,296	100,594	160,890	15.78%
Exports	771,979	86,583	858,562	84.22%
Total	832,275	187,177	1,019,452	100.0%
Percentage of total Turnover	81.64%	18.36%	100.0%	—

3. Business Status Review

The company's exports are guided by the U.S., Japan, and E.U. markets. Our product R&D is based on the customers' demands as well as the core technologies of microbial fermentation and chemical synthesis. We have cultivated the U.S. Japan, and E.U. markets for over two decades. Despite facing the price cut competitions from China and Indian suppliers, the company is still able to maintain the excellent official plant inspection records from the cGMP under the increasingly strict regulations where numerous other API plants have continued to receive warning letters. We have gained the trust from numerous large pharmaceutical companies worldwide to ensure the market advantages for our primary niche products.

Since its inception in 1964, the company has accumulated over 50 years of experiences in API process development and production. The company has also developed numerous unique products, and its business status is as follows:

(1) Immunosuppressant Mycophenolate Mofetil is a widely used anti-rejection drug for organ transplant patients. The company’s production capacity is mainly based on the demand of the US market. Although there is price competition from Indian suppliers, the company is still consistently recognized by customers with its excellent and stable quality. The company still retained its place as the largest API manufacturer in the US market. It has completed its manufacturing process optimization and capacity expansion in order to improve product price competitiveness. Our customers have submitted the application for registation, and it is expected to obtain FDA approval this year, gradually increasing market share year by year.

(2) The aggregate percentage of sales attributable to the customers in the United States and India, using the company’s anti-rejection and anti-cancer product Everolimus. The company will continue its strategy to choose the brand drugs to develop our generic drugs with the potential to challenge Paragraph IV. According to customer estimates, they would be listed this or later next year. The Paragraph III strategy is adopted for the Japan and E.U. markets outside of the U.S. to simultaneously development the demands for formula R&D. At present, the process optimization and capacity expansion plans are ongoing and expected to fully satisfy the demand of the US, E.U., and Japan markets after completion next year.

(3) The U.S. market based muscle relaxant Methocarbamol has entered the end of its product life cycle due to price disruptions, and the demand is expected to gradually decrease due to customer plant showdowns.

(4) The company cooperating with its affiliated company to develop Tacrolimus SD20 products for tacrolimus preparation, approved by Japan PMDA, and the shipments grew steadily, and the market share gradually increased. The shipments in 2018 tripled.

(5) Pravastatin’s outstanding and steady quality has also been recognized by the market. It is mainly produced in the Indian market by the Indian pharmaceutical

company and then sold to the US market. In the past, due to strong competition from China and India, the market price collapsed. Last year, the supply was reduced and the selling price was increased. The gross profit rebounded slightly.

(6) Ethyl Icosapentate, a hypolipidemic drug, has been developed by several U.S. pharmaceutical companies based on the company's API. We are currently challenging Paragraph IV of the U.S. and striving to win the U.S. FDA review and approval before marketing. According to client estimations, the possible market listing time may be early 2021, and the stock inventory preparation time is estimated to be in 2020.

(7) Anti-fungal drug Caspofungin, which has been listed by several Indian and European companies, the new manufacturing process has been completed and confirmed, customers have been approved for registeration change, and the demand continues to increase. It will be mass-amplified in the second half of this year to meet market demand.

(II) Consolidation budget execution situation status:

Unit: NT$ thousand; %

Item	Annual budget	Actual amount	Achievement rate
Operating revenues	1,245,047	1,019,452	81.88
Operating cost	806,312	667,942	82.84
Operating gross profit	438,735	351,510	80.12
Operating expenses	366,467	320,534	87.47
Operating profit	72,268	30,976	42.86
Net profit before tax	260,717	240,246	92.15

(III) Consolidated financial revenue/expenditure and profitability analysis:

1. Consolidated financial balance:

Unit: NT$ thousand

Item	Amount
Operating revenues	1,019,452
Operating gross profit	351,510
Operating gains and losses	30,976
Interest income	247
Interest expenses	10,870
Capitalized interest	-
Net profit before tax	240,246
After tax net profit	234,288
Earnings per share	NT$ 3.02

2. Consolidated profitability analysis:

Unit: %

Item	Ratio
ROA	7.28
Return on equity	12.31
Ratio of pre-tax net income to paid-in capital	30.97
Net profit margin	22.98
Earnings per share	NT$ 3.02
Earnings per share-retrospective adjustment	NT$ 3.02

(IV) R&D progress:

1. Synthesis Research Institute:
   (1) Completing a new production process for Mycophenolate Mofetil, an immunosuppressive drug, which can effectively lower production costs and increase product competitiveness.
   (2) Developed Etelcalcetide API Etelcalcetide process.
   (3) Developed chronic, idiopathic constipation API Plecanatide process.
   (4) Developed osteoporosis API Abaloparatide process.
   (5) Developed rheumatoid arthritis API Baricitinib process.
2. Biotech Research Institute:
   (1) Completed immune suppressant API Rapamycin new process development and amplification, with purity able to reach 98% or higher, which can effectively reduce the cost by 30% or more.
   (2) Completed oral breast cancer API Ribociclib laboratory process amplification, with purity able to reach 99.5% or higher, its new crystallization type has been petitioned for patent in Taiwan and the U.S.
   (3) Completed multiple sclerosis API Ozanimod laboratory process development, with purity able to reach 99% or higher.

II. Summary of business plan 2019:

(1) Operating principles and important production and marketing policies:

1. Developing international market and new customers
   (1) The company will expand the capacity and optimization of the immunosuppressants process, increase productivity and reduce production costs and enhance competitiveness in order to develop the generic products to meet the demand for Paragraph III and Paragraph II in Europe, Japan and emerging markets, following the launch of Paragraph IV products in the United States. It will master the opportunities from governments to encourage the development of generic drugs to reduce medical expenditures, and actively seize the market for generic drugs in advanced countries such as Japan and Europe.
   (2) We will continue to strengthen the development of the US generic drug market, actively develop new customers of Paragraph IV, and deploy the Paragraph II and Paragraph III markets in Japan and Europe through new customers, independently developed by ourselves and agents with good relationships.
   (3) Everolimus has obtained the FDA inspection registration license (ANDA approval) from the US customers. It is expected that Everolimus will be available in the US market in the year of 2019. The existing Paragraph IV customers will be placed in stock before the listing and new customers will be stocked for development and delivery. As a result, it is estimated that annual revenue in 2019 will be increased.
   (4) The company will enhance the production capacity of existing niche products such as Rapamycin, Tacrolimus and anti-fungal infection product Caspofungin to meet with growing market demand.
2. Domestic & foreign OEM business and technology development contracts
   (1) Increase CDMO/CMO revenue, increase the production rate of existing production lines, and upgrade the technical levels.
   (2) Actively seek additional processing (OEM) work opportunities from international drug companies as well as domestic and foreign biotech drug development companies, gradually upgrade the relevant technologies, and prepare to participate in the new drug R&D with international pharmaceutical companies in the future.
3. Product Development Strategies
   (1) Potential new product topics and R&D
      - Enhance the R&D, purification, analytical method, and mass production technology for peptide APIs and enter the small molecule protein drug market.
      - Enhance the equipment used to increase the production rate for the independent high-product production areas, develop high-active drug technology platforms,

and provide new APIs that challenge Paragraph IV.

- Develop customer-oriented and core technology-based products to reduce customer development costs. Actively form Paragraph IV product development partnerships with internationally known pharmaceutical companies (especially with Indian pharmaceutical companies that are actively deployed in the U.S. market).

(2) Optimize the current product process, reduce the manufacturing costs, and increase the product competitiveness and market share in the global generic drug market.

4. Maintain the International Competitiveness and Advantages of the API Industry

(1) The company will continue to strengthen and implement cGMP execution and pass the official cGMP inspection of domestic and foreign customers and products from importing countries.

(2) The company will improve the loyalty and satisfaction of domestic and foreign customers and consolidate its brand image.

(II) Sales Volume Forecast and Supporting Basis

The company's sales forecast for 2019 is based on the marketing layout, the internationalization of biotechnology products, and the sales forecast plan to actively develop the CDMO/CMO revenue growth.

Unit: Kilogram

Product / Sales	Biotechnology products	Non-biotechnology products	Total
Sales	48,751	148,651	197,402

III. Future development strategies:

(I) We will adjust our R&D strategy and continuously improve R&D energy to develop products with high price, high technology threshold, few competitors, high profits, and global demand of only tens to hundreds of kilograms, to improve the production efficiency and revenue of the current site.

(II) We will continuously enhance the company's unique fermentation and chemical synthesis technology to differentiate ourselves from other industries that only have chemical synthesis or fermentation technology products, enhance its competitiveness in the API market, and strengthen the company's niche products, such as Everolimus, Mycophenolate Mofetil, Rapamycin, Tacrolimus, and Caspofungin. We will invest in process optimization, capacity increase and cost reduction to increase the company's market share in the global API market.

(III) The company will develop unique key technologies to develop special products, such as high-growth products such as anti-cancer, high potency and peptide drugs, to support the development of new customers and enhance the niche and appeal of product differentiation.

(IV) To develop CDMO/CMO business, by rallying to participate in domestic, foreign major drug makers' new drug R&D plans, through which to enter into early stage joint R&D relation, such as pre-clinical and various clinical stages' intermediary, products' trial, manufacturing process development and related work, in anticipation to form a strategic alliance with major pharmaceutical plants, for joint growth.

(V) To ascertain legal compliance, by stepping up raw materials and raw material intermediary supply plants' plant audit, by which to ensure that the upstream supplying plants' legal compliance, the raw materials comply with various countries' pharmaceutical monitoring units' latest demands and also avoid a supply shortage, and also to ensure the company's product quality.

(VI) To continue developing solvent recall technology amid environmental protection demands becoming ever stringent, by inducting various management systems and mechanism, voluntarily executing waste reduction, reduced discharge process, lowering the operating cost, and exerting the company's environmentally friendly social stewardship.

IV. Impacts from the External Competition, Legal Environment, and Overall Business Environment:

The company's APIs are mainly for export and are very sensitive to the US dollar exchange rate. If the US dollar is strong, it will facilitate the export of APIs; the World Bank announces the global outlook as downgrading. It is expected that the global economic downside risks will increase in 2019. The global economic growth rate was revised down to 2.9%, which was 0.1 percentage points lower than the previous forecast, which was the second consecutive year of slowing growth. The rise of the China-US trade wars and protectionism, mutual tariffs have led to a slowdown in global trade activities and dragged down manufacturing, which is one of the main reasons for the decline in the global perspective. Second, in addition to tariff factors, rising interest rates have also damaged government and private enterprises' financial status. Emerging markets are suffering from rising interest rates and rising debt-servicing costs. If the dollar appreciates, it will worsen the emerging market countries due to their heavy foreign debt burden. It is expected that the growth of the global economy will slow down in 2019. Governments will continue to encourage the use of generic drugs to reduce financial pressure and have a positive impact on the export of APIs. However, whether the US dollar continues to be strong, the exchange rate impact is relatively high for the export of APIs.

The total Generics market revenue in 2017 was US$ 319.2 billion, and it is estimated to reach US$ 453.8 billion by 2022, with a 7.3% CAGR. Drug price pressures, patent expiration generic drug competitions, new product R&D delays, etc., will bring pressure to the pharmaceutical market growth. However, the aging global population structure will boost medical expenses and become the driving force for the growth of the pharmaceutical market.

According to estimates by the European Fine Chemical Group, by the end of 2017, the demand for Active Pharmaceutical Ingredients has reached US$92 billion. About 40% of the world's pharmaceutical raw materials come from China. After the 19th National Congress of the Communist Party of China, environmental protection issues have surfaced. The factory cooperated with the policy to suspend production or relocate the factory, affecting the supply stability of the supply side, causing shortages and rising prices. The expected shortage and price pressure will continue this year.

There are more than 3,000 API manufacturers in the world, but only about 542 API manufacturers have the ability to meet the cGMP requirements of the US, Europe and Japan in terms of quality and regulations. According to the NEWPORT database, these 542 companies Most of the API manufacturers are located in the United States, Europe, Japan, China and India. The company's cGMP system has been officially inspected by the United States, Europe and Japan many times. We have been one of the major suppliers of high-tech companies in the United States, Europe and Japan, although we face low-cost competition in the market from Chinese and Indian API manufacturers. With the increasingly strict inspection of the US and EU pharmaceutical authorities and the increasingly stringent requirements for cGMP requirements, the quality requirements of APIs have established a new milestone. The company faced with the improvement of pharmaceutical quality thresholds in advanced countries, it is also an opportunity for Chunghwa Chemical Synthesis & Biotech Co. Ltd who has a strong cGMP foundation. We will strive to enhance our competitiveness, deepen our research and development technology, and develop high-tech raw materials with market potential. In the harsh competition environment of the internal and external markets, we strive to break through and grow steadily.

We wish you all shareholders

May I wish you all good health and good luck.

Chairman Wang, Hsun-Sheng

Two. Company Profile

I. Company founding date: May 19, 1964.

II. Company history:

(I) Mergers and acquisitions of banks, direct investment or reorganization of affiliates in the latest year to the date this report was printed: none.

(II) Large equity transfer or replacement by the Chairman or major shareholders holding over 10% of the company shares during the most recent year and as of the printing date of this annual report: None.

(III) Major changes in operating rights, operating methods, or operating contents during the most recent year and as of the printing date of this annual report as well as other important matters that may affect the shareholders' equity and the company: None.

(IV) The significant impacts to the company's development due the historical information:

This company was founded by National Assembly Representative Mr. Ming-Ning Wang in 1964, which primarily focused on the production of the antibiotics based western medicine APIs and intermediates as well as the manufacturing and sales of chemical raw materials. The company has actively promoted product exports since 1997, and has completed construction for cGMP biotech, cBPM synthetic API, and other relevant pioneering plants. The company has successively passed the plant inspections by the U.S. FDA and German drug certification units; and received numerous pharmaceutical inspection approvals from the E.U., U.S., and India. Its products have met the international standards, and a number of products have been successfully exported to Europe and the U.S. The company's development history is described as follows:

1963
- Preparing and building a plant in Shulin City of Taipei County with the capital of NT$10 million, which was divided into 100 thousand shares with NT$10 per share.

1965
- Plant expansion and equipment increase, increased the number of products to 10, and purchased the Shanjia plant site.

1979
- Entered into technical cooperation with the Japan Far East Fatty Acid Co., Ltd. to build a new plant; and added equipment for the production and sales of reinforced corrugated boards, cardboards, and cardboard boxes.

1990
- The company has completed its research institute named "Shulin Research Center."

1997
- Undertaken the capital increase of NT$255 million in October, with NT$700 million as the amount of paid-in capital after the capital increase.
- The analgesic Acetaminphen passed the FDA plant inspection in October.
- New cGMP API Shulin Plant groundbreaking ceremony on November 12.

1999
- December trial run completion after the January groundbreaking for the new cGMP biotech API plant.
- The new cGMP API plant completed mass production of Glyburideglp, Methocarbamol, and Guaifenesin.
- Invested in the establishment of Pharmaports, LLC. in the U.S.
- December: Undertaken the capital increase of NT$220 million with

NT$920 million as the amount of paid-in capital after the capital increase.

2002
- April: The cGMP plant passed the U.S. FDA plant inspection, and passed the inspection by the domestic drug inspection bureau on November 22.

2003
- April: the Methocarbamol based synthesis plant passed the cGMP plant inspection by the U.S. FDA. 210 tons of the Methocarbamol were exported and sold to the U.S., which ranked No. 1 in the U.S. market.
- June: In response to the company's product production type, the company officially changed its name to "Chunghwa Chemical Synthesis & Biotech Co. Ltd."
- September: To make up for the cumulative losses and improve the financial structure, the company has undertaken the capital reduction of NT$518 million and the capital replenishment of NT$250 million. After the reduction and replenishment, the capital amount is NT$652 million.
- December: The Pravastatin product process passed the original manufacturer SANKYO's inspection in Japan, verified to have no process infringement, and the product officially entered the Japanese market.

2004
- The R&D for biotech Tacrolimus immunosuppressive agent product was successful, and pilot industry trial production was completed.
- The immunosuppressant Rapamycin passed plant inspection by the U.S. customers and began shipment.
- Thirty-ton fermentation tanks have been installed and commissioned.

2005
- The quality and delivery deadline for the new immunosuppression product Rapamycin were confirmed by the U.S. customers, and the company was able to provide a stable supply for human trials.
- The production of Fosinopril intermediate ZP-3 commissioned by the European Swiss pharmaceutical company was extended to ZP-7.
- Thirty tons of yeast batch tanks were installed, completed the trial runs, and put into mass production.
- December: Passed the Pravastatin based biotech plant full cGMP plant inspection by the U.S. FDA.

2006
- The quality and delivery of Tacrolimus, a new product for immunosuppression, was confirmed by U.S. customers.
- Pravastatin, a hypolipidemic drug, successfully entered the U.S. market.
- The muscle relaxant Methocarbamol sold 269 tons and made a new turnover record.
- The production of Fosinopril intermediate ZP-3 breakthrough process commissioned by the European Swiss pharmaceutical company was extended to ZP-7.
- To strengthen the integration of R&D resources for biotech and non-biotech products as well as accelerate the pace of R&D, the company appointed Dr. Dai-Rui from the U.S. as the President's special assistant to take charge of the research center.

2007
- The biotech plant invested into the production of 30-ton tanks as dedicated fermenters for immunosuppressive products Rapamycin, Tacrolimus, and Mycophenolate Mofetil.
- Immunosuppressant Mycophenolate Mofetil completed the validation

batch.

- Developed OEM products, and completed the trial productions for Olopatadine and Perindopril.

2008
- Completed the laboratory process R&D for Everolimus, Temsirolimus, and Zotarolimus (downstream Rapamycin series products). Develop second-generation immunosuppressant drug products.
- Jointly completed the Tacrolimus SD upstream and downstream R&D integration with CCPC. The two parties simultaneously conducted the BE test and applied for ANDA.
- The immunosuppressant Mycophenolate Mofetil completed the validation batch, passed cGMP plant inspection by three U.S. pharmaceutical companies, and became a key supplier for the North American market.

2009
- February: Passed the cGMP plant inspection by the German drug certification unit.
- August: Increased the amount of capital by NT$50 million in order to strengthen the financial structure, and the capital amount reached NT$702 million after the capital increase.
- Jointly developed Tacrolimus SD and its formulation products with CCPC, and the BE test has been completed by a well-known pharmaceutical company in the United States and passed the ANDA application.
- December: Listed as an emerging stock company by the Taipei Exchange.

2010
- December 16: Replenished NT$73.6 million in capital, and the capital amount was NT$775.6 million after replenishment.
- December 20: The stock was traded in the stock market.

2011
- January: Obtained the U.S. Bayer Mose production patent.
- April: 3 products passed the U.S. FDA official plant inspection: Mycophenolate Mofetil, Dexbrompheniramine Maleate, and Tacrolimus.
- Began to supply the immunosuppressant products Tacrolimus & Sirolimus to the Japanese market.
- Fungins product entered the European market.

2012
- March: Obtained the Taiwanese patent for improving the synthetic methods of Tacrolimus and its analogues, the synthesis of Biolimus A9 analogues, and their stability improvement method.
- April: Purchased land in Guanyin Township, Taoyuan County, to expand the production base.
- April: Added a new analysis institute with President special assistance Dr. Hong-Yuan Chen serving as the director.
- April: Successfully completed R&D for new product Everolimus.
- April: Successfully completed R&D for new product Ethyl Icosapentate.
- May: Pravastatin passed the second German official cGMP plant inspection.
- September: Obtained the U.S. patent for the process for preparation of Temsirolimus.
- October: Obtained the Taiwanese patent for the preparation of nitrogen-containing heterocyclic hexapeptides for high conversion rate

caspofungin.

2013

- January: Obtained a Taiwanese patent for the preparation of MPA Sodium.
- March: Completed the U.S. FDA API drug master file (DMF) registration.
- May: OLO & Rapa passed the Taiwan TFDA plant inspection.
- June: Tacrolimus passed the Japanese PMDA plant inspection.
- July: Singed the R&D contract with China Jinan Wuhuan Pharmaceutical Technology Company and China Suzhou Pengxu Pharmaceutical Technology Co., Ltd., respectively, to establish strategic alliances.
- August: Tacrolimus passed the South Korea official plant inspection.
- August: Everolimus Pre-Mix completed the U.S. FDA API drug master file (DMF) registration.
- September: Metaxalone completed the U.S. FDA API drug master file (DMF) registration.
- October: Everolimus & Caspofungin passed the Taiwan TFDA plant inspection certification.
- November: Caspofungin completed the U.S. FDA API drug master file (DMF) registration.

2014

- March: The Board of Directors passed a resolution to promote the special assistant of President Dr. Hong-Yuan Chen as the Vice President of the R&D Department.
- May: The biotech plant and the synthesis plant passed the official plant inspection by the U.S. FDA.
- June: Obtained the U.S. patent for the preparation method of Ridaforolimus.
- July: Obtained the Taiwanese patent for the preparation method of Ridaforolimus.

2015

- January: Sold part of the land in Taoyuan Science Park.
- March: Pravastatin Sodium and Tacrolimus passed the German official inspection.
- March: Passed the Taiwan TFDA plant inspection.
- May: Original President Dr. Xiang-Han Zhang retired, and Dr. Chih-Ping Yang took over as the President.
- May: Passed the Mexico official plant inspection.

2016

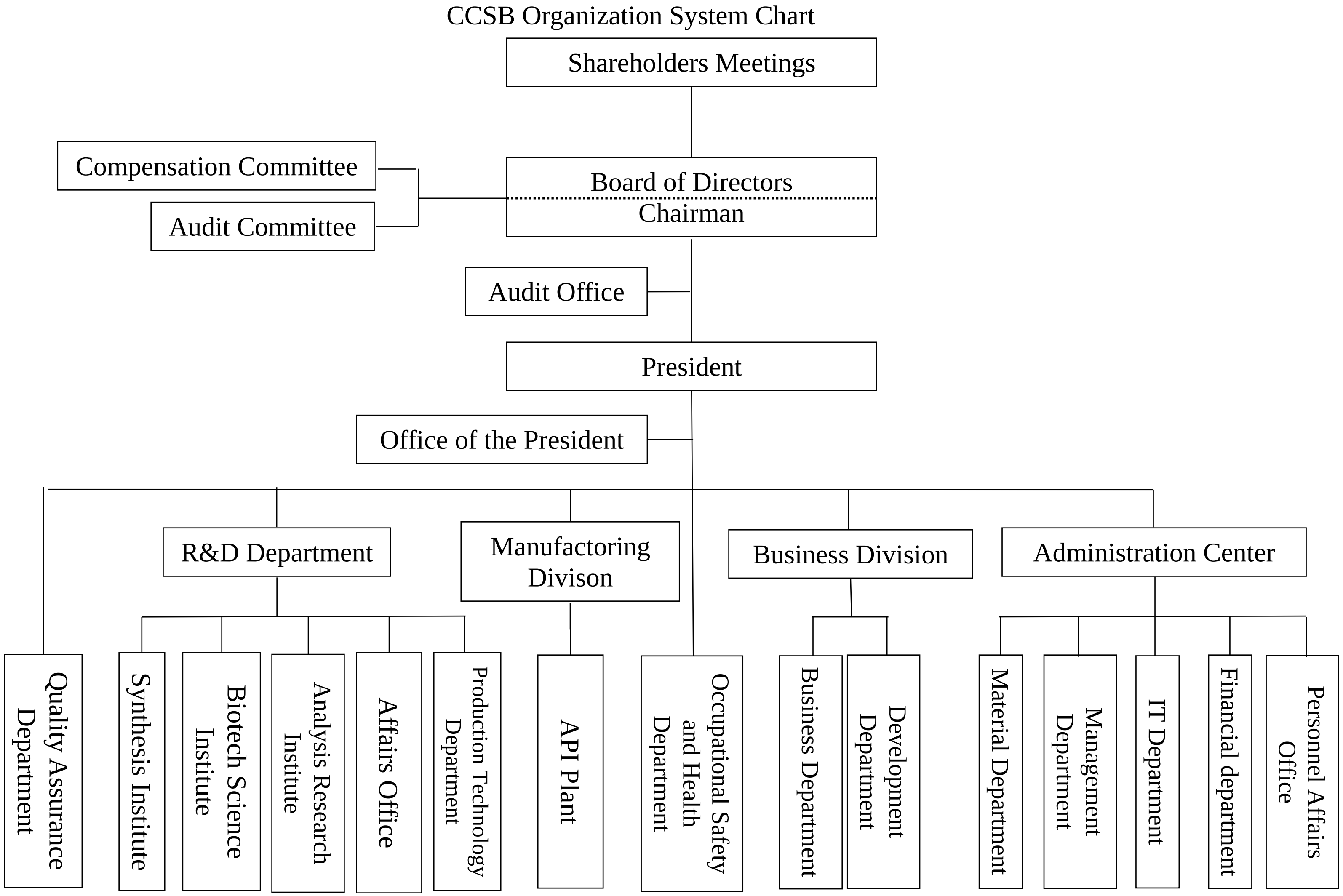
- March: The Board of Director passed the resolution for Dr. Hong-Yuan Cheng to retire from the R&D Department.
- May: Due to organizational adjustments, the original Vice President of the Business Department was transferred to the position of President of the Administrative Center. The company appointed Mr. Quan-Wen Chen as the Vice President of the Business Department.
- December: Obtained the ISO50001 certification.
- December: Won the 2016 Annual Pharmaceutical Science and Technology R&D Award from the Ministry of Health and Welfare with Mycophenolate Mofetil and Everolimus as the award-winning products.

2017	• February: Obtained the Taiwanese patent for anticoagulant drug Edoxaban API's "Diamine Derivative Production Method." • March: Passed the U.S. FDA plant inspection. • July: Passed the Japanese PMDA plant inspection. • July: Obtained the Taiwanese patent for the treatment of short bowel syndrome and the production method of Teduglutide. • July: Purchased land in Guanyin Township, Taoyuan County, to expand the production base. • In August, the board of directors appointed Dr. Wei Qingpeng to take over as deputy general manager of the R&D department. • September: Obtained the Taiwanese patent for the innovative production method of lxazomib citrate for the treatment of multiple myeloma. • October: Passed the Taiwan TFDA plant inspection. • November: Obtained the U.S. patent for anticoagulant drug Edoxaban API's "Diamine Derivative Production Method."
2018	• In March, the company obtained the Taiwan patent for “CRYSTAL FORM D OF BARICITINIB PHOSPHATE AND COMPOSITION THEREOF”. • In April, the former General Manager Dr. Yang Zhiping resigned and the new General Manager was replaced by Mr. Huang Zhongxin. • May: Sold part of the land in Taoyuan Science Park. • In June, Zeng Guoxian, the Plant Deputy Director was promoted to Vice President of Manufacturing Division by the board of directors. • In July, Chunghwa Chemical Synthesis & Biotech Co. Ltd was awarded the Gold Medal Prize for Manufacturing Technology Award by the Ministry of Economic Affairs and the Ministry of Economics. The winning product is Caspofungin Acetate. • In September, the company granted the Taiwan patent for “METHOD FOR PREPARING AMORPHOUS CARFILZOMIB (I)”. • November: Passed the U.S. FDA plant inspection. • In December, the company obtained US patent for “Method for preparing glucagon peptide-2 (GLA-2) analogue”.

Three. Corporate Governance

I. Organizational structure:

(I) Table of Organizational structure:



(II) The responsibilities of various divisions:

Units	Main responsibilities
Office of the President	Manage the company's business development, document management, and other relevant operations.
Audit Office	Responsible for the inspection and evaluation of internal control systems, determine whether the internal audit system and internal control self-assessment procedures are sound, perform audits and supervise follow-up improvements for all departments, and issue analysis evaluations and recommendations.
Financial Department	Responsible for cashier, fund planning, accounting, taxation, financial statements, budget reviews, stock management and planning, credit control, as well as fund collection and demand related operations.
Management Department	Manage the affairs for the entire plant, safeguard the company seals, and procurement of production parts and consumables.
Material Department	1. Responsible for the raw material procurement strategy planning and implementation of R&D. 2. Responsible for searching for new materials and intermediates.
IT Department	Responsible for the company's computerized operations as well as system analysis and management.
Personnel Affairs Office	Responsible for recruiting appointments, compensation and benefits, performance appraisal, training and development, and other human resources related businesses.
Business Department	1. Responsible for the development of domestic and foreign customers and product sales, promotion and provision of customer post-sales defective products replacement, and other related issues. 2. Responsible for the introduction of new product planning, market research and analysis, as well as pricing and distribution.
Development Department	Responsible for global market information gathering and analysis as well as new product development screening.
Occupational Safety and Health Department	1. Wastewater, air pollution, waste handling, and other relevant operations. 2. Handling of the occupational safety and health related matters.
API Plant	Responsible for the production of chemical APIs, chemical products, and fermented raw materials.
Production Technology Department	He is responsible for coordinating CMO/CDMO and technology transfer planning and execution, process improvement and cost reduction related business.
Synthesis Institute	Chemical synthesis of new product development.
Biotech Science Institute	Fermentation new product development and strain optimization.
Analysis Research Institute	Responsible for the analysis of R&D, and the transfer of analytical methods to the quality control unit.
Affairs Office	Responsible for coordinating research on the process related project operations.
Quality Assurance Department	Quality assurance, control, and validation, etc., related GMP related plant inspections, drug license applications, and other regulatory operations.

II. Background information of the Director, President, Vice Presidents, Assistant Vice Presidents and heads of various departments and branches:

(I) Director:

1. Directors Information:

April 2, 2019 Unit: shares

Title	Nationality and Registry	Name	Gender	Date elected	Term	Date first elected	Shareholding as of elected date		Current shareholding		Shareholdings of spouse and underage children		Shares held in the names of others		Major career (academic) achievements	Current duties in The Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding			Title	Name	Relation
Chairman	Republic of China	Wang, Hsun-Sheng	Male	2016.05.31	3 years	1994.05.28	2,854,230	3.68%	2,854,230	3.68%	787	0%	0	0%	Master of Business Administration, Yale University, U.S.A. Chairman of China Chemical & Pharmaceutical Co., Ltd.	The Company: Chairman Other companies: Note 2	Director	Wang, Hsun-Hui	Brothers
Director	Republic of China	Wang, Hsun-Hui	Male	2016.05.31	3 years	1988.10.29	1,864,768	2.40%	1,864,768	2.40%	77,787	0.10%	0	0%	Graduated from the U.S. New York State Art University Chairman of Suzhou Chung-Hwa Chemical Pharmaceutical Industrial Co., Ltd.	The Company: none Other companies: Note 3	Chairman	Wang, Hsun-Sheng	Brothers
Director	Republic of China	China Chemical & Pharmaceutical Co., Ltd.	-	2016.05.31	3 years	1998.05.12	17,331,064	22.35%	17,331,064	22.35%	0	0%	0	0%	-	The Company: none Other companies: Note 4	None	None	None
	Republic of China	China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun	Male	2016.05.31	3 years	2010.06.08	0	0%	6,636	0.01%	0	0%	0	0%	Graduated from the Department of Labor Relations, China Culture University Vice President of China Chemical & Pharmaceutical Co., Ltd.	The Company: none Other companies: Note 5	None	None	None
Director	Republic of China	Wang Ming-Ning Memorial Foundation	-	2016.05.31	3 years	2016.05.31	1,691,982	2.18%	1,691,982	2.18%	0	0%	0	0%	-	The Company: none Other companies: Note 6	None	None	None
	Republic of China	Wang Ming-Ning Memorial Foundation representative: Chung-Hsin Huang (Note 1)	Male	2016.05.31	3 years	2018.04.01	0	0%	69,411	0.09%	0	0%	0	0%	Chemical Engineering Department of Chung Yuan University China CCSB Pharmaceuticals president President of CCSB Biotech Business Department Vice President of CCSB Biotech Administrative Center	The Company: President Other companies: Note 7	None	None	None
Independent Director	Republic of China	Kuo-Chiang Wang	Male	2016.05.31	3 years	2010.06.08	0	0%	0	0%	0	0%	0	0%	Master's Degree from the NCTU Executive Masters of Business Administration Acting President of Dafeng Cable Co., Ltd. President of Taiwan Digital Broadband Cable TV Co., Ltd. Assistant Professor of National Taipei University of Technology	The Company: none Other companies: Note 8	None	None	None

Title	Nationality and Registry	Name	Gender	Date elected	Term	Date first elected	Shareholding as of elected date		Current shareholding		Shareholdings of spouse and underage children		Shares held in the names of others		Major career (academic) achievements	Current duties in The Company and in other companies	Spouse or relatives of second degree or closer acting as Directors, Supervisors, or other department heads		
							Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding			Title	Name	Relation
Independent Director	Republic of China	Cheng-Hsien Tsai	Male	2016.05.31	3 years	2012.06.20	0	0%	0	0%	0	0%	0	0%	University of Minnesota, Department of Chemicals and Materials Science Doctoral Degree Chairman of BIONET Corp. CEO of GGA Corp. 2003~2005 Asian Cord Blood Bank Alliance/Chair (Asia Pacific Cord Blood Bank Consortium，APCBBC) 2012~2013 Regional Vice President of International Society for Cellular Therapy (ISCT)	The Company: none Other companies: Note 9	None	None	None
Independent Director	Republic of China	Chih-Hsien Chang	Female	2016.05.31	3 years	2016.05.31	0	0%	0	0%	0	0%	0	0%	Master of Statistics, Stanford University, U.S.A. Special assistant to the hosting architect of Partners Architects Planners Vice President of Chia Hsin Asset Management Development Co., Ltd. (subsidiary of Chia Hsin Cement Corporation) Vice President of Robeco Investment Management Group Asia Investment Management Center (Hong Kong) Greater China Marketing	The Company: none Other companies: Note 10	None	None	None

Note 1: The representative for Wang Ming-Ning Memorial Foundation was changed to Mr. Chong-Xin Huang on April 1, 2018; the original representative Mr. Chih-Ping Yang was dismissed.

Note 2: China Chemical & Pharmaceutical Co., Ltd. (Chunghwa Chemical Synthesis & Biotech Co. Ltd legal representative), Tairung Enterprise Co., Ltd., Chunghwa Yuming Healthcare Co., Ltd, (China Chemical Pharmaceutical Co., Ltd. legal representative), SINO-JAPAN CHEMICAL CO.,LTD. (China Chemical Pharmaceutical Co., Ltd. legal representative) - Chairman; Director of Suzhou Chung-Hwa Chemical & Pharmaceutical Industrial CO., LTD.

Note 3: Chairman of Suzhou Chung-Hwa Chemical & Pharmaceutical Industrial CO., LTD; China Chemical Pharmaceutical Co., Ltd. (the legal representative of Wang Ming-Ning Memorial Foundation), Chairman of Tairung Enterprise Co., Ltd.; Supervisor of Suzhou Chung-Hwa Chemical & Pharmaceutical Industrial CO., LTD.

Note 4: Director of Tairung Enterprise Co., Ltd., Sinochem Yumin Health Co., Ltd., SINO-JAPAN CHEMICAL CO.,LTD.; and supervisor of Chunghwa Yuming Healthcare Co., Ltd.

Note 5: Tairung Enterprise Co., Ltd. (legal representative of China Chemical Pharmaceutical Co., Ltd.), Sinochem Yumin Health Co., Ltd. (legal representative of China Chemical Pharmaceutical Co., Ltd.), Suzhou Chung-Hwa Chemical & Pharmaceutical Industrial CO., LTD - Director; General Manager of Sinochem Yumin Health Co., Ltd.; Deputy General Manager of China Chemical Pharmaceutical Co., Ltd.

Note 6: Director of China Chemical & Pharmaceutical Co., Ltd.

Note 7: PHARMAPORTS, LLC (Chunghwa Chemical Synthesis & Biotech Co. Ltd. legal representative) Chairman, Executive Director of Suzhou Sinochem Synthetic Biotech Trading Co., Ltd.

Note 8: Responsible person of Lianjie Management Consultation Co., Ltd. Independent director, convener of audit committee, and member of remuneration committee for SolidWizard Technology Co., Ltd. Independent director, remuneration committee convenor, and M&A special committee member of Feedback Tech. Corp. Independent director, remuneration committee convener, audit committee member of Partner Technology Co., Ltd. and National Chiao Tung University part-time assistant professor.

Note 9: Charmian of BIONET Corp., CROWN STAR ALLIANCE LIMITED, and STAR FORD (SAMOA) LIMITED. Director of GGA. Corporate director representative of Babybanks. Independent director and member of the remuneration committee for Les enphants Co., Ltd. and Lien Chang Electronic Enterprise Co., Ltd.

Note 10: CEO of Pioneer Thank Tank Co., Ltd.; special assistant to the hosting architect of Partners Architects Planners; and supervisor of ADLINK Technology.

2. List of directors who are also legal person shareholder representatives with the shareholding ratio of exceeding 10% or rank as top ten among the shareholders:
   (1) Corporate shareholders' main shareholders:

April 2, 2019

Name of corporate shareholder	Corporate shareholders' main shareholders	Shareholding percentage
China Chemical & Pharmaceutical Co., Ltd.	Chunghwa Chemical Synthesis & Biotech Co., Ltd.	7.02%
	Wang, Hsun-Sheng	4.93%
	Wang, Hsun-Hui	4.62%
	Fubon Life Insurance Co. Ltd.	4.36%
	Wang Ming-Ning Memorial Foundation	3.50%
	Kuan Enterprise Limited	2.35%
	Special Account for Investment of the Central Bank of Norway in custody of Citibank	2.30%
	Majiade Enterprises Co., Ltd.	1.63%
	Dimension emerging market estimate fund investor account management commissioned to CitiBank (Taiwan)	1.17%
	Cathay Life Insurance Co. Ltd.	1.09%
Wang Ming-Ning Memorial Foundation	—	—

   (2) The main shareholders if the main shareholders of the corporate shareholders are the corporation:

April 2, 2019

Name of corporate shareholder	Corporate shareholders' main shareholders	Shareholding percentage
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	China Chemical & Pharmaceutical Co., Ltd.	22.35%
	Fubon Financial Holding Co., Ltd.	3.87%
	Wang, Hsun-Sheng	3.68%
	Wang, Hsun-Hui	2.40%
	Wang Ming-Ning Memorial Foundation	2.18%
	Hsun-Wei Wang	1.29%
	Gui-Mei Ling	1.28%
	Hsun-Yu Wang	1.02%
	KaNan Vocational High School	0.93%
	The company has a SPDR(R)-S&P Emerging Market ETF investment account in Deutsche Bank Taipei Branch.	0.91%
Fubon Life Insurance Co. Ltd.	Fubon Financial Holding Co., Ltd.	100.00%
Wang Ming-Ning Memorial Foundation	—	—
Kuan Enterprise Limited	Jun-Ping Guan	100.00%
Special Account for Investment of the Central Bank of Norway in custody of Citibank	—	—
Majiade Enterprises Co., Ltd.	Yi-Zhen Xie Wang	59.10%
	Wang, Hsun-Sheng	28.72%
	Hou-Zhu Wang	5.82%
	Hou-Kai Wang	5.82%
	Zheng-Zhi Hong Xie	0.54%
Dimension emerging market estimate fund investor account management commissioned to CitiBank (Taiwan)	—	—
Cathay Life Insurance Co. Ltd.	Cathay Financial Holdings Co., Ltd.	100.00%

Note: Source of information came from the Annual Shareholders Meeting Report disclosed in the Market Observation Post System and the Ministry of Economic Affairs Business Division Websites.

3. Professional qualifications and independence of directors: April 2, 2019

Qualification / Name	Having more than 5 years work experience and professional qualifications listed below			Compliance of independence (Note 1)										Number of positions as an Independent Director in other public listed companies
	Lecturer (or above) of commerce, law, finance, accounting, or any subjects relevant to the company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holders of professional qualification relevant to the company's operations	Commercial, legal, financial, accounting or other work experiences required to perform the assigned duties	1	2	3	4	5	6	7	8	9	10	
Director Wang, Hsun-Sheng	–	–	✓	–	–	–	–	–	–	–	–	✓	✓	None
Director Wang, Hsun-Hui	–	–	✓	–	–	–	–	–	–	–	–	✓	✓	None
China Chemical & Pharmaceutical Co., Ltd. representative: Director Yin-Nan Sun	–	–	✓	–	–	✓	✓	–	–	–	✓	✓	–	None
Wang Ming-Ning Memorial Foundation representative: Chung-Hsin Huang	–	–	✓	–	–	✓	✓	✓	✓	✓	✓	✓	–	None
Independent Director Kuo-Chiang Wang	✓	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	3
Independent Director Cheng-Hsien Tsai	–	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Independent Director Chih-Hsien Chang	–	–	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	None

Note 1: place a "✓" in the box below if the Director met the following conditions during the time of active duty and two years prior to the elected date.

(1) Not employed by the company or any of its affiliated companies.

(2) Not a director or supervisor of the company or any of its affiliates (the same does not apply, however, in cases where the person is an independent director of the company or its subsidiary established according to this law or the local regulations).

(3) Does not hold more than 1% of the company's outstanding shares in his/her own name or under the name of spouse, underage children, or any other person; nor is any party listed herein one of the ten largest natural person shareholders of the company.

(4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.

(5) Not a director, supervisor, or employee of the company's corporate shareholder holding more than 5% of the company's outstanding capital; nor a director, supervisor, or employee to any of the top 5 corporate shareholders.

(6) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the company.

(7) Not a professional, business owner, partner, director, supervisor, or manager of any sole-proprietorship, partnership, company, or institution providing commercial, legal, financial, or accounting services or consultations to the company or any of its affiliated companies; nor a spouse to anyone listed herein. Except the members of the Remuneration Committee performing their duties pursuant to Article 7 of the Regulation Governing the Establishment of Remuneration Committee and the Performance of Authority of Companies trading their stocks in TWSE/GTSM¡±.

(8) Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.

(9) Does not meet any descriptions stated in Article 30 of the Company Act.

(10) Not elected as a government or corporate representative according to Article 27 of The Company Act.

Note 2: The representative for Wang Ming-Ning Memorial Foundation was changed to Mr. Chong-Xin Huang on April 1, 2018; the original representative Mr. Chih-Ping Yang was dismissed.

(II) Information of the President, Vice President, associated director, and supervisor of the various units and branches

April 2, 2019 Unit: shares

Title	Nationality	Name	Gender,	Date elected	Shares held		Shareholdings of spouse and underage children		Shares held in the names of others		Major career (academic) achievements	Current positions in the company and other companies	Spouse or relatives of second degree or closer acting as managers		
					Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding			Title	Name	Relation
President	Republic of China	Chih-Ping Yang (Note 1)	Male	2015.05.11	0	0%	0	0%	0	0%	Doctor of Organic Chemistry, University of Texas at Austin Chugai Pharma Taiwan Ltd. President	None	None	None	None
President	Republic of China	Chung-Hsin Huang (Note 1)	Male	2018.04.01	69,411	0.09%	0	0%	0	0%	Chemical Engineering Department of Chung Yuan University China CCSB Pharmaceuticals president Chunghwa Chemical Synthesis & Biotech Co. Ltd. Business Division Vice President Chunghwa Chemical Synthesis & Biotech Co. Ltd. Administrative Center Vice President	PHARMAPORTS,LLC (CSBC incorporated entity representative) chairman Executive director of Suzhou Chunghwa Biotech Trading Co., Ltd.	None	None	None
Business Division Vice President	Republic of China	Quan-Wen Chen	Male	2016.06.01	0	0%	0	0%	0	0%	Taipei Medical University, Department of Medical Technology Chugai Pharma Taiwan Ltd. Marketing Director	None	None	None	None
R&D Department Vice President	Republic of China	Qing-Peng Wei	Male	2017.08.14	60,000	0.08%	110,000	0.14%	0	0%	National Tsing Hua University, Department of Chemistry Vice President of Formosa Laboratories, Inc.	None	None	None	None
Manufactoring Divison Vice President	Republic of China	Guo-Xian Zeng (Note 2)	Male	2018.07.01	2,051	0%	0	0%	0	0%	Department of Chemical Engineering, National Cheng Kung University Deputy Director for CCSB	None	None	None	None
Administration Center Vice President	Republic of China	Shi-Qin Zhang (Discharged on 2018.4.30)	Male	2017.08.21	0	0%	0	0%	0	0%	University of Tennessee, EMBA Master Elementis plc. Asian Chief Financial Officer	None	None	None	None
Internal Audit Managers,	Republic of China	Chao-Sheng Hong	Male	1998.12.31	26,330	0.03%	0	0%	0	0%	Master form the Department of business Administration, Chung Yuan Christian University Qingyun Electric Information Manager	None	None	None	None
Financial Department Managers,	Republic of China	Shu-Yi You (Discharged on 2018.11.03)	Female	2017.05.22	0	0%	0	0%	0	0%	Master of Department of Economics, National Tsing Hua University Finance manager of Hong Kong Taikoo Motor Co., Ltd.	None	None	None	None
Financial Department Managers,	Republic of China	Kuan-Chieh Wang (Newly appointed 2017.11.120)	Male	2018.11.20	0	0%	0	0%	0	0%	MBA in Accounting of Chinese Culture University Yuanta Securities Assistant Manager Messe Frankfurt New Era Business Media Ltd. Management Division Associate	None	None	None	None
Accounting Supervisor	Republic of China	Hsiu-Fen Lin	Female	2017.05.22	4,330	0.01%	0	0%	0	0%	Department of International Business Administration, Chinese Culture University Accountant for Taiwan Foreign Industry Co., Ltd.	Supervisor of Suzhou Chunghwa Biotech Trading Co., Ltd.	None	None	None

Note 1: The former general manager of the company, Mr. Yang Zhiping, was resigned on April 1, 2018. The new general manager position was temporarily transferred to Mr. Huang Zhongxin from April 1 in 2018 and was formally appointed by the board of directors on May 8, 2018.

Note 2: On July 1, 2018, he was the Plant Deputy Director, and then promoted to Vice President of Manufacturing Division.

III. Remuneration paid to Directors, the President, and the Vice President in the latest year

(I) Remuneration paid during the most recent fiscal year to Directors, Presidents, and Assistant Presidents

1. Remuneration to Directors

Unit: NTD thousand December 31, 2018

Title	Name	Directors' remuneration								The sum of A, B, C, and D as a percentage of after-tax net profit (%)		Remuneration as an employee								The sum of A, B, C, D, E, F and G in proportion to Earnings (%)		Remuneration from invested businesses other than the subsidiaries
		Remuneration (A)		Pension (B)		Remuneration to directors (C)		Fees for services rendered (D) (Note 2)				Salaries, bonuses, special allowances etc (E) (Note 3)		Pension (F)		Remuneration to employees (G)						
		The company	All companies contained in the financial report	The company	All companies contained in the financial report	The company	All companies contained in the financial report	The company	All companies contained in the financial report	The company	All companies contained in the financial report	The company	All companies contained in the financial report	The company	All companies contained in the financial report	The company		All companies contained in the financial report		The company	All companies contained in the financial report	
																Cash amount	Stock amount	Cash amount	Stock amount			
Chairman	Wang, Hsun-Sheng	4,644	4,644	0	0	1,549	1,549	769	769	2.97	2.97	8,745	8,745	0	0	360	0	360	0	6.86	6.86	0
Director	Wang, Hsun-Hui																					
Director	China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun																					
Director	Wang Ming-Ning Memorial Foundation representative: Chih-Ping Yang (Note 1)																					
	Wang Ming-Ning Memorial Foundation representative: Chung-Hsin Huang (Note 1)																					
Independent Director	Kuo-Chiang Wang																					
Independent Director	Cheng-Hsien Tsai																					
Independent Director	Chih-Hsien Chang																					
*In addition to those disclosed in the table above, the amount of remuneration for the services (such as non-employee consultants, etc.) provided to all of the companies by the company directors in the financial report for the last year: None.																						

Note 1: The representative for Wang Ming-Ning Memorial Foundation was changed to Mr. Chong-Xin Huang on April 1, 2018; the original representative Mr. Chih-Ping Yang was dismissed.

Note 2: Include the transportation vehicle lease amount of NTD 703,000.

Note 3: The compensation package including rental fee for the car, is NTD 697,000; the relevant compensation for the driver is NTD 852,000, which is not included in the remuneration.

Table of salaries scale

Remunerations to individual directors in respective brackets along the salaries scale	Name of director			
	The total of the aforementioned 4 items (A+B+C+D)		The total of the aforementioned 7 items (A+B+C+D+E+F+G)	
	The company	All companies contained in the financial report	The company	All companies contained in the financial report
<NTD 2,000,000	Wang, Hsun-Hui; China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun; Wang Ming-Ning Memorial Foundation representative: Chih-Ping Yang; Wang Ming-Ning Memorial Foundation representative: Kuo-Chiang Wang, Chih-Hsien Chang, Cheng-Hsien Tsai, Chih-Hsien Chang	Wang, Hsun-Hui; China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun; Wang Ming-Ning Memorial Foundation representative: Chih-Ping Yang; Wang Ming-Ning Memorial Foundation representative: Kuo-Chiang Wang, Chih-Hsien Chang, Cheng-Hsien Tsai, Chih-Hsien Chang	Wang, Hsun-Hui, China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun, Kuo-Chiang Wang, Cheng-Hsien Tsai, Chih-Hsien Chang	Wang, Hsun-Hui, China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun, Kuo-Chiang Wang, Cheng-Hsien Tsai, Chih-Hsien Chang
NTD 2,000,000 ~ NTD 5,000,000 (exclusive)	Wang, Hsun-Sheng	Wang, Hsun-Sheng	Wang, Hsun-Sheng, The Mr. Wang Min-ning Memorial Foundation representative: Chih-Ping Yang; Wang Ming-Ning Memorial Foundation representative: Chung-Hsin Huang	Wang, Hsun-Sheng, The Mr. Wang Min-ning Memorial Foundation representative: Chih-Ping Yang; Wang Ming-Ning Memorial Foundation representative: Chung-Hsin Huang
NTD 5,000,000 ~ NTD 10,000,000 (exclusive)	None	None	None	None
NTD 10,000,000 ~ NTD 15,000,000 (exclusive)	None	None	None	None
NTD 15,000,000 ~ NTD 30,000,000 (exclusive)	None	None	None	None
NTD 30,000,000 ~ NTD 50,000,000 (exclusive)	None	None	None	None
NTD 50,000,000 ~ NTD 100,000,000 (exclusive)	None	None	None	None
> NTD 100,000,000	None	None	None	None
Total	8 persons	8 persons	8 persons	8 persons

2. Remuneration to the President and Vice President

Unit: NTD thousand December 31, 2018

Title	Name	Salary (A)		Pension (B) (Note 3)		Bonuses and allowances etc (C) (Note 4)		Remuneration to employees (D)				The sum of A, B, C, and D as a percentage of after-tax net profit (%)		Remuneration from invested businesses other than the subsidiaries
		The company	All companies contained in the financial report	The company	All companies contained in the financial report	The company	All companies contained in the financial report	The company		All companies contained in the financial report		The company	All companies contained in the financial report	
								Cash amount	Stock amount	Cash amount	Stock amount			
President	Chih-Ping Yang (Note 1)	16,863	16,863	348	348	2,561	2,561	1,252	0	1,252	0	8.97	8.97	0
President	Chung-Hsin Huang (Note 1)													
Vice President of Business Department	Quan-Wen Chen													
Vice President of R&D Department	Qing-Peng Wei													
Vice President of Manufacturing Division	Guo-Xian Zeng (Note 2)													
Vice President of the Administrative Center	Shi-Qin Zhang (Discharged on 2018.4.30)													

Note 1: The former general manager of the company, Mr. Yang Zhiping, was resigned on April 1, 2018. The new general manager position was temporarily transferred to Mr. Huang Zhongxin from April 1 in 2018 and was formally appointed by the board of directors on May 8, 2018.

Note 2: On July 1, 2018, he was the Plant Deputy Director, and then promoted to Vice President of Manufacturing Division.

Note 3: The amount of retirement pension allocated in 2018.

Note 4: The compensation package including rental fee for the car, is 1,118,000; the relevant compensation for the driver is 852,000, which is not included in the remuneration.

Table of salaries scale

Range of Remunerations paid to various Presidents and Vice Presidents	Names of the Presidents and the Vice Presidents	
	The company	All companies contained in the financial report
<NTD2,000,000	Shi-Qin Zhang, Guo-Xian Zeng	Shi-Qin Zhang, Guo-Xian Zeng
NTD2,000,000 ~ NTD5,000,000 (exclusive)	Chung-Hsin Huang, Chih-Ping Yang, Quan-Wen Chen, Qing-Peng Wei	Chung-Hsin Huang, Chih-Ping Yang, Quan-Wen Chen, Qing-Peng Wei
NTD5,000,000 ~ NTD10,000,000 (exclusive)	None	None
NTD10,000,000 ~ NTD15,000,000 (exclusive)	None	None
NTD15,000,000 ~ NTD30,000,000 (exclusive)	None	None
NTD30,000,000 ~ NTD50,000,000 (exclusive)	None	None
NTD50,000,000 ~ NTD100,000,000 (exclusive)	None	None
> NTD100,000,000	None	None
Total	6 persons	6 persons

(II) Name of the managers received remuneration and the distribution of remuneration:

December 31, 2018; Unit: NTD thousand

	Title	Name	Stock amount	Cash amount	Total	As a percentage of net profit after tax (%)
Manager	President	Chih-Ping Yang (Note 1)	0	1,494	1,494	0.64%
	President	Chung-Hsin Huang (Note 1)				
	Vice President of Business Department	Quan-Wen Chen				
	Vice President of R&D Department	Qing-Peng Wei				
	Vice President of Manufacturing Division	Guo-Xian Zeng (Note 2)				
	Vice President of the Administrative Center	Shi-Qin Zhang (Discharged on 2018.4.30)				
	Internal Audit Manager	Chao-Sheng Hong				
	Manager, Treasury Dept.	Shu-Yi You (Discharged on 2018.11.03)				
	Manager, Treasury Dept.	Kuan-Chieh Wang (Newly appointed 2018.11.20)				
	Accounting Supervisor	Hsiu-Fen Lin				

Note 1: The former general manager of the company, Mr. Yang Zhiping, was resigned on April 1, 2018. The new general manager position was temporarily transferred to Mr. Huang Zhongxin from April 1, 2018 and was formally appointed by the board of directors on May 8, 2018.

Note 2: On July 1, 2018, he was the Plant Deputy Director, and then promoted to Vice President of Manufacturing Division.

(3) Respectively compare and specify the analysis results for the ratios of the net incomes for all of the company's total renumeration amounts paid to the company directors, Presidents, and Vice Presidents in the last 2 years as listed in the individual or separate financial reports; and specify the relevance between the payment renumeration policies, standards and combinations, renumeration setting procedures, operating performances, and future risks:

1. Ratio analysis for the last two years

Year / Item	2017				2018			
	Total renumeration (thousand dollars)		Post-tax equity ratio (%)		Total renumeration (thousand dollars)		Post-tax equity ratio (%)	
	The company	Consolidated Statement, all Company	The company	Consolidated Statement, all Company	The company	Consolidated Statement, all Company	The company	Consolidated Statement, all Company
Director Presidents and Vice Presidents	29,698	29,698	34.63	34.63	27,986	27,986	11.95	11.95

Note: The total job remuneration of directors, general managers and deputy general managers of the company in the individual statements and consolidated statements in 2018 did not change significantly from the previous year. However, due to the increase in net profit after tax in 2018, the net profit ratio of individual or consolidated financial reports after taxation decreased compared with that in 2017.

2. The company's policies, standards, and portfolios for remuneration; procedures for setting remuneration; and business performance and future risks:

The directors' job remuneration of the company shall be handled in accordance with the "Payment of Directors and Functional Members' Salary Remuneration" and Article 32 of the Articles of Association. If the company is profitable in the year, no more than 3% of the directors shall be paid, and taking into account the company's operating results and the reasonable value of the company's operating participation and contribution value; the general manager and deputy general manager's emoluments include salary, bonuses and employee compensation, etc., based on their positions and responsibilities. And the remuneration of the Directors and the Managers are subject to the recommendations of the Remuneration Committee and the annual review, and are submitted to the Board for discussion and resolution, and are subject to review of the remuneration at any time, subject to actual operating conditions and relevant laws and regulations. The system is to balance the company's sustainable management with risk control.

IV. Corporate governance:

(I) Board of Directors Operational Status:

The Board of Directors meetings were held 7 times in the most recent year (A), and the director attendance records are as follows:

Title	Name	Actual Attendance B	Proxy Attendance	Attendance rate (%) (B/A)	Remarks
Chairman	Wang, Hsun-Sheng	7	0	100%	
Director	Wang, Hsun-Hui	3	4	43%	
Director	China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun	7	0	100%	
Director	Wang Ming-Ning Memorial Foundation representative: Chih-Ping Yang	4	0	100%	On April 1, 2018, the company reassigned the representative, the original representative was dismissed. (4 meetings should be attended)
Director	The Mr. Wang Min-ning Memorial Foundation representative: Huang Chung-hsin	3	0	100%	New representative was on boaad on April 1, 2018 (3 meetings should be attended)
Independent Director	Kuo-Chiang Wang	7	0	100%	
Independent Director	Cheng-Hsien Tsai	5	2	71%	
Independent Director	Chih-Hsien Chang	7	0	100%	

Other remarks:

I. For the operation of the Board of Directors in any of the following circumstances, please specify the date, term, the contents of the proposals, the opinions of all independent directors, and the process of the opinions proposed by the independent directors:

(I) On issues stated in Article 14-3 of the Securities and Exchange Act:

Board of Directors	Details of the relevant agendas and the subsequent
2018.03.12 (13th Meeting of the 20th Board of Directors)	1. Proposal to amend the Company's "Procedures for Financial Derivatives Transactions".
	Independent director opinions: None.
	Independent director opinions handled by the company: None.
	Resolution results: All attending directors passed the resolution without objection.
2018.05.08 (14th Meeting of the 20th Board of Directors)	1. Revise the sales and collection cycle, the internal control system of the investment cycle and the internal audit implementation rules.
	2. Taoyuan Industrial Park land sales case.
	3. It is proposed to invest in the stock of China Chemical Pharmaceutical Co., Ltd.
	Independent director opinions: None.
	Independent director opinions handled by the company: None.
	Resolution results: All attending directors passed the resolution without objection.

2018.10.01 (17th Meeting of the 20th Board of Directors)	1. It is proposed to invest in the stock of China Chemical Pharmaceutical Co., Ltd.
	Independent director opinions: None.
	Independent director opinions handled by the company: None.
	Resolution results: All attending directors passed the resolution without objection.
2018.11.12 (18th Meeting of the 20th Board of Directors)	1. Financial supervisor and acting spokesperson changes.
	Independent director opinions: None.
	Independent director opinions handled by the company: None.
	Resolution results: All attending directors passed the resolution without objection.

(II) Except for the aforementioned matters, the resolutions reached by the Board of Directors with the objections or reservations of the independent directors documented or declared in writing: None.

II. With respect to the avoidance of conflicting interest agendas, describe the names of directors, details of the relevant agendas, reasons for avoiding conflicting interest, and the voting decisions:

(I) On March 12, 2018 the company held (13th Meeting of the 20th) Board of Directors Meeting:

We discussed the remuneration proposals of managers and employees in 2017, the director of the commemorative foundation of Mr. Wang Minning, the representative of the group, Yang Zhiping, who served as the general manager of the company, refused to participate in the discussion and vote in accordance with the provisions of the company law. The other directors passed without objection.

(II) On May 8, 2018 the company held (14th Meeting of the 20th) Board of Directors Meeting:

1. We discussed the appointment and remuneration of the new general manager. The director of the commemorative foundation of Mr. Wang Minning, Mr. Chung-Hsin Huang, is the general manager of the company. In accordance with the provisions of the company law, he evades his own interests and does not participate in the discussion and voting. The other directors passed without objection.
2. The company intends to invest in the stock of China Chemical Pharmaceutical Co., Ltd., the chairman of the case, the director of Wang, Hsun-Hui, the representative of Mr. Wang Minning, the representative of the commemorative foundation, Mr. Chung-Hsin Huang, and the representative of China Chemical Pharmaceutical Co., Ltd., Yin-Nan Sun, who were respectively responsible for China Chemical Pharmaceuticals. The directors and deputy general managers of the company limited by shares shall, in accordance with the provisions of the company law, evade their own interests and refrain from participating in the discussion and voting; the other directors present shall be passed without objection.

(III) On October 1, 2018 the company held (17th Meeting of the 20th) Board of Directors Meeting:

The company intends to invest in the stocks of China Chemical Pharmaceuticals Co., Ltd., the chairman related to the proposal, the director of Wang, Hsun-Hui, the director of the commemorative foundation of Mr. Wang Minning, the representative of the commemorative foundation, and the director of China Chemical Pharmaceutical Co., Ltd., Yin-Nan Sun, who are the directors of China Chemical Pharmaceutical Co., Ltd. and the duties of the deputy general manager shall, in accordance with the provisions of the company law, evade their own interests and refrain from participating in the discussion and voting; the other directors present at the meeting agree to pass.

(IV) On December 27, 2018 the company held (19th Meeting of the 20th) Board of Directors Meeting:

We discussed one of the Remuneration Committees in 2018, the chairman and manager of the assessment bonus distribution plan, the chairman of the proposal, the chairman of the consortium, Mr. Wang Minning, the representative of the commemorative foundation, Mr. Chung-Hsin Huang, as the general manager of the company, and the director, Wang, Hsun-Hui, representative of Chemical Pharmaceutical Co., Ltd., Yin-Nan Sun, is a director of the company and has a controlling affiliation with the directors and other parents. It is necessary to avoid leaving the company and not participate in the discussion and voting. The other directors who attended are not dissident photos. The proposal was passed.

III. Assessment of the objectives and implementation status in the area of strengthening the powers of the Board of Directors (such as setting of an audit committee and improvement of information transparency, etc.) for the current and most recent years:

(I) To improve information transparency, the company has published its Corporate Social Responsibility Report every December since December 2014.

(II) Since the 20th annual Board of Directors meeting, the company has increased the number of independent directors to three, established an audit committee to replace the supervisor, and revised the nomination system for full director candidate elections.

IV. The attendance status of independent directors during the various Board of Directors meetings in 2018. ○: Personal attendance; ＃: Delegation attendance: ＊: Absent

2018	First	Second time	Third time	Fourth time	Fifth time	Sixth time	Seventh time
Kuo-Chiang Wang	○	○	○	○	○	○	○
Cheng-Hsien Tsai	○	＃	○	＃	○	○	○
Chih-Hsien Chang	○	○	○	○	○	○	○

(II) The operation of the Auditing Committee:

The Auditing Committee has convened for 5 times in the latest year (A). The attendance of the independent directors is shown below:

Title	Name	Actual attendance (B)	Proxy Attendance	Percentage of actual attendance (%) (B/A)	Remarks
Independent Director	Kuo-Chiang Wang	5	0	100%	
Independent Director	Cheng-Hsien Tsai	3	2	60%	
Independent Director	Chih-Hsien Chang	5	0	100%	

Other remarks:

I. For the operation of the Audit Committee in any of the following circumstances, please specify the date, term, the contents of the proposals, the resolution of the Audit Committee, and the process of the opinions proposed by the Audit Committee:

(I) On issues stated in Article 14-5 of the Securities and Exchange Act.

Board of Directors	Details of the relevant agendas and the subsequent
2018.03.12 (13th Meeting of the 20th Board of Directors)	1. 2017 business report and balance sheet draft.
	2. Proposal to amend the Company's "Procedures for Financial Derivatives Transactions".
	The resolution reached by the Audit Committee (March 12, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.
2018.05.08 (14th Meeting of the 20th Board of Directors)	1. Revise the sales and collection cycle, the internal control system of the investment cycle and the internal audit implementation rules.
	2. It is proposed to invest in the stock of China Chemical Pharmaceutical Co., Ltd.
	3. Taoyuan Industrial Park land sales case.
	The resolution reached by the Audit Committee (May 8, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.
2018.08.09 (16th Meeting of the 20th Board of Directors)	1. 2018 second quarter consolidated financial report.
	The resolution reached by the Audit Committee (August 9, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.
2018.10.01 (17th Meeting of the 20th Board of Directors)	1. It is proposed to invest in the stock of China Chemical Pharmaceutical Co., Ltd.
	The resolution reached by the Audit Committee (October 1, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.
2018.11.12 (18th Meeting of the 20th Board of Directors)	1. Financial supervisor and acting spokesperson changes.
	The resolution reached by the Audit Committee (November 12, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.

(II) In addition to the aforementioned motions, other motions without approval by the Auditing Committee but passed by the Board with 2/3 of the Directors: none.

II. With respect to the avoidance of conflicting interest agendas, describe the names of independent directors, details of the relevant agendas, reasons for avoiding conflicting interest, and the voting decisions: none.

III. Performance of communications by and between independent directors, internal audit head and Certified Public Accountant(s) (should include the Company's financial, business operation affairs, issued, methods and outcomes of communications among them).

(I) Communication between Independent Directors and internal audit officers:

The company has established an audit committee to replace the supervisor system on May 31, 2016. The audit committee comprised of all independent directors.

After the internal audit supervisor submits the audit report and follow-up report to the chairman of the Board of Directors, the report is delivered to the independent directors every month for review via email. The internal audit supervisor also regularly communicates with the audit committee (i.e. independent directors) regarding the results of the audit report, and formulates an internal audit report for each quarterly meeting. They will also report to the Audit Committee immediately during special circumstances. The communications with the company's audit committee and the internal audit supervisor went well.

(II) Communication between Independent Directors and CPA:

The independent directors have met with the accountants at least once a year. During the meeting, the accountants would audit and review the financial statement presented, communicate on other matters required by the relevant laws and regulations, and the independent directors and accountants can comprehensively communicate in person.

(III) Status of communications between the independent directors and the head of internal audit during the most recent year:

Date	Key Communication Points	Handle the implementation results
2018.03.12 (Audit Committee)	1. Audit Operation Implementation Report. 2. Submit the 2017 Internal Control System Statement	No Opinion
2018.05.08 (Audit Committee)	1. Audit Operation Implementation Report. 2. Revise the sales and collection cycle, the internal control system of the investment cycle and the internal audit implementation rules.	No Opinion
2018.08.09 (Audit Committee)	Audit Operation Implementation Report	No Opinion
2018.10.01 (Audit Committee)	Audit Operation Implementation Report	No Opinion
2018.11.12 (Audit Committee)	1. Audit Operation Implementation Report 2. Submit the 2019 Audit Plan Case.	No Opinion

(IV) Status of communications between the independent directors and the CPA during the most recent year:

Date	Key Communication Points	Handle the implementation results
2018.03.12 (Corporate Governance Unit Communication Meeting)	The CPA explained, communicated and updated important regulations on the audit of the 2017 financial report.	No Opinion

IV. The annual work focus of the Audit Committee:

(I) The Audit Committee of the Company consists of three independent directors. The Audit Committee is to assist the Board of Directors in fulfilling the quality and integrity of the Company in supervising the accounting, auditing, financial reporting process and financial control.

The Audit Committee held 5 meetings in 2018, and the matters under consideration mainly include:

- Financial Statements;
- Audit and accounting policies and procedures;
- Internal control system and related policies and procedures;
- Material assets or derivative transactions. ;
- Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies
- Raising, issuing or privately offering securities with the nature of equity shares issued by a company;
- Legal Compliance;
- The independence, appointment, dismissal or remuneration of certifying certified public accountant;
- Appointment and dismissal of financial, accounting or internal audit supervisors.

(II) Review of financial reports

The management board has compiled and presented the company’s 2018 operating report, financial statements (including the individual and merged financial statements), earnings distribution proposal and the like, of which the financial statements (including the individual and merged financial statements) have had audits completed by PwC Taiwan complete with an audit report issued. The above business report, financial statements (including individual and consolidated financial statements) and the surplus distribution proposal were checked by the Audit Committee and it is considered that there is no discrepancy.

(III) The company will assess the effectiveness of the internal control system.

The Audit Committee evaluates the effectiveness of the company's internal control system policies and procedures (including financial, operational, risk management, information security, outsourcing, compliance, etc.) and reviews the company's audit department and certifying certified public accountant, as well as management's regular Reports, including risk management and compliance. The Audit Committee believes that the company's risk management and internal control systems are effective and that the company has adopted the necessary controls to monitor and correct violations.

(IV) Appointment of certifying certified public accountant

In order to ensure the independence of the certifying certified public accountant, the Audit Committee regularly establishes an independent evaluation form based on the content of "the Bulletin of Norm of Professional Ethics for Certified Public Accountant of the Republic of China No.10 Integrity, Objectivity and Independence", on the independence, profession and competency assessments to evaluate whether they are related to the company, mutual business or financial interests. On November 12, 2018, in the 12th Meeting of the 1st Audit Committee and in the 18th Meeting of the 20th Board of Directors, the independence of PWC Certified Public Accountant Firm, Yu Shufen and Zhang Shuqiong, was innocent.

(V) Operation report in the current year

Board of Directors	Details of the relevant agendas and the subsequent
2018.03.12 (13th Meeting of the 20th Board of Directors)	1. 2017 business report and balance sheet draft.
	2. Proposal for Distribution of 2017 Profits
	3. Proposal to amend the Company's "Procedures for Financial Derivatives Transactions".
	4. The "2017 Internal Control System Statement" Submission Case.
	The resolution reached by the Audit Committee (March 12, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.
2018.05.08 (14th Meeting of the 20th Board of Directors)	1. The consolidated financial statements of the Company in the first quarter of 2018.
	2. Revise the sales and collection cycle, the internal control system of the investment cycle and the internal audit implementation rules.
	3. It is proposed to invest in the stock of China Chemical Pharmaceutical Co., Ltd.
	4. Taoyuan Industrial Park land sales case.
	5. The equipment procurement proposal
	The resolution reached by the Audit Committee (May 8, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.
2018.08.09 (16th Meeting of the 20th Board of Directors)	1. 2018 second quarter consolidated financial report.
	The resolution reached by the Audit Committee (August 9, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.
2018.10.01 (17th Meeting of the 20th Board of Directors)	1. It is proposed to invest in the stock of China Chemical Pharmaceutical Co., Ltd.
	The resolution reached by the Audit Committee (October 1, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.
2018.11.12 (18th Meeting of the 20th Board of Directors)	1. Financial supervisor and acting spokesperson changes.
	2. The consolidated financial report of the Company in the third quarter of 2018.
	3. The CPA Independence and Suitability Assessment Case.
	4. The 2019 audit plan.
	The resolution reached by the Audit Committee (November 12, 2018): Approved with the consent of the board directors.
	Acts to be taken by the Company in response to the opinions heard in the Audit Committee: Approved with the consent of all the attending directors.

(III) How The Company's actual governance differs from The Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies and why:

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies
	Yes	No	Summary description	
1. Will the Company based on the "Corporate Governance Best-Practice Principles for TWSE/GTSM Listed Companies" set up and disclose the Company's corporate governance best-practice principles?	V		The Company has established its "Best Practice Principles for Corporate Governance", which was adopted by the Board of Directors on November 12, 2014 (the 10th Meeting of the 19th Board of Meeting), and on March 8, 2019 (the 20th Meeting of the 20th Board of Meeting) the board of directors passed the latest revision and it was disclosed on the Market Observation Post System and the Company website.	None
2. Shareholding structure and shareholders' equity (1) Will the Company have the internal procedures regulated to handle shareholders' proposals, doubts, disputes, and litigation matters; also, have the procedures implemented accordingly? (2) Will the Company possess the list of the Company's main shareholders and the list of the ultimate controllers of the major shareholders? (3) Will the Company establish and implement the risk control and firewall mechanisms with the related parties? (4) Will the Company set up internal norms to prohibit insiders from utilizing the undisclosed information to trade securities?	V V V V		(1) The company has established a spokesperson, acting spokesperson, and stock affairs dedicated personnel to deal with the shareholder proposal related issues. If the case involved a legal question or dispute, an attorney will be retained to handle the case. (2) The company has established a stock undertaker responsible for handling and mastering the major shareholders and ultimate controllers based on the shareholders registration provided by the stock agency, and regularly report to the directors, managers, and major shareholders holding over 10% of company shares regarding any share related anomalies. (3) All company affiliates operate independently. The company has established the "Affiliate Transaction Management Operation Procedure" to standardize matters involving inbound and outbound goods, property transactions, fund lending, and endorsements between company affiliates. In terms of management for subsidiaries, the internal control system has also established the "Subsidiary Supervision Method" in order to include the subsidiaries within the scope of internal audit and provide relevant control. (4) The company has established the "Major Internal Information Processing Operations Procedures," which provided that the directors, managers, and employees shall implement tasks as good managers under the principle of good faith. The directors, managers, and employees shall not disclose any major internal information to any third parties; and shall not seek or collect major unpublished company information that is not related to his/her tasks. The same shall apply to major unpublished company information that was not obtained due to the execution of job duties. From time to time, the company conducts educational propaganda for directors and managers on the "Management Procedures for the Prevention of Insider Trading" and related laws and regulations, and educates new servants on pre-service training. In the year of 2018, on January 29, April 11, July 12 and October 16, the current directors and managers were educated about the confidentiality of important information and the prevention of insider trading. Relevant precautions, in addition to related methods such as "Procedures for Handling Material Inside Information", have been placed on the company's internal network platform and company website for employees and external personnel to refer to at any time.	None
3. The constitution and obligations of the board of directors (1) Will the Board of Directors have diversified policies regulated and implemented substantively according to the composition of the members?	V		(1) The Company has adopted the "Procedures for Election of Directors and Supervisors" and "Best Practice and Principle for Corporate Governance" and taken diversity into consideration in determining the composition of the board of directors. To implement the diversity of the board of directors of the Company, the directors of the Company are based on professionalism and dedication. At present, there are 6 male directors and 1 female director on the board of directors. The independent directors account for 43%. The two directors are 60-69 years old and 5 are under 60 years old. They also have a background	

<table>
<tr><th rowspan="2">Assessment items</th><th colspan="3">Actual governance</th><th rowspan="2">Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary description</th></tr>
<tr><td>(2) Will the Company, in addition to setting the Remuneration Committee and Audit Committee lawfully, have other functional committee set up voluntarily?
(3) Will the Company have the performance evaluation rules and methods for the Board of Directors regulated and have the performance evaluation performed regularly every year?
(4) Will the Company have the independence of the public accountant evaluated regularly?</td><td>

V</td><td>V
V</td><td>across the media and biotechnology industry, etc., to promote the diversity of the board.
The diversified implementation of the composition of the board of directors is as follows: The company is focused on the diversity of the composition of the board of directors. The nomination of future directors will be in line with the company’s long-term development goals, considering whether the candidates will complement each other and enhance the overall talents and experience of the board. Expertise to increase the number of professionals with legal and cyber security to achieve the goal of diversity of board members.
<table>
<tr><th>Diversified core projects
Name of director</th><th>Gender</th><th>Business Management</th><th>Leadership Strategy</th><th>Industry Knowledge</th><th>Financial Accounting</th><th>Marketing Management</th><th>Insurance</th><th>Securities</th><th>Asset Management</th></tr>
<tr><td>Wang, Hsun-Sheng</td><td>Male</td><td>V</td><td>V</td><td>V</td><td>V</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Wang, Hsun-Hui</td><td>Male</td><td>V</td><td>V</td><td>V</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Yin-Nan Sun</td><td>Male</td><td>V</td><td></td><td>V</td><td></td><td>V</td><td></td><td></td><td></td></tr>
<tr><td>Chung-Hsin Huang</td><td>Male</td><td>V</td><td></td><td>V</td><td></td><td>V</td><td></td><td></td><td></td></tr>
<tr><td>Kuo-Chiang Wang</td><td>Male</td><td>V</td><td></td><td>V</td><td>V</td><td></td><td></td><td>V</td><td></td></tr>
<tr><td>Cheng-Hsien Tsai</td><td>Male</td><td>V</td><td>V</td><td>V</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Chih-Hsien Chang</td><td>Female</td><td>V</td><td></td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td><td>V</td></tr>
</table>
(2) In addition to establishing the salary compensation committee and the audit committee according to law, the relevant departments of the company are also operated in accordance with its business/work provisions and other relevant rules. The settings shall be adjusted based on the operational needs in the future.
(3) The Company has now planned to formulate the performance evaluation methods for the Board of Directors and its assessment methods, and will conduct performance evaluations on a regular basis in the future.
(4) The company regularly reviews the independence of the CPAs each year to check whether the CPAs may be a director, a shareholder, or a paid employee of the company; and ensure that the CPAs are not stakeholders. In addition, a CPA must avoid undertaking matters whereby the CPA is directly or indirectly a stakeholder of. The rotation of the CPAs shall also comply with the relevant regulations. The company has also issued annual reports regarding to the independence of the CPAs appointed according to the assessment items stipulated by No. 10 “Integrity, Fairness, Objectiveness, and Independence” provided by the “ROC Certified Public Accountants Code of Ethics” (Note 1) to the Audit Committee and the Board of Directors for review. In 2018, the 1st meeting of the 12th Audit Committee and the 18th Meeting of the 20th Board of Meeting on November 12, 2007, assessed their independence in line with innocence.</td><td>Except for the second and third items that will be formulated and established according to operational needs, there is no other major difference for the rest.</td></tr>
<tr><td>4. Have the listed companies had the corporate governance unit (full time or part time) setup or personnel designated to handle the corporate governance related matters (including but not limited to providing necessary data to directors and supervisors for business operation, lawfully handling the Board meeting and shareholders’ meeting related matters, processing the company registration and change registration, and preparing the minutes of Board meeting and shareholders’ meeting)?</td><td>V</td><td></td><td>The Finance Department is currently serving as the company's governance unit on a provisional basis to handle the corporate governance related matters with the main responsibilities as follows:
1. Improve the company's information transparency and compliance with lthe aws and regulations; formulate the meeting agenda prior to the Board of Directors meetings, notify the directors to attend at least 7 days prior to the meeting and provide meeting information to help the directors to understand the relevant topic contents; in case of conflict of interests, remind the relevant personnel to recuse himself/herself; and formulate and deliver the Board of Directors meeting minutes.
2. Each year, produce and submit the meeting notice, agendas, annual reports, minutes, etc., on the Board of Directors meeting related matters before the deadline; and undertake the revision registration in case of any articles of association, supervisor election, or other changes.</td><td>None</td></tr>
<tr><td>5. Has the Company established a communication channel with the stakeholders (including but not limited to the</td><td>V</td><td></td><td>Inside the company: Establish regular labor-management meetings, employee suggestion boxes, and company website for employees to provide suggestions; and retain dedicated personnel to handle</td><td>None</td></tr>
</table>

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies
	Yes	No	Summary description	
shareholders, employees, customers, and suppliers), set up a stakeholder section on the Company’s website, and responded appropriately to the important corporate social responsibilities concerned by the stakeholders?			such suggestions. Outside the company: The company shall establish a spokesperson system, website, etc., and a channel of communicate for the stakeholders. The company website has established a stakeholder area and corporate social responsibility area to facilitate access and review by the stakeholders and the general public, and disclose issues of concern to the stakeholders as well as contact information for the stakeholders. The goal is to strengthen transparency, timeliness, and interactions so the company may understand the concerns of the stakeholders and respond accordingly. The company has issued corporate social responsibility reports every year as one of the key efforts to further disclose corporate social responsibility. The issues and communication methods concerned by the company's stakeholders are shown in the table (Note 2).	
6. Has the Company commissioned a professional stock service agent to handle shareholders affairs?	V		The company has commissioned "Yuanta Securities Financial Services Company Stock Agency" as the professional stock agency to undertake the various stock related matters of the company.	None
7. Disclosure of information (1) Does the Company have a website setup and the financial business and corporate governance information disclosed? (2) Has the Company adopted other information disclosure methods (such as, establishing an English website, designating a responsible person for collecting and disclosing information of the Company, substantiating the spokesman system, placing the juristic person seminar program on the Company’s website, etc.)?	V V		(1) The company has established the company website (http://www.ccsb.com.tw) and regularly update the latest major financial and business information such as stock information, revenue statistics, financial statements, and company governance for reference by the shareholders and the general public. (2) In addition to disclosing the financial, business, and other major information in the Market Observation Post System; the company has also commissioned dedicated personnel to collect and disclose the company information and established a spokesperson system that is responsible for external communication.	None
8. Are there any other important information (including but not limited to the interests of employees, employee care, investor relations, supplier relations, the rights of stakeholders, the advanced study of directors and supervisors, the implementation of risk management policies and risk measurement standards, the execution of customer policy, the purchase of liability insurance for the Company’s directors and supervisors) that are helpful in understanding the corporate governance operation of the Company?	V		1. Employee rights: The company has complied with the Labor Standard Act, Occupational Safety and Health Act, and other relevant regulations to protect the employees' rights as well as establish a good relationship and mutual trust with the employees. The company has also held regular labor-management conferences to facilitate two-way communications and harmonious labor relations. 2. Worker care: The company recognizes contributions from diverse talents, and has conducted a series of technical, professional, and management training courses for different category employees. The company has also promoted the various welfare measures in hopes to fully take care of its employees and enrich the employees' bodies, minds, and spirits. They include: Establish a staff welfare committee and actively promote various employee benefit plans; regularly organize and invite employees and their family members to participate in the company's sports and family events, employee tourism trips, and other activities; hold end-of-year dinner parties; and provide employee group insurance to protect the employees' interests and labor safety. 3. Investor relations: To safeguard the rights of shareholders and enable the investing public to better understand the company's operating status, the company has timely disclosed the relevant information in the Market Observation Post System pursuant to the laws, established an "Investor Zone" in the company website and regularly updated the various company stock and financial information for the investors, and communicated with the investors via the shareholders meetings, legal briefings, and spokespersons. 4. Supplier relations:	None

<table>
<tr><th rowspan="2">Assessment items</th><th colspan="3">Actual governance</th><th rowspan="2">Deviation and causes of deviation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary description</th></tr>
<tr><td></td><td></td><td></td><td>The company has been dealing with major suppliers for a long time and has always maintained a good relationship.
5. The Rights of Stakeholders:
The company has established a Stakeholders area in its website and created the handling window for the Investors area. In addition to the spokesperson and the acting spokesperson, the company has also established the Stock Handling Unit to undertake the stock related problems and suggestions from the company's shareholders and stakeholders. If a legal issue is involved, the company will employed attorneys to handle the matter and protect the interests of the stakeholders.
6. Director training status:
The company has provided the relevant legal information to the directors and managers as well as the professional knowledge training course information to the relevant units on an irregular basis. The company’s 2018 directors have completed the advance study hours as required by the "Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies," and the information is disclosed in the Market Observation Post System.
7. Risk management policies and risk assessment standards:
The company has always adopted the preventive risk management policies. In addition to establishing strict internal control system in accordance with the law as well as conducting regular and irregular internal audits and submitting reports; the company has also adopted reasonable financial risk aversion measures for the exchange rates, etc., in order to reduce risks, review the financial structure at all times, and avoid excessive financial risks.
8. Customer policy implementation:
The company has established the relevant departments to handle customer complaint and post-sales services, and provide the relevant services and warranties to the customers.
9. Status of director liability insurance purchased by the company:
Since August in 2016, the company has continued to ensure all directors have liability insurance to protect shareholders’ equity; in 2018 liability insurance has been renewed (including the amount of insurance, coverage and insurance rates) and reported on August 9, 2018 (16th Meeting of the 20th Board of Meeting) to the Board of Directors.</td><td></td></tr>
</table>

9. Please describe the improvement performed according to the corporate governance evaluation results published by the Corporate Governance Center of Taiwan Stock Exchange in recent years, and propose the matters with priority for improvement and the respective measures.

Corporate governance evaluation results improvement status:

Evaluation Indicator Items	Rectification
Has the company been invited (or self-decided) to hold at least two legal briefings, and have the first and last two legal briefings of the review year been held at least 3 months apart?	The company has been invited (itself) to hold at least two institutional conferences to brief its operation status since 2018. The company usually holds two institutional conferences respectively at the beginning of the year and at the end of the year, and the two conference calls should be with 3-month intervals in order to enhance investors’ understanding of the company’s operating status.

The corporate governance evaluation results that have not been improved as well as the top priority items and measures to be improved:

Evaluation Indicator Items	Top priority items and measures to be improved
Will the company be disclosing its annual financial reports on the Market Observation Post System in English prior to 7 days before the shareholders’ meeting?	The company expects to upload the annual financial report disclosed in English prior to 7 days before the shareholders’ meeting in 2019.

Note 1: CPA independence assessment criteria:

Assessment items	Yes	No	Remarks
Has the CPA ever served as a director, independent director, or manager of the company or its affiliates?	V		
Has the CPA ever been a shareholder of the company or its affiliates?	V		
Has the CPA ever received salary from the company or its affiliates?	V		
Has the CPA provided audit services to the company for seven consecutive years?	V		
Has the CPA verified that his/her accounting firm conforms to the relevant independence specifications.	V		
Has a colleague of the CPA working in the same accounting firm ever served as the company's supervisor, manager, or other positions within one year after discharge; which may have major impacts to audited cases?	V		

Note 2: The company's stakeholders are concerned about issues and communication methods, as shown in the table:

The interested party	Communication Channel/Format	Communication Frequency	Concerned Topics
Investors	1. Annual Shareholders Meeting 2. Company website and Market Observation Post System 3. Investor Hotline	1. Once a Year 2 Irregularly, Anytime 3 Irregularly, Anytime	Corporate Governance: Legal Compliance Risk Management Ethics and Morality Raw material management
Employee	1. Labor Conference 2. Employee Welfare Committee 3. President Mailbox 4. Company Bulletin Board 5. Company Website	1. Four Times a Year 2. At Least Once a Quarter 3. Irregularly 4. Irregularly 5. Irregularly	Occupational Health and Hygiene Labor-management Harmony Human Rights Management Business Ethics and Legal Compliance Occupational Safety
Supplier	1. Supplier Visits and Certification Audits 2. Supplier Satisfaction Survey 3. Telephone or Email Communication	1. Irregularly 2. Irregularly 3. Irregularly	Risk Management Supply Chain Management Raw material management Emergency Response Mechanism Business Ethics and Legal Compliance
Customer	1. Customer Visits and Certification Audits 2. Corporate Website, Telephone, and Email Communication	1. Irregularly 2. Irregularly	Legal Compliance Risk Management Supply Chain Management Product Management Business Ethics and Legal Compliance
Government Agencies	1. Participation in the Various Policy and Regulation Related Seminars, Forums, Advocacies, and Training Courses 2. Market Observation Post System 3. On-site Plant Audit 4. Official Document and Telephone Communications	1. Irregularly 2. Released According to Regulations 3. Irregularly 4. Irregularly	Legal Compliance Business Ethics and Legal Compliance Risk Management Ethics and Morality Corporate Governance: Labor-management Harmony Occupational Health and Hygiene
Bank	1. Document Exchanges and Telephone Communications 2. Personal Visits	1. Irregularly 2. Irregularly 3. Irregularly	Corporate Governance: Business Ethics and Legal Compliance Risk Management

The interested party	Communication Channel/Format	Communication Frequency	Concerned Topics
	3. Company Website		Pollution Prevention and Discharge Product Management
Nearby Communities and Social Welfare Groups	1. Visit the neighborhood or township chief nearby the plant, care for the community residents, and implement the community affinity work. 2. Charitable Events	1. Irregularly 2. Irregularly	Raw material management Risk Management Emergency Response Mechanism Pollution Prevention and Discharge Environmental Complaint Mechanism Industrial Safety

(4) Composition, Duties, and Operation of the Compensation Committee:

1. Professional qualification and independence status of the Remuneration Committee:

Identity	Qualification / Name	Having more than 5 years work experience and professional qualifications listed below			Compliance of independence (Note 1)								Number of other public companies where the members are also the members of the remuneration committee of these companies.	Remarks
		Lecturer (or above) of commerce, law, finance, accounting, or any subjects relevant to the company's operations in a public or private tertiary institution	Certified judge, attorney, lawyer, accountant, or holders of professional qualification relevant to the company's operations	Commercial, legal, financial, accounting or other work experiences required to perform the assigned duties	1	2	3	4	5	6	7	8		
Independent Director	Cheng-Hsien Tsai	–	–	V	V	V	V	V	V	V	V	V	2	
Independent Director	Kuo-Chiang Wang	V	–	V	V	V	V	V	V	V	V	V	3	
Independent Director	Chih-Hsien Chang	–	–	V	V	V	V	V	V	V	V	V	None	

Note 1: place a "✓" in the box below if the member met the following conditions during the time of active duty and two years prior to the elected date.

(1) Not employed by the company or any of its affiliated companies. Not a director or supervisor of the Company or its affiliates Except for the independent directors that are appointed by the Company or the parent company and subsidiaries in accordance with this Law or the local law.

(2) Does not hold more than 1% of the company's outstanding shares in his/her own name or under the name of spouse, underage children, or any other person; nor is any party listed herein one of the ten largest natural person shareholders of the company.

(3) Not a spouse, relative of second degree, or direct kin of third degree or closer to persons described in criteria 1~3.

(4) Not a director, supervisor, or employee of the company's corporate shareholder holding more than 5% of the company's outstanding capital; nor a director, supervisor, or employee to any of the top 5 corporate shareholders.

(5) Not a director, supervisor, manager, or shareholder with more than 5% ownership interest in any company or institution that has financial or business relationship with the company.

(6) Not a professional, business owner, partner, director, supervisor, or manager of any sole-proprietorship, partnership, company, or institution providing commercial, legal, financial, or accounting services or consultations to the company or any of its affiliated companies; nor a spouse to anyone listed herein.

(7) Does not meet any descriptions stated in Article 30 of The Company Act.

2. Compensation Committee Operating Status Information:

(1) The Remuneration Committee of the Company is consisted of 3 persons.

(2) Current term of office: May 31, 2016 to May 30, 2019. The most recent Compensation Committee has held 5 meetings (A), and the member qualifications and attendance records are as follows:

Title	Name	Actual attendance (B)	Proxy Attendance	Percentage of actual attendance (%) (B/A)	Remarks
Convener	Cheng-Hsien Tsai	5	0	100%	
Members	Kuo-Chiang Wang	5	0	100%	
Members	Chih-Hsien Chang	5	0	100%	

Other remarks:

1. Situation where the Board of Directors does not adopt or amend the salary compensation committee's recommendation: None.
2. A member has objected or showed reservations against the resolution passed by the Compensation Committee in the record: None.
3. Matters in connection with the official powers of the Remuneration Committee:
   The Committee shall exercise the care of a good administrator to faithfully perform the following duties, being responsible and reporting to the Board, and presenting its recommendations to the board of directors for discussion.
   (1) The Committee will establish and periodically review the annual and long-term performance goals for the directors, and managerial officers of this Corporation and the policies, systems, standards, and structure for their compensation.
   (2) Periodically evaluate and prescribe the remuneration of directors, and managerial officers.
4. The operation of the remuneration committee:

Compensation Committee	Details of the relevant agendas and the subsequent
2018.03.12 (7th Meeting of the3rd Board of Directors)	1. Proposal for the remuneration of managers and employees in 2017.
	2. Proposal on the remuneration of directors in 2017.
	The results of the resolution of the Remuneration Committee: All members of the Remuneration Committee agreed to adopt.
	The company will deal with the opinions of the Remuneration Committee: We will submit their opinions to the board of directors, and approved by all the attending directors.
2018.04.13 (8th Meeting of the3rd Board of Directors)	1. Proposal for the new general manager salary remuneration.
	The results of the resolution of the Remuneration Committee: All members of the Remuneration Committee agreed to adopt.
	The company will deal with the opinions of the Remuneration Committee: We will submit their opinions to the board of directors, and approved by all the attending directors.
2018.06.28 (9th Meeting of the3rd Board of Directors)	1. The new deputy general manager of the production division pays remuneration.
	The results of the resolution of the Remuneration Committee: All members of the Remuneration Committee agreed to adopt.
	The company will deal with the opinions of the Remuneration Committee: We will submit their opinions to the board of directors, and approved by all the attending directors.
2018.08.08 (10th Meeting of the3rd Board of Directors)	1. Proposal for manager salary structure adjustment.
	The results of the resolution of the Remuneration Committee: All members of the Remuneration Committee agreed to adopt.
	The company will deal with the opinions of the Remuneration Committee: We will submit their opinions to the board of directors, and approved by all the attending directors.
2018.12.27 (11th Meeting of the3rd Board of Directors)	1. The Regular Review for the Director and Manager Remuneration Methods and Payment Standards.
	2. The Proposal for 2018 Chairman and Manager year-end performance review bonus.
	3. Employee Stock Ownership Plans.
	The results of the resolution of the Remuneration Committee: All members of the Remuneration Committee agreed to adopt.
	The company will deal with the opinions of the Remuneration Committee: We will submit their opinions to the board of directors, and approved by all the attending directors.

(V) Social responsibility fulfillment by the company in situations such as systems and measures executed for environmental protection, community participation, social contribution, social services, social welfare, consumer rights, human rights, safety and health, and other social responsibility activities as well as the implementation status:

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
1. Implementation of sound corporate governance (1) Does the Company have the CSR policies or systems established and the implementation effect reviewed?	V		(1) The company's operating philosophy is "Honesty, Selfless, Mutual Aid, and Friendliness." The promotion of social responsibility has become part of the company's corporate culture. To implement and fulfill its corporate social responsibility, the company has referenced the 2014 “Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies” and the relevant regulations to formulate the “Code of Practice on Corporate Social Responsibility” in order to implement corporate governance, develop sustainable environment, maintain social welfare, and enhance corporate social responsibility information disclosure. During its pursuit of sustainable management and profitability, the company has actively practiced corporate social responsibility in order to meet the international trend of balanced environmental, social, and corporate governance development. The company has also fulfilled its corporate citizenship duties by enhancing the national economic contribution and improving the quality of life for the employees, communities, and society. The Board of Directors has instructed the heads of the relevant units to promote the various activities, and the execution status and effectiveness are reported to the Board of Directors in order to ensure the implementation of corporate social responsibility policies.	None
(2) Does the Company have the CSR education and training arranged on a regular basis?	V		(2) The company has established the “Corporate Social Responsibility Best Practice Principles”, which clearly defined the corporate ethics regulations and advocacy issues for employees. Announcements are also made on an irregular basis to remind employee compliance, and the relevant educational training and advocacy classes have been organized to enable the employees to fully understand their importance and require all employees to comply in a responsible manner. The “Corporate Social Responsibility Best Practice Principles” has been included in the pre-employment education and training courses for new recruits to educate employees on their commitment to implement corporate social responsibility. The training in 2018 has a total of 30 time-frames and a total of 49 participants. In addition, “Corporate Social Responsibility Best Practice Principles” has been placed on the company’s website for employees and outsiders to refer to at any time.	
(3) Does the Company have a specific (or part-time) unit set up to promote corporate social responsibility, have the management been authorized by the Board of Directors to handle matters and report the processing results to the Board of Directors?	V		(3) In 2014, we established a CSR committee responsible for formulating and editing "Best Practices in Corporate Social Responsibility", discussing the related policies and implementation and compiling reports on CSR. According to the function, the company set a corporate governance team, customer care team, employee care team, sustainable environment team, social welfare group and executive team, which are composed of members from different departments of the company such as the general manager’s office, accounting, personnel, management, business, materials, and production, QA, manufacturing, safety and health, and auditing. The head of the unit is responsible for the promotion of the tasks of each group, and reports to the board of directors on a regular basis every year; on June 28, 2018 (15th Meeting of 20th Board of Meeting) and on December 27, 2018 (19th Meeting of the 20th Board of Meeting), the Board of Directors reported the operation and implementation of corporate social responsibility of the company in accordance with the “Corporate Social Responsibility Best Practice Principles”.	
(4) Does the Company have a reasonable salary and remuneration policy set-up, have the employee performance evaluation system been combined with the corporate social responsibility policies and have a clear and effective reward and punishment system been established?	V		(4) 1. The company's Board of Directors comprised the Audit Committee and Compensation Committee to jointly resolve the relevant issues. Among them, the Compensation Committee consists of three independent directors. Its main responsibility is to set and regularly review the policies, systems, standards, and structure for the performance evaluation as well as the salary compensation of the directors and managers. 2. The current employees (supervisors and general workers) shall be subject to different assessment systems for year-end reviews, and each employee shall undergo performance goal setting and	

<table>
<tr><th rowspan="2">Assessment items</th><th colspan="3">Actual governance</th><th rowspan="2">Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary description</th></tr>
<tr><td></td><td></td><td></td><td>performance appraisal interviews in order to achieve verification and assessment. The results of the assessment are used as the basis for the promotion, salary adjustment, rewards and punishment, issuance of bonuses, and remuneration.
3. The bonus design is combined with the company operating performances, and employee assessment and is institutionalized.
4. the company's recruits shall receive a salary that is better than the minimum wage set by the Ministry of Labor in order to provide a competitive payroll system to attract outstanding talents to join the company. The employee salaries are based on the education background, position, market conditions, etc.</td><td rowspan="4">None</td></tr>
<tr><td>2. Development of a sustainable environment
(1) Is the Company committed to enhance the utilization efficiency of resources and use renewable materials that are with low impact on the environmental?</td><td>V</td><td></td><td>(1) Energy conservation is a target of the company. The company has practiced garbage sorting, set up a Resource Recycling Unit, and continued to focus on energy conservation. It is committed to practice energy efficiently by controlling air conditioning temperature during sumer, reduce paper use by printing on both sides, unplugging appliances or equipment that will not be used for a long time, recycling toner cartridges for photocopiers and printers, use environmentally friendly toners, etc., in order to achieve the garbage reduction and resource recovery targets.</td></tr>
<tr><td>(2) Does the Company have an appropriate environmental management system established in accordance with its industrial character?</td><td>V</td><td></td><td>(2) To effectively reduce energy costs, the company has established the “Energy Management System Promotion Committee” responsible for promoting the energy-saving and carbon-reduction operations in the plants in order to improve the energy-conservation and carbon-reduction performances. The company's Shanjia plant has incorporated the Energy Management System ISO 50001 and successfully passed the BSI British Standards Association third-party external verification certificate. The control by the management system and the operations of the Energy Management System Promotion Committee can help the company to achieve the continual energy conservation and carbon reduction improvement objectives. The company also carries out cleaning and recycling of waste according to the “business waste disposal cleaning plan” and follows the environmental regulations of the competent authority to handle all related matters.</td></tr>
<tr><td>(3) Does the Company pay attention to the impact of climate change on the operational activities, implement greenhouse gas check, and form an energy-saving, carbon-reduction, and greenhouse emissions reduction strategy?</td><td>V</td><td></td><td>(3) 1. Apart from the fact that climate change may cause natural disasters and directly affect operational activities, it may also lead to indirect effects such as rising raw material prices or supply interruptions. Therefore, the company has continued to promote the relevant energy conservation and carbon reduction related operations for its plants in 2018 according to the ISO 50001 Energy Management System and the company's energy policies; actively pay attention to the energy conservation, carbon reduction, and greenhouse gas reduction related issues; and implemented greenhouse gas inventory to serve as the key indicator of energy conservation and carbon reduction.
2. The company set their goal to protect the earth with a friendly environment. In accordance with the established ISO 50001 energy management system, the company continued to promote energy-saving management methods based on this, and actively promoted the reduction of electricity consumption every year. More than 1% is the energy target, and the actual electricity consumption in 2018 was reduced by 2%. The company’s 2018 energy conservation implementation results and 2019 energy conservation plans are as follows:
(1) 2018 Energy Conservation Plan Implementation Results:
The energy conservation measures implemented in 2018 were as follows: Reduce energy consumption by 323,354 kWh, and reduce the total carbon emission by 168,000 kg.:
<table><tr><th>Item</th><th>Energy-conservation Projects</th></tr><tr><td>1</td><td>Update Public Facility 385RT Chiller Cooling Tower & Materials.</td></tr><tr><td>2</td><td>Update Zone 05 40HP Exhaust Fan Inverter installed</td></tr><tr><td>3</td><td>Update Zone 03 15RT Chiller 2 sets</td></tr><tr><td>4</td><td>25HP Exhaust Windmill was installed inverter in Manufacturing 5th Unit</td></tr></table></td></tr>
</table>

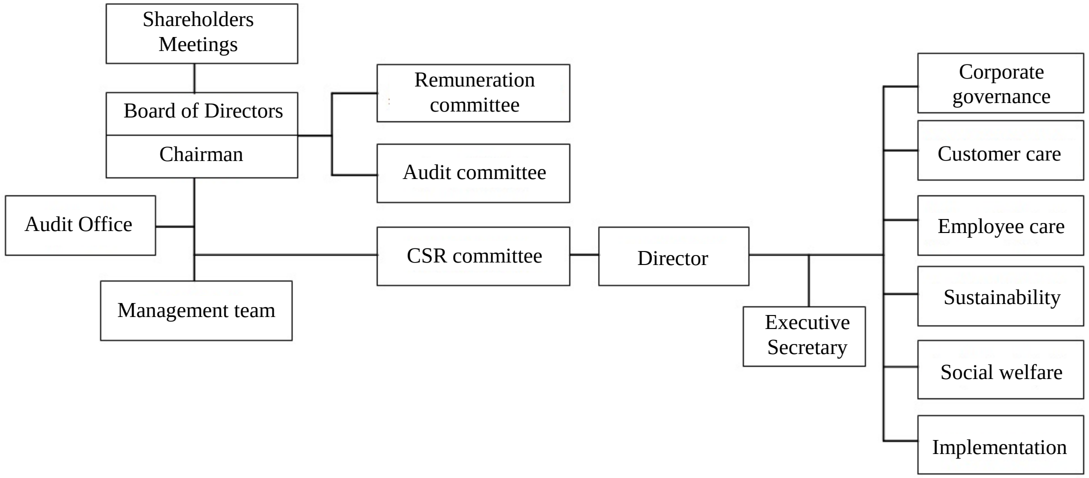
Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
			(2) 2019 energy conservation plan: Energy-conservation target: Reduce electricity consumption by over 1%. We take the energy-saving measures as follows: A total of three sets of 40HP exhaust fans in the Zone 02, 03, and 07 exhaust gas scrubbing towers are connected to the inverter, and the research building replaces the LED lighting.	
3. Enforcement of social justice (1) Does the Company have the relevant management policies and procedures stipulated in accordance with the relevant laws and regulations and international conventions on human rights?	V V		(1) 1. The Company has formulated a "Human Rights Policy" to safeguard the basic human rights of employees, shape human rights and fully protect the environment, and recognize and support the UN Universal Declaration of Human Rights, the Global Compact and the International Labor Convention. In response with international human rights conventions, the company requires cooperative manufacturers to operate without any violations of human rights, so that members of the company, both internal and external, can be treated fairly and with dignity. 2. We established "Working Rules" in accordance with Labor Standards Act and International Bill of Human Rights, and policies on salary, vacation, promotion, awards and insurance have been clearly stated. 3. Employment diversity: Complied with the "Employment Service Act" provisions to respect employees with various differences. The salary is based on the principle of equal pay for equal work without gender, race, age, ethnicity, or religion differences. 4. Complied with the "Act of Gender Equality in Employment" to formulate the "Sexual Harassment Control Measures."	None
(2) Does the Company have the complaints mechanism and channels established for employees and have it handled properly?	V		(2) The company attaches great importance to the smooth flow of the company's internal communication channels. In addition to holding various meetings that can strengthen adequate communication among the different departments, the company also encourages the employees to share the various opinions or suggestions to their direct supervisors or department heads. A "President Mailbox" is also established in the employee public space so employees can report any problems with the company's operations and current status or provide improvement suggestions. This mailbox can be used anonymously or by name, and the President shall personally handle the complaints. To promote this communication channel to all colleagues, instructions are provided in the job descriptions of newcomers so they may speak up freely at all times. In addition, employees can file complaints via "Stakeholders' Area" of the Company's website. The management will conduct investigation and handle issues in accordance with the relevant regulations to protect the interests of the Company and employees.	
(3) Does the Company provide employees with a safe and healthy work environment, and provide safety and health education to employees regularly?	V		(3) 1. The company is committed to providing employees with safe and healthy workplaces. The offices are equipped with a central air-conditioning system, adequate lighting equipment, regular maintenance of elevator equipment, and fire-fighting facilities. 2. The Health and Safety Unit is responsible for holding regular safety education training and related classes, including fire safety, public safety facilities, and general public safety reviews. 3. Regularly organized activities such as employee travel and family day to help the employees to ease their minds and bodies each year. 4. Provide regular general health examinations and special operation health checks each year. 5. Provide family care leave, menstruation leave, miscarriage prevention leave, antenatal care leave, maternity leave, paternity leave, and set up breast-milk collection room. 6. The medical staff of the special medical institutions provide on-site regular health consultation services for our colleagues.	
(4) The Company has developed the mechanism for the routine communication with the employees, and informed the employees of the changes in operation that may cause significant influence on the employees			(4) In addition to holding employer-employee meetings every three months as a formal communication channel for coordination, negotiation and opinions, we also hold briefing sessions to notify employees of important business decisions.	

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
through reasonable means.				
(5) Does the Company have an effective career capacity development training program established for the employees?	V		(5) The company uses the education, training, and performance assessment mechanisms to enhance the manpower quality and competitiveness of its employees; uses education and training to cultivate professional skills, knowledge, and attitudes of employees; and uses performance assessments to develop the employee potentials, enable the employees to grow together with company performances, increase company performances, and improve the quality of employees.	None
(6) Does the Company have the relevant consumer protection policies and complaint procedures established in the sense of R&D, procurement, production, operations and service processes?	V		(6) The company is a raw material pharmaceutical factory, and its customers are mainly domestic and foreign pharmaceutical companies. The company has already set up customer complaints related methods in order to provide effective complaint procedures to the customers as well as safeguard their rights and interests.	
(7) Does the Company have products and services marketed and labeled in accordance with the relevant regulations and international norms?	V		(7) This company is an excellent API plant and has successively passed plant inspections conducted by the cGMP API plants, cGMP biotech plants, and U.S. FDA official plants. The company's cGMP plant equipment has also been recognized by numerous manufacturers and meets the international standards.	
(8) Does the Company have the suppliers checked in advance for any records of impacting the environment and society?	V		(8) The company's procurement operations have assessed its suppliers according to the provisions ,and only the qualified applicants can be included in the suppliers list. In addition to requiring the suppliers to attach the latest material safety data sheet during API procurement, the materials must also be marked clearly with the relevant labels. In addition, to meet the regulatory requirements of the government to control toxic substances and avoid misuse, the company has worked closely with the suppliers to ensure that both parties have the purchase and sales licenses issued by the government before any material purchase is permitted.	
(9) Does the contract signed by the Company with the major suppliers entitle the Company to have the contract cancelled or terminated at any time when the suppliers violate the CSR policies that have significant impact on the environment and society?	V		(9) We reserve the rights to terminate or cancel terms of contracts with suppliers who violate the policies of CSR and cause significant impacts to the environment and society. "Best Practices in Corporate Social Responsibility" should include the policies both parties should adopt. Terms of contracts may be terminated or canceled at any time if the suppliers violate the policies and the supply sources cause significant impacts to the environment and society. The company's procurement is purchased from qualified suppliers according to regulations. In the future, it will continue to work with suppliers to improve corporate social responsibility and reduce the negative impact of the supply chain on the environment.	
4. Enhanced information disclosure (1) Does the Company have the relevant and reliable CSR information disclosed on the Company's website and MOPS?	V		(1) The company has formulated corporate social responsibility reports to disclose its corporate social responsibility promotional efforts, published the reports in the company website and the Market Observation Post System, and disclosed the relevant information in its public statements and shareholders meeting annual reports.	None
5. If the company has drafted its own CSR code of practices in accordance with the "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies," please state any differences between the actual operations and the code: The company has referenced the 2014 "Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies" and the relevant regulations to formulate the "Code of Practice on Corporate Social Responsibility" in order to implement corporate governance, develop sustainable environment, maintain social welfare, and enhance corporate social responsibility information disclosure.				

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	

6. Other information that may assist in the understanding of CSR operations:

(1) The governance structure of our corporate social responsibility:



1. Description of duties of each task team:
   (1) Corporate governance
   Responsible for promoting corporate governance and providing suggestions for improvement including governance structure, code of conduct, board of directors, remuneration committee, audit committee, internal control system, risk management and continuous management.
   (2) Customer care
   Responsible for marketing communication, maintaining customer privacy, product and service labeling and health and safety of customers.
   (3) Employee care
   Responsible for building a friendly work environment, hiring, training and caring of employees and physical and mental wellbeing of foreign workers.
   (4) Sustainability
   We will be responsible for sustainable development and environmental protection related systems, including: environmental management system, green products and processes, energy and resource management, water resources management and wastewater treatment, greenhouse gas inventory, other air pollutants inventory, waste management, suppliers management and make recommendations for improvement and compliance with environmental laws.
   (5) Social welfare
   Responsible for promoting social welfare programs, community participation and social welfare and providing suggestions for improvement.
   (6) Implementation
   Responsible for the coordination of internal project teams and publication of CSR reports.

(2) Implementation status and performance of each project team for 2018:

1. Corporate Governance: The company is committed to safeguarding shareholders' rights and interests, and implementing legal compliance, internal control mechanisms, information disclosure and investor communication.
2. Sustainable environment: (1) In September 2018, the company's energy management system ISO50001 was verified by the British Standards Association (BSI) external audit.
   (2) Each year, the company has commissioned air pollution and waste water inspection reports according to law, implemented environment protection in accordance with the relevant laws and regulations, and fulfilled its environmental protection responsibility as corporate citizen.
   (3) The company actively promotes various energy-saving projects and set a goal of reducing electricity consumption by more than 1% year by year. In 2018, the actual electricity consumption decreased by 2%, and the power saving rate was 323,354 kWh, with a total reduction of 168,000 kilograms of carbon emissions.

Assessment items	Actual governance			Deviation and causes of deviation from the Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies
	Yes	No	Summary description	
3. Social welfare: (1) Adoption of local parks. Since 2007, the Company has adopted "Chang-Shu Family-Friendly Park" for 11 consecutive years. In 2018, the Company donated NTD 500,000 to the park. (2) The donation amount of the 0206 Hualien Earthquake was NTD 800,000. (3) The donation amount of the Tsinghua Cup Chemistry Competition was NTD 50,000. (4) We are committed to the local community and have made donations to the local neighborhoods and charities. (5) The company pays attention to the cultivation of talents in the biotechnology industry. Since 2015, it has continued to promote the industry-academia-research cooperation projects. The expenditure on these projects in 2018 was NTD 1,956,000. 4. Employee care: (1) We maintain a friendly work environment in accordance with the requirements of "Labor Standards Act", "Act of Gender Equality in Employment" and "Sexual Harassment Prevention Act". (2) To enhance employees' professional and technical capabilities and improve work efficiency and product quality, the Company provides an Annual Education and Training Planning Chart. In addition to conducting employee training based on the chart, internal courses on management and professional skills are provided from time to time. Employees are also sent to external organizations to receive training to strengthen their professional capabilities. (3) Promote health programs, including company softball games, family day and various leisure groups (yoga, softball, table tennis and golf) (4) To protect the health and safety of all employees, Department of Safety and Health holds safety education and training courses and exercises regularly every year. The exercises include fire fighting, public safety facilities, review of public safety and others and are reviewed by the Labor Safety and Health Committee. Employees are requested to perform their tasks in accordance with the occupational safety and health guidelines to avoid disasters. In accordance with "Fire Services Act" and regulations for environmental protection, the Company assigns emergency response teams, install emergency and rescue equipment and perform fire-fighting and toxin control exercises every half a year. In 2018, on June 20, November 16, December 6, and December 14, the company held forums respectively with a total of 140 participants. (5) In 2018, the company signed a contract with Jiaxin Health Management Consultant Co., Ltd., and their medical staff provided on-site health consultation services for colleagues. (6) In 2018 October, The Company has formulated a "Human Rights Policy" to safeguard the basic human rights of employees, shape human rights and fully protect the environment, and recognize and support the UN Universal Declaration of Human Rights, the Global Compact and the International Labor Convention. In response with international human rights conventions, the company requires cooperative manufacturers to operate without any violations of human rights, so that members of the company, both internal and external, can be treated fairly and with dignity. 5. Customer care: We again passed the official plant inspection conducted by the TFDA and US FDA in February and November of 2018, respectively. Our cGMP standards have meet the requirements of various pharmaceutical companies in the world.				
7. If the Company's Corporate Social Responsibility Report has passed the certification standards of the relevant certification institutions, it should be detailed: The CSR Reports of the company are prepared with reference to GRI 4.0, which are published in the company website and the Market Observation Post System.				

(VI) The Company's integrity and measures taken to ensure service integrity:

Assessment items	Actual governance			Variation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons
	Yes	No	Summary description	
1. Business Integrity Policy and action plans (1) Does the Company have the corporate management policy and method declared explicitly in the Articles of Incorporation and external documents; also, the commitment of the board of directors and the management to actively implement the operating policies? (2) Does the Company have the prevention program for any fraud stipulated; also, have the respective operating procedures, behavior guidelines, disciplinary actions and complaints system declared explicitly; also have it implemented substantively? (3) Does the company have preventive measures adopted in response to the conducts stated in Article 7 Paragraph 2 of the “Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies” or other business activities subject to higher risks of fraud?	V V V		(1) The company has established the "Business Operation Procedure and Behavior Integrity Guideline," which expressly stipulated that the Board of Directors and the management of the company shall actively implement the integrity management policy and ensure actual execution during internal management and external business activities. The company has published the integrity management policy on its website and annual reports to enable the suppliers, customers, or other business-related organizations and personnel to clearly understand the company's business integrity philosophy and to regulate matters that should be observed by the company's personnel when performing businesses. When signing external contracts, the company and its subsidiaries shall observe the principle of honesty and mutual benefit to negotiate reasonable contract contents, and actively fulfill the contractual commitments. (2) The company has established the "Major Internal Information Processing Operations Procedures," "Code of Conduct for Employee Work Practices," "Code of Ethical Conduct," and "Guideline for Business Operation Procedure Integrity and Conduct" to regulate the behaviors of directors and employees. The company has also organized the relevant education and training classes in order to enable the colleagues to fully understand the importance of integrity, and clearly defined the various provisions and violation punishment rules in the aforesaid codes and regulations to ensure compliance. (3) The company has established the "Major Internal Information Processing Operations Procedures," "Code of Conduct for Employee Work Practices," and "Guideline for Business Operation Procedure Integrity and Conduct" in order to guard against dishonest conducts and business activities such as bribery, accepting kickbacks, and illegal political contributions via the internal audit unit's audit mechanism.	None
2. Proper enforcement of business integrity (1) Does the company have the integrity of the trade counterparty assessed and with the code of integrity expressed in the contract signed? (2) Does the Company have a specific (part-time) unit setup under the board of directors to advocate the code of integrity and to report on its implementation to the Board on a regular basis?	V V		(1) The company has established a client evaluation mechanism, engaged in fair business activities, and fulfilled and complied with the contracts in a transparent manner in order to provide fair and reasonable results to each customer and vendor. (2) In order to conduct ethical management, the General Manager’s Office of the company coordinates the personnel and financial departments to implement the “Procedures for Ethical Management and Guideline”, implemented by the General Manager’s Office and the Personnel Office, and reports to the Board of Directors on a regular basis every year. The implementation of the ethical management in 2018 has been reported to the board of directors on December 27, 2018 (the 19th Meeting of the 20th Board of Meeting). In order to carry out the ethical management, the Company has included the “Code of Conduct for Employees” and the “Procedures for Ethical Management and Guideline” into the pre-employment education and training courses for new recruits, and announced to the new colleagues that the company values integrity. The training has a total of 30 shifts and a total of 49 participants as of 2018/12/31. In addition, related regulations such as “Procedures for Ethical Management and Guideline” have been placed on the company’s internal network platform and company website for employees and outsiders to refer to at any time.	None

<table>
<tr><th rowspan="2">Assessment items</th><th colspan="3">Actual governance</th><th rowspan="2">Variation from the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies and the reasons</th></tr>
<tr><th>Yes</th><th>No</th><th>Summary description</th></tr>
<tr><td>(3) Does the Company have developed policies to prevent conflicts of interest, provided adequate channel for communication, and substantiated the policies?
(4) Has the Company established effective accounting systems and internal control systems to substantiate corporate management; also, have audits performed by the internal audit unit on a regular basis or by the commission CPAs?
(5) Has the Company organized corporate management internal and external education and training programs on a regular basis?</td><td>V
V
V</td><td></td><td>(3) The "Rule and Procedure of the Board of Directors" formulated by the company has clearly defined the recusal principle so any Board of Directors with any conflicts of interests can recuse himself/herself from participating or voting in the meeting. The company has also clearly defined the conflicts of interests prevention policy in the "Code of Conduct for Employee Work Practices." Employees can use the employee suggestion box and the company website to reflect their opinions. The company has also established a spokesperson system externally, which is in charge of external communications.
(4) To ensure implementation of credit management, the company has established effective accounting and internal control systems whereby the internal audit personnel would review the system implementation on a regular basis.
(5) The company has established the "Code of Conduct for Employee Work Practices" and the "Guideline for Business Operation Procedure Integrity and Conduct," provided pre-employment training for new recruits, and published the relevant methods in the company's internal document management system. The company would also advocate the business integrity related provisions before a contract is signed with an external manufacturer.</td><td>None</td></tr>
<tr><td>3. The operations of the Company's Report System
(1) Does the Company have a specific report and reward system stipulated, a convenient report channel established and a responsible staff designated to handle the individual being reported?
(2) Does the Company have the standard investigating procedures and related confidentiality mechanism established for the incidents being reported?
(3) Has the Company taken proper measures to protect the whistle-blowers from suffering any consequence of reporting an incident?</td><td>V
V
V</td><td></td><td>(1) The company has established a reporting and complaint channel in the "Procedure for Handling the Illegal, Unethical, or Dishonest Conduct Complaints" and established a dedicated unit to take charge of the relevant matters. All business integrity violation related matters shall be handled according to the relevant regulations.
(2) The company has established the "Procedure for Handling the Illegal, Unethical, or Dishonest Conduct Complaints;" established internal and external reporting channels and processing system; and clearly established the confidentiality requirements for the identity of the whistle-blowers and the contents of the complaints.
(3) The company has established the "Procedure for Handling the Illegal, Unethical, or Dishonest Conduct Complaints" and established internal and external reporting channels and processing system. The company is also committed to protect the whistle-blowers from unreasonable treatment for filing a complaint.</td><td>None</td></tr>
<tr><td>4. Enhanced information disclosure
(1) Has the company disclose the contents of the integrity management rules and its implementation effectiveness on its website and the Market Observation Post System?</td><td>V</td><td></td><td>(1) The company has disclosed the "Guideline for Business Operation Procedure Integrity and Conduct" and other relevant information on the company website and the Market Observation Post System.</td><td>None</td></tr>
<tr><td colspan="5">5. If the company has drafted its own business integrity code in accordance with the "Code of Business Integrity for TWSE/GTSM Listed Companies," please state any differences between the actual operations and the code:
The company has established the "Guideline for Business Operation Procedure Integrity and Conduct" pursuant to the "Code of Business Integrity for TWSE/GTSM Listed Companies," and implemented the revelation operations according to its operating procedures and behavioral guidelines.</td></tr>
<tr><td colspan="5">6. Additional important information that may assist in the understanding of corporate business integrity operations:
The company has fulfilled its obligations of legal compliance to the public sectors, good faith transactions to the customers and suppliers, and business integrity to the shareholders under the principle of honesty, transparency, and responsibility. The company has also prevented the directors, managers, and employees from acts that violate the business integrity so as to avoid reputation damages or legal liabilities caused by dishonest behaviors.</td></tr>
</table>

(VII) Inquiry method for the Code of Corporate Governance and relevant provisions: The corporate governance related chapters are disclosed in the company website - Investor area (http://www.ccsb.com.tw).

(VIII) Other important information that can enhance the understanding of the corporate governance operation status:

1. 2018 Director training status:

Title	Name	Training date	Organizer	Course name	Training hours
Chairman	Wang, Hsun-Sheng	2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3
Director	Wang, Hsun-Hui	2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3
Director	China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun	2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3
Director	Wang Ming-Ning Memorial Foundation representative: Chung-Hsin Huang	2018.07.30	Securities and Futures Development Foundation	Listed and Publicly Traded Company Insider Equity Trading Law Compliance and Advocation Meeting	3
		2018.10.04	BCSD-Taiwan	CSR and Word Trade, Sustainable Supply Chain Management	3
		2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3
Independent Director	Kuo-Chiang Wang	2018.01.24	National Innovation and Entrepreneurship Association, R.O.C. (TAIWAN)	Meger and Acquisition in Practice	7.5
		2018.09.28	Taiwan Academy of Banking and Finance (TABF)	Corporate Governance and Sustainable Development	3
		2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3
Independent Director	Cheng-Hsien Tsai	2018.10.15	Financial Supervisory Commission	The 12th Taipei Corporate Governance Forum	6
Independent Director	Chih-Hsien Chang	2018.01.19	Taiwan Academy of Banking and Finance (TABF)	Corporate Governance Forum-classical series	3
		2018.05.04	Securities and Futures Development Foundation	2018 Insider Trading Prevention Publicity Conference	3
		2018.07.10	Securities and Futures Development Foundation	Listed and Publicly Traded Company Insider Equity Trading Law Compliance and Advocation Meeting	3
		2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3

2. 2018 Manager Training Status:

Title	Name	Training date	Organizer	Course name	Training hours
President	Chung-Hsin Huang	2018.07.30	Securities and Futures Development Foundation	Listed and Publicly Traded Company Insider Equity Trading Law Compliance and Advocation Meeting	3
		2018.10.04	BCSD-Taiwan	CSR and Word Trade, Sustainable Supply Chain Management	3
		2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3
Business Division Vice President	Quan-Wen Chen	2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3
Internal Audit Manager	Chao-Sheng Hong	2018.11.12	Corporate Governance Association in Taiwan	The impact and response of the company law amendment	3
		2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3
Manager, Treasury Dept.	Kuan-Chieh Wang	2018.12.27	Corporate Governance Association in Taiwan	How to achieve M&A Value - Issues on M&A Integration and Post Management System Establishment.	3

(IX) Internal Control System Implementation Status:

1. Declaration of internal control:

Chunghwa Chemical Synthesis & Biotech Co., Ltd.
Declaration of Internal Control Policies

Date: March 8, 2019

The following declaration is based on the 2018 self-audit over the Company's internal control policies:

I. The Company is aware that the establishment, execution, and maintenance of its internal control policies are the responsibilities The Company's board of directors and managers. These policies were implemented throughout The Company. The purpose is to provide reasonable assurance on the achievement of operating effectiveness and efficiency (including profits, performance, and assets safeguarding), reporting matters with reliability, timeliness, and transparency, and compliance with the relevant law and regulations.

II. Internal control policies are prone to limitations. No matter how robustly designed, effective internal control policies merely provide reasonable assurance to the achievements of the three goals above. Furthermore, environmental and situational changes may affect the effectiveness of internal control policies. However, self-supervision measures were implemented within The Company's internal control policies to facilitate immediate rectification once procedural flaws have been identified.

III. The Company has based on the criteria of the internal control system effectiveness in the "Regulations Governing the Establishment of Internal Control System by Public Companies" (referred to as the Regulations" hereinafter) to determine the effectiveness of the internal control system design and implementation. Regarding the internal control system criteria in the "Regulations," the internal control system is divided into five composing elements in accordance with the management and control process: 1. environment control, 2. risk assessment, 3. control operation, 4. information and communication, and 5. supervise operation. Each element further contains several items. Please refer to "The Governing Principles" for details.

IV. The Company has adopted the internal control system criteria in the preceding paragraph to assess the effectiveness of the internal control system design and implementation.

V. Based on the results of the previous evaluation, the company considers its internal control system (including the supervision and management of its subsidiaries) on December 31, 2018 as effective and can reasonably ensure the achievement of the goals mentioned above. They include the company's understanding of the operation effectiveness and the extent to which the efficiency goals have been achieved as well as the validity, timeliness, transparency, and relevance to the relevant laws, regulations, and rules as intended by the design and implementation of the internal system.

VI. The "Internal Control System Declaration" will be the main content of the Company' annual report and prospectus for the reference of the public. Any illegal misrepresentation or non-disclosure relating to the public statement above are subject to the legal consequences under Articles 20, 32, 171, and 174 of the Securities Exchange Act.

VII. This declaration was approved by the Board of Directors meeting on March 8, 2019 without objection where seven directors attended the meeting. It is hereby declared that all of the directors have agreed to the contents of the declaration.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Chairperson, Wang, Hsun-Sheng Signature and Seal

Manager: Chung-Hsin Huang Signature and Seal

2. Internal control system review report commissioned to an CPA: None.

(X) Punishments received by the company and its internal personnel pursuant to the law and punitive actions issued by the company against its internal employees in violation of the internal control system provisions for the latest year until the publication date of this annual report, and the main deficiency correction status.

Subject Receiving Punishment	Disposal Method	Main Defects	Rectification
Company	Punitive fine of NTD100,000	Violation of the provisions of Paragraph 1, Article 21 of the “Act of Gender Equality in Employment”	Strictly abide by and strengthen conformance to the Gender Equality Act, and work together to create a harmonious laborer/employer and gender equality working environment.
Company	Punitive fine of NTD360,000	Violation of Article 32 of the Labor Standards Act	Strictly abide by and strengthen the promotion of labor-based overtime rules to strike a balance between work and physical and mental health.
Company	Punitive fine of NTD20,000	Violation of Article 34 of the Labor Standards Act	Strictly abide by and strengthen the declaration of the work shifts of the labor law, there should be an 11-hour rest period, to achieve a balance between work and physical and mental health.
Company	Punitive fine of NTD30,000	Violation of Paragraph 1, Article 6 of the Occupational Safety and Health Act	The company has complied with the relevant regulations to install jumpers for the pipelines and storage areas that may be caused by static electricity or explosions, and confirm that the grounding box is fully functional.

(XI) Important Resolution of the Board of Directors as of the Publication Date of the Annual Report:

1. Important resolution of the 2018 Board of Directors meeting

Year	Date	Important Resolution Items	Resolution and Implementation Status
2018 Shareholders Meetings	2018.05.31	1. Recognized the 2017 Business Report Final Accounts	Passed without objection.
		2. Recognized the 2017 Surplus Distribution	Passed the resolution for the shareholders' cash dividend of NTD38,780,000 (NTD0.5 per share), set July 30, 2018 as the dividend benchmark date, and distribution was completed on August 15, 2018.
		3. Passed the "Derivative Commodity Trading Procedures" Revision Case for the Company.	Handled according to the “Derivative Product Transaction Processing Procedure” after it has been revised and posted on the company's website.

2. Important Resolution of the Board of Directors for 2018 and as of the Publication Date of the Annual Report

Year	Date	Important Resolution Items
2018 1st Board of Directors Meeting	2018.03.12	1. Passed the 2017 Management Personnel Remuneration Discussion Case. 2. Passed the 2017 Director Remuneration Discussion Case. 3. Passed the 2017 Employee and Director Remuneration Discussion Case. 4. Passed the 2017 Business Report and Balance Sheet Draft Case. 5. Passed the 2017 Surplus Distribution Case. 6. Passed the 2018 Business Plan Case 7. Passed the "Derivative Commodity Trading Procedures" Revision Case for the Company. 8. Passed the Formulation of the Company's 2018 Shareholders Meeting Date, Location, Share Transfer Cessation Date Case. 9. Passed the company Quota Renewal Case. 10. Passed the "2017 Internal Control System Statement" Submission Case. 11. Passed the Equipment Procurement Case.
2018 2nd Board of Directors Meeting	2018.05.08	1. Adoption proposal for the appointment and remuneration of the new general manager. 2. Adoption proposal for registration of the change of Juridical Person of PHARMAPORTS, LLC, our important subsidiary. 3. Adoption proposal of removing the manager’s Non-Compete Agreement. 4. Adoption proposal of appointment new environmental technology consultant. 5. Amendment to the sales and collection cycle, the internal control system of the investment cycle and the internal audit implementation rules. 6. Passed the Taoyuan Industrial Park Land Sales Case. 7. Adoption proposal of investment in the shares of China Chemical Pharmaceutical Co., Ltd.

Year	Date	Important Resolution Items
		8. Passed the Equipment Procurement Case.
2018 3rd Board of Directors Meeting	2018.06.28	1. Adoption proposal of appointment of new deputy general manager of the production division of the company. 2. Passed the Internet Payment Benchmark Date and Cash Dividend Distribution Date Settings. 3. Passed the company Quota Renewal Case.
2018 4th Board of Directors Meeting	2018.08.09	1. Adoption proposal of the company's salary structure adjustment. 2. Passed the company Quota Addition and Renewal Case.
2018 5th Board of Directors Meeting	2018.10.01	Adoption proposal of investment in the shares of China Chemical Pharmaceutical Co., Ltd.
2018 6th Board of Directors Meeting	2018.11.12	1. Passed the financial supervisor and acting spokesperson changes. 2. Passed the CPA Independence and Suitability Assessment Case. 3. Passed the 2019 Audit Plan Case.
2018 7th Board of Directors Meeting	2018.12.27	1. Adoption proposal of regularly reviewing the remuneration of directors and managers and the standard of payment through the Remuneration Committee. 2. Adoption proposal of the 2018 Chairman and Managers' year-end bonus incentive plan submitted by the Remuneration Committee. 3. Adoption proposal of the ESOP (Employee Stock Ownership Plan) submitted by the Remuneration Committee. 4. Passed the company Quota Renewal Case.
2019 1st Board of Directors Meeting	2019.03.08	1. Adoption proposal of the 2018 managers and employee salary compensation submitted by the Remuneration Committee. 2. Adoption proposal of the 2018 remuneration of the directors by the committee. 3. Passed the 2018 Employee and Director Remuneration Discussion Case. 4. Passed the 2018 Business Report and Balance Sheet Draft Case. 5. Passed the 2018 Surplus Distribution Case. 6. Passed the 2019 Business Plan Case. 7. Adoption proposal of election of the directors of the company (including independent directors). 8. Adoption proposal of election details such as a period of receiving nominations of directors (independent director) candidates, the number of independent directors to be elected, the place for receiving such nominations, and other necessary matters. 9. Adoption proposal of the nomination of candidates for directors (including independent directors). 10. Passed the canceling the non-compete restriction for new directors and their representatives. 11. Amendment proposal of some of the provisions of the Company's "Corporate Governance Best Practice Principles". 12. Passed the revision for parts of the company's "Acquisition or Disposal of Asset Handling Procedures" 13. Passed the amending partial provisions of the company's "Derivative Product Transaction Processing Procedure." 14. Passed the partial amendments to the "Operational Procedures for Loaning Funds to Others". 15. Passed the partial amendments to the "Procedures for Endorsing as a Guarantor". 16. Passed the Formulation of the Company's 2019 Shareholders Meeting Date, Location, Share Transfer Cessation Date Case. 17. Passed the company Quota Renewal Case. 18. Passed the "2018 Internal Control System Statement" Submission Case. 19. Adoption proposal of equipment procurement by supplementary budget.

(XII) In the most recent year and as of the publication of the annual report, did a director have different opinions regarding to an import resolution passed by the Board of Directors that was recorded or written down: None.

(XIII) Summary of resignation by company chairman, President, accounting supervisor, financial supervisor, internal audit supervisor, or R&D director in the most recent year and as of the publication of the annual report:

April 30, 2019

Title	Name	Date on board	Date of discharge	Reason for resignation or discharge
President	Chih-Ping Yang	2015.05.11	2018.04.01	Resignation due to Personal Career Plan
Financial supervisor	Shu-Yi You	2017.05.22	2018.11.03	Resignation due to Personal Career Plan

V. Disclosure of CPAs' remuneration:

Change of CPA

Auditor's firm	Name of CPA		Audit period	Remarks
PwC Taiwan	Shufen Yu	Shuqiong Zhang	2018.01.01-2018.12.31	—

CPA fee table

Monetary Unit: NTD Thousand

Amount bracket	Service fee items	Audit remuneration	Non-audit remuneration	Total
1	Less than 2,000 thousand	—	102	102
2	2,000 thousand(inclusive) ~4,000 thousand	2,673	—	2,673
3	4,000 thousand(inclusive) ~6,000 thousand	—	—	—
4	6,000 thousand(inclusive) ~8,000 thousand	—	—	—
5	8,000 thousand(inclusive) ~10,000 thousand	—	—	—
6	10,000 thousand above	—	—	—

(I) CPA Public Expense Information for Payment made to the CPA or the Affliates of CPA whereby the Non-audit Public Expense Accounted for Over One Quarter of the Audit Public Expense:

Monetary Unit: NTD Thousand

Auditor's firm	Name of CPA	Audit remuneration	Non-audit remuneration					CPA auditing period	Remarks
			Policy design	License registration	Human resource	Others	Subtotal		
PwC Taiwan	Shufen Yu Shuqiong Zhang	2,673	0	0	0	0	0	2018.01.01-2018.12.31	—
PwC Taiwan	—	0	0	0	0	102	102	—	Transfer Pricing Report

(II) Accounting Firm Replacement whereby the Audit Fee of the Year was Reduced Compared to Audit Fee of the Previous Year: None.

(III) Audit Fee that Has Reduced by Over 15% Compared to the Previous Year: None.

VI. Change of CPA: None.

VII. The Company' Chairman, President, or managers involved in financial or accounting affairs being employed by the auditor's firm or any of its affiliated company within the recent one year: None.

VIII. Shareholding transfers and share collateralization within the latest year, up till the publication date of this annual report, initiated by directors, managers and shareholders with more than 10% ownership interest

(I) Director, Manager, and Major Shareholder Changes

Unit: shares

Title	Name	2018		As of April 2, 2019	
		Increase (decrease) in No. of Shares	Increase (decrease) in No. of Pledged Shares	Increase (decrease) in No. of Shares	Increase (decrease) in No. of Pledged Shares
Chairman	Wang, Hsun-Sheng	0	0	0	0
Director	Wang, Hsun-Hui	0	0	0	0
Director	China Chemical & Pharmaceutical Co., Ltd. representative: Yin-Nan Sun	0	0	0	0
Director	Wang Ming-Ning Memorial Foundation representative: Chung-Hsin Huang (Note 1)	0	0	0	0
Independent Director	Kuo-Chiang Wang	0	0	0	0
Independent Director	Cheng-Hsien Tsai	0	0	0	0
Independent Director	Chih-Hsien Chang	0	0	0	0
Major shareholder	China Chemical & Pharmaceutical Co., Ltd.	0	0	0	0
President	Chih-Ping Yang (Note 2)	-	-	-	-
President	Chung-Hsin Huang (Note 2)	-	-	0	0
Vice President of Business Department	Quan-Wen Chen	0	0	0	0
Vice President of R&D Department	Qing-Peng Wei	60,000	0	0	0
Vice President of the Administrative Center	Shi-Qin Zhang (Discharged on 2018.04.30)	-	-	-	-
Vice President of Manufacturing Division	Guo-Xian Zeng (Note 3)	-	-	0	0
Internal Audit Manager	Chao-Sheng Hong	0	0	0	0
Financial supervisor	Shy-Yi You (Discharged on 2018.11.03)	-	-	-	-
Financial supervisor	Kuan-Chieh Wang (Newly appointed 2018.11.20)	-	-	0	0
Accounting Supervisor	Hsiu-Fen Lin	0	0	0	0

Note 1: The representative for Wang Ming-Ning Memorial Foundation was changed to Mr. Chong-Xin Huang on April 1, 2018; the original representative Mr. Chih-Ping Yang was dismissed.

Note 2: The former general manager of the company, Mr. Yang Zhiping, was resigned on April 1, 2018. The new general manager position was temporarily transferred to Mr. Huang Zhongxin from April 1 in 2018 and was formally appointed by the board of directors on May 8, 2018.

Note 3: On July 1, 2018, he was the Plant Deputy Director, and then promoted to Vice President of Manufacturing Division.

(II) Information on the transfer of equity interests by a director, manager, or shareholders holding over 10% of the shares to an affiliate: None.

(III) Information on the pledge of equity interests by a director, manager, or shareholders holding over 10% of the shares to an affiliate: None.

IX. Relationships among The Company's top ten shareholders including spouses, second degree relatives or closer:

April 2, 2019

Name	Self Shares held		Shareholdings of spouse and underage children		Shares Held In The Names Of Others		Title and name of shareholders holding over 10% of the shares who are related to each other or are spouses or second degree relatives.		Remarks
	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Name	Relation	
China Chemical & Pharmaceutical Co., Ltd.	17,331,064	22.35%	–	–	–	–	Wang, Hsun-Sheng Wang, Hsun-Hui Wang Ming-Ning Memorial Foundation	Chairman of the Company Director of the Company Same Chairman	
China Chemical & Pharmaceutical Co., Ltd. Representative: Wang, Hsun-Sheng	2,854,230	3.68%	787	0.00%	–	–	Wang, Hsun-Hui Hsun-Yu Wang Wang Ming-Ning Memorial Foundation	Brothers Brother and sister Chairman of the Foundation	
Fubon Financial Holding Co., Ltd.	3,000,000	3.87%	–	–	–	–	–	–	
Fubon Financial Holding Co., Ltd. Representatives: Pao Lin Ma	–	–	–	–	–	–	–	–	
Wang, Hsun-Sheng	2,854,230	3.68%	787	0.00%	–	–	Wang, Hsun-Hui Hsun-Yu Wang China Chemical & Pharmaceutical Co., Ltd. Wang Ming-Ning Memorial Foundation	Brothers Brother and sister Chairman of the Company Chairman of the Foundation	
Wang, Hsun-Hui	1,864,768	2.40%	77,787	0.10%	–	–	Wang, Hsun-Sheng Hsun-Yu Wang China Chemical & Pharmaceutical Co., Ltd.	Brothers Brother and sister Director of the Company	
Wang Ming-Ning Memorial Foundation	1,691,982	2.18%	–	–	–	–	Wang, Hsun-Sheng China Chemical & Pharmaceutical Co., Ltd.	Chairman of the Foundation Same Chairman	
Wang Ming-Ning Memorial Foundation Representative: Wang, Hsun-Sheng	2,854,230	3.68%	787	0.00%	–	–	Wang, Hsun-Hui Hsun-Yu Wang China Chemical & Pharmaceutical Co., Ltd.	Brothers Brother and sister Chairman of the Company	
Hsun-Wei Wang	1,003,066	1.29%	–	–	–	–	–	–	
Gui-Mei Ling	990,000	1.28%	–	–	–	–	–	–	
Hsun-Yu Wang	789,050	1.02%	–	–	–	–	Wang, Hsun-Sheng Wang, Hsun-Hui	Brother and sister	

Name	Self Shares held		Shareholdings of spouse and underage children		Shares Held In The Names Of Others		Title and name of shareholders holding over 10% of the shares who are related to each other or are spouses or second degree relatives.		Remarks
	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Quantity	Ratio of Shareholding	Name	Relation	
Kainan Vocational High School	723,503	0.93%	–	–	–	–	–	–	
The company has a SPDR(R)-S&P Emerging Market ETF investment account in Deutsche Bank Taipei Branch. ETF fund investment account	708,000	0.91%	–	–	–	–	–	–	

X. Investments jointly held by The Company, The Company's directors, managers, and enterprises directly or indirectly controlled by The Company. Calculate shareholding in aggregate of the above parties:

Unit: stocks;% December 31, 2018

Reinvestment businesses (Note 1)	Invested by The Company		Directors, Managers, and the Directly or Indirectly Controlled Business Investments		Aggregate investment	
	Quantity	Shareholding percentage	Quantity	Shareholding percentage	Quantity	Shareholding percentage
China Chemical & Pharmaceutical Co., Ltd. (Note 2)	17,892,137	6.00%	–	–	17,892,137	6.00%
Siang Ta Pharmaceutical Co., Ltd. (Note 3)	–	–	–	–	–	–
PHARMAPORTS, LLC	–	98.00%	–	–	–	98.00%
CCSB HOLDING CO.,LTD	600,000	100.00%	–	–	600,000	100.00%
CCPC Suzhou	–	100.00%	–	–	–	100.00%

Note 1: Must be long-term investments according to the equity method adopted by the company.

Note 2: The original account is an equity instrument that is measured at fair value through other comprehensive gains and losses – non-current. It is reclassified as an investment using the equity method in the applicable equity method on November 14, 2018.

Note 3: Team Global Logistics Co., Ltd. was dissolved on August 9, 2016 via shareholders' meeting resolution; completed liquidation on December 15, 2017; and obtained court settlement on January 23, 2018.

Four. Funding Status

I. Capital and Shares:

(I) Sources of Capital Share:

1. Capital Share Formation Process:

Unit: NT$; Shares April 30, 2019

Year / month	Issue price	Authorized capital		Paid-up capital		Remarks		
		Quantity	Amount	Quantity	Amount	Source of capital	Paid in properties other than cash	Others
1991.11 (Note 1)	10	50,000,000	500,000,000	44,500,000	445,000,000	Surplus to capital increase: NT$45,000,000 Cash capital increased: NT$100,000,000 Total NT$145,000,000	None	–
1997.10 (Note 2)	15	80,000,000	800,000,000	70,000,000	700,000,000	Cash capital increased: NT$255,000,000	None	–
1999.12 (Note 3)	10	120,000,000	1,200,000,000	92,000,000	920,000,000	Cash capital increased: NT$220,000,000	None	–
2003.09 (Note 4)	10	120,000,000	1,200,000,000	40,200,000	402,000,000	Capital reduction NT$518,000,000	None	–
2003.09 (Note 4)	10	120,000,000	1,200,000,000	65,200,000	652,000,000	Cash capital increased: NT$250,000,000	None	–
2009.08 (Note 5)	10	120,000,000	1,200,000,000	70,200,000	702,000,000	Cash capital increased: NT$50,000,000	None	–
2011.01 (Note 6)	10	120,000,000	1,200,000,000	77,560,000	775,600,000	Cash capital increased: NT$73,600,000	None	–

Note 1: Approved by letter No. (1991)TCZ(1)02602 issued by the Ministry of Finance Securities and Futures Commission on September 12, 1991.

Note 2: Approved by letter No. (1997)TCZ(1)70406 issued by the Ministry of Finance Securities and Futures Commission on September 18, 1997.

Note 3: Approved by letter No. (1999)TCZ(1)107856 issued by the Ministry of Finance Securities and Futures Commission on December 17, 1999.

Note 4: Approved by letter No. (2003)TCZ(1)136955 issued by the Ministry of Finance Securities and Futures Commission on August 15, 2003.

Note 5: Approved by letter JG1Z No. 0980023798 issued by the Executive Yuan Financial Supervisory Commission on May 21, 2009.

Note 6: Approved by letter JG1Z No. 0990059478 issued by the Executive Yuan Financial Supervisory Commission on November 1, 2010.

2. Type of Shares: April 30, 2019 Unit: shares

Share category	Authorized capital			Remarks
	Outstanding shares	Unissued shares	Total	
Common shares	77,560,000	42,440,000	120,000,000	Listed stocks

(II) Shareholder Structure:

April 2, 2019 Unit: shares

Shareholders structure / Volume	Government institutions	Financial institutions	Other corporations	Individuals	Foreign institutions and foreigners	Total
Head count	0	0	140	19,998	33	20,171
Number of shares held	0	0	23,816,309	51,976,798	1,766,893	77,560,000
Shareholding percentage	0.00%	0.00%	30.71%	67.01%	2.28%	100.00%

(III) Status of Share Dispersion:

1. Regular Shares

Face value per share: NT$10 per unit: share April 2, 2019

Shareholding range	Number of shareholders	Number of shares held	Shareholding percentage
1 to 999	12,882	88,037	0.11%
1,000 to 5,000	5,686	11,480,181	14.80%
5,001 to 10,000	819	6,698,348	8.64%
10,001 to 15,000	238	3,094,045	3.99%
15,001 to 20,000	164	3,104,198	4.00%
20,001 to 30,000	129	3,396,615	4.38%
30,001 to 40,000	74	2,689,701	3.47%
40,001 to 50,000	44	2,067,190	2.67%
50,001 to 100,000	82	5,816,225	7.50%
100,001 to 200,000	30	4,135,369	5.33%
200,001 to 400,000	12	3,379,428	4.36%
400,001 to 600,000	0	0	0.00%
600,001 to 800,000	4	2,875,553	3.71%
800,001 to 1,000,000	1	990,000	1.28%
1,000,001 and above	6	27,745,110	35.76%
Total	20,171	77,560,000	100.00%

2. Special Shares: None.

(IV) Main shareholders list: (shareholders with the shareholding ratio of over 5% or shareholders with the top 10 shareholding ratio)

April 2, 2019 Unit: shares

Shareholding / Name of main shareholder	Number of shares held	Shareholding percentage
China Chemical & Pharmaceutical Co., Ltd.	17,331,064	22.35%
Fubon Financial Holding Co., Ltd.	3,000,000	3.87%
Wang, Hsun-Sheng	2,854,230	3.68%
Hsun-Hui Wang	1,864,768	2.40%
Wang Ming-Ning Memorial Foundation	1,691,982	2.18%
Xun-Wei Wang	1,003,066	1.29%
Gui-Mei Ling	990,000	1.28%
Xun-Yu Wagn	789,050	1.02%
KaNan Vocational High School	723,503	0.93%
The company has a SPDR(R)-S&P Emerging Market ETF investment account in Deutsche Bank Taipei Branch.	708,000	0.91%

(V) The price, net value, earnings, dividends, and other information per each share for the last two years:

Unit: NT$; Thousand Shares

Item \ Year			2017	2018	The current year as of March 31, 2019 (Note 4)
Market price per share	Highest		29.85	29.70	25.75
	Lowest		21.70	20.05	22.80
	Average		24.85	24.35	24.58
Net worth per share	Before dividend distribution		23.48	25.58	—
	After dividend distribution		22.98	(Note 5)	—
Earnings per share	Weighted average outstanding shares (Thousand Shares)		77,560	77,560	—
	Earnings per share		1.11	3.02	—
Dividends per share	Cash dividend		0.5	(Note 5)	—
	Stock dividends	From earnings	—	—	—
		From capital reserves	—	—	—
	Retained Dividends		—	—	—
Analysis of investment returns	P/E ratio (Note 1)		22.39	8.06	—
	Price to dividends ratio (Note 2)		49.70	(Note 5)	—
	Cash dividend yield (Note 3)		0.02	(Note 5)	—

Note 1: P/E ratio = Average closing price per share for the year / earnings per share.
Note 2: Price to dividend ratio = Average closing price per share for the year / cash dividends per share.
Note 3: Cash dividend yield = Cash dividend per share / average closing price per share for the current year.
Note 4: As of the publication date of the annual report, there is no recent financial information to be audited or reviewed by accountants.
Note 5: The surplus distribution plan 2018 is still awaiting resolution by the shareholders' meeting.

(VI) Company's dividend policy and execution status:

1. Dividend policy:

According to the Articles of Association of the Company, the dividend policy of the company must take the company's future capital requirements into consideration and the long-term financial planning must meet the needs of shareholders for cash inflows. If there is a surplus in the annual final accounts, tax should be paid first to make up for losses in previous years, and then 10% shall be set aside for statutory surplus reserve. If there is still surplus after setting aside the statutory surplus reserve, the surplus available for distribution shall include the accumulated undistributed earnings from the previous year. However, part of it shall be retained depending on the business conditions, and the rest shall be distributed as dividends to shareholders. The cash dividends shall not be less than 50% of the shareholders dividends, but stock dividends shall be issued instead if the cash dividend is less than NT$0.1 per share.

2. Dividend distribution proposed by this shareholders meeting:

The 2018 surplus distribution of the company has passed the Board of Directors resolution on March 8, 2019 and is still subject to resolution by the shareholders' meeting. The cash dividend of NT$1.2 per share is proposed, and the cash dividend issuance of NT$93,072,000 is anticipated.

(VII) The effects that the stock grant proposed by the shareholders' meeting have on the company's business performance and earning per share:

Not applicable because the company's 2019 shareholders meeting did not propose any stock grant.

(VIII) Remuneration to employees and directors:

1. The percentages or ranges with respect to employee, director, and supervisor compensation, as set forth in the company’s articles of incorporation:

   According to the Articles of Association for the company, if the company has earned annual profits, it shall allocate 1% to 15% as employee remuneration and no more than 3% for director renumeration. However, when the company still has accumulated losses, an amount equivalent to the loss should be reserved for making up the loss.

2. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

   The remunerations of the employees and directors are based on the profitability of the current year and the amount determined by the Articles of Association. They are recognized as the operating expenses for the current year. If there is a discrepancy between the actual distribution amount and the estimated amount, said discrepancy shall be treated as a change in the accounting estimates and be listed as a profit or loss for the following year.

3. Remuneration to be distributed as resolved in the board of directors:

   (1) The amount of any employee compensation distributed in cash or stocks and compensation for directors and supervisors:

   The company's 2018 annual employee remunerations were estimated at NT$15,488,000; and the director remunerations were NT$1,549,000. The Board of Directors has passed a resolution on March 8, 2019 to allocate employee remunerations of NT$15,488,000 and the director remunerations of NT$1,549,000; which is no different than the annual costs estimated. The employee and director remunerations mentioned above are all paid in cash.

   (2) The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation: not applicable.

4. The actual distribution of employee, director, and supervisor compensation for the previous fiscal year (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated.

   The company's 2017 annual employee remunerations were estimated at NT$11,025,000; and the director remunerations were NT$1,103,000. The Board of Directors has passed a resolution on March 12, 2018 to allocate employee remunerations of NT$11,025,000 and the director remunerations of NT$1,103,000; which is no different than the annual costs estimated.

(IX) Buy-back of the Company's shares by the company: none.

II. Disclosure relating to corporate bonds: none.

III. Disclosure relating to preference shares: none.

IV. Disclosure relating to depository receipts: none.

V. Employee stock warrants: none.

VI. The new shares from restricted employee stock option: none.

VII. Disclosure on new shares issued for the acquisition or transfer of other shares: none.

VIII. Progress on the use of funds: none.

Five. Business performance

I. Content of business

(I) Scope of business:

1. Core business:

According to the Company license, the scope of business includes:

(1) Manufacturing of Western medicine

(2) Wholesaling of Western medicine

(3) Non-prohibited or non-restricted businesses, in addition to the permitted businesses.

2. Proportions of overall business:

18% chemical synthesis products

82% biotechnology products

3. Current products:

(1) Biotechnology products: Pravastatin (PVTS; hypolipidemic drug)
Mycophenolate Mofetil (MMF; immunosuppressant),
Mycophenolate Mofetil HCl (MMF-HCl; immunosuppressant),
Rapamycin (Sirolimus) (RAPA; immunosuppressant),
Everolimus (EVE; immunosuppressant, anticancer drug),
Tacrolimus (FK506; immunosuppressant),
Caspofungin (CAS; antifungal medication),
Teduglutide (TED; short bowel medication),
Pneumocandin B0 (PNB0; antifungal intermediate),
Midostaurin (STS; anticancer drug).

(2) Non-biotech products: Methocarbamol (MCB; muscle relaxant)
Metaxalone (MTAX; muscle relaxant),
Guaifenesin (GGE; antitussive),
Trandolapril (TDP; antihypertensive medication),
Fluconazole (FCZ; antifungal medication),
Olopatadine (OLO; anti-allergy medication),
Ethyl Icosapentate: (EPAE; Lower triglyceride),
Omega-3 Carboxylic Acids: (OMA; Lower triglyceride);
Ixazomib Citrate (IXA; anti-cancer drug),
Etelcalcetide (AMG; hemodialysis chronic kidney disease medication),
Plecanatide (PLE; chronic idiopathic constipation medication),
Abaloparatide (ABA; osteoporosis medication),
Ribociclib (RI; breast cancer medication),
Carfilzomib (CFZM; anti-cancer medication),
Sugammadex (SGM; anesthesia recovery medication),
Edoxaban (ETH; anticoagulant),
Baricitinib (BA; rheumatoid arthritis medication).

4. New products to be developed:

(1) New products: The Company's core business is to supply high-quality new materials needed by generic drug companies throughout the world. With our core advantages in chemical synthesis and microbial fermentation technology, the Company continues to develop new products such as immunological preparations, anticancer drugs, cardiovascular drugs, dialysis medicine and gastrointestinal drugs.

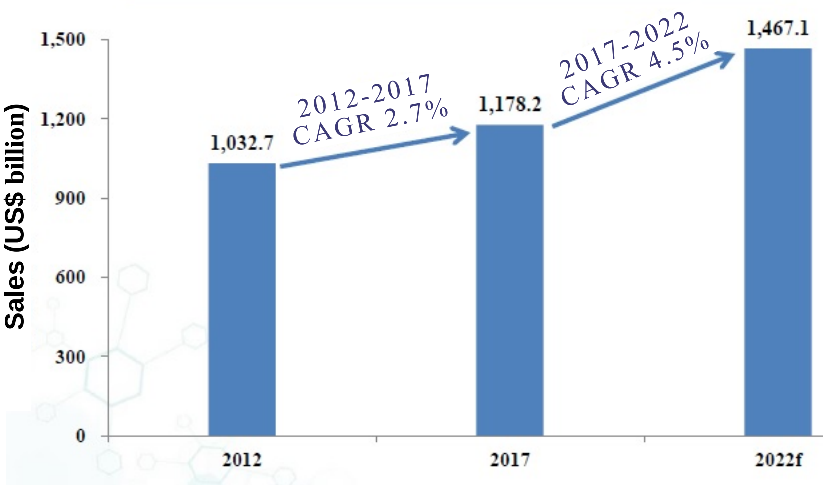
(2) Contract manufacturing business: The Company also provides research and development and contract manufacturing (CDMO/CMO) services to new drug developers and generic drug companies at home and abroad, striving to become the provider of active pharmaceutical ingredients to those new drug developers when they successfully launch their drugs.

(II) Industry overview:

1. Status and development of the industry:

Active pharmaceutical ingredients are the components that provide medical effects, and their production technology can be divided into extraction and purification, chemical synthesis and fermentation. General drugs can be divided into original development patented drugs and generic drugs. According to BMI data, the 2017 global prescription drug market is about US$1.2 trillion, and the 2017-2022 Compound Annual Growth Rate (CAGR) is estimated to be 4.5%. The global pharmaceutical market will exceed NTD 1.4 trillion in 2022.

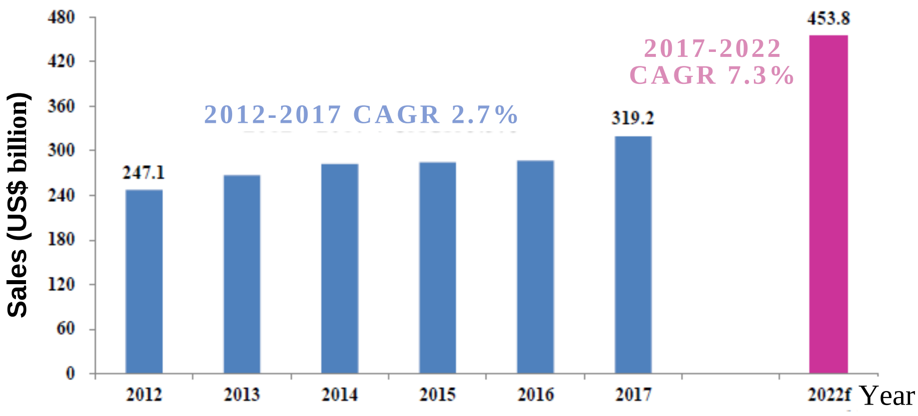
Changes in the global pharmaceutical market in 2012, 2017, 2022



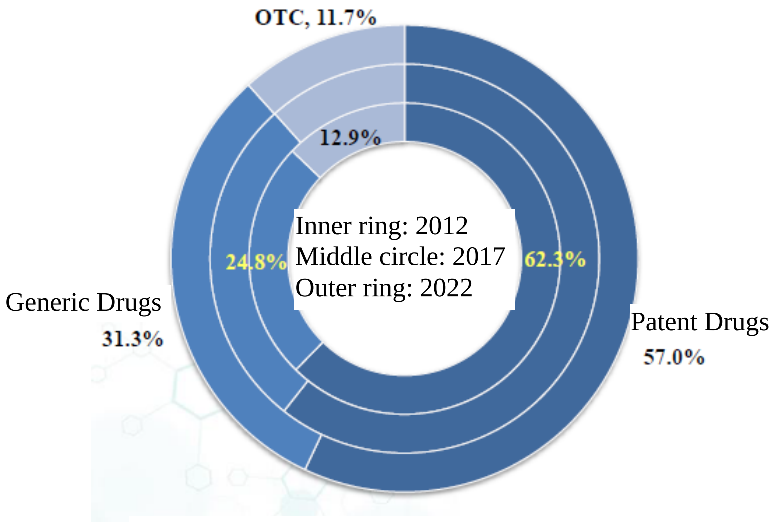
In 2017, the Generics market has a production value of US$319.2 billion, which continues to grow at a compound annual growth rate (CAGR) of 7.3%, which is higher than the CAGR 4.5% growth rate of the overall pharmaceutical market. It is estimated that it will reach US$453.8 billion by 2022.

According to estimates by the European Fine Chemical Group, by the end of 2017, the demand for Active Pharmaceutical Ingredients has reached US$92 billion. About 40% of the world’s pharmaceutical raw materials come from China. After the 19th National Congress of the Communist Party of China, environmental protection issues have surfaced. The factory cooperated with the policy to suspend production or relocate the factory, affecting the supply stability of the supply side, causing shortages and rising prices. The expected shortage and price pressure will continue this year.

Changes in the generic drugs market in 2012~2022



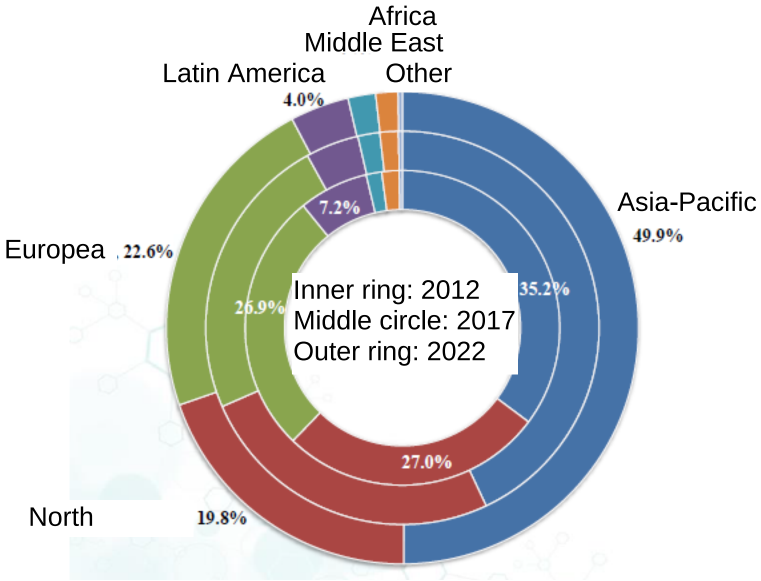
Drug price pressure, competition for patent-expired generic drugs, and delays in new product development will put pressure on the growth of the pharmaceutical market. However, as the global population structure ages, it will drive medical expenditures to increase, and become the driving force for the growth of the pharmaceutical market. The market share of generic drugs will reach 30% in 2022.



Proportion of sales of drugs in each category

Source: Biotechnology Development Center

According to the proportion of the regional market, the Asian generic drug market is the largest market in the world. In 2017, it accounted for about 40% of the global generic drug market; followed by the North American market, accounting for 25.5% of the global generic drug market.

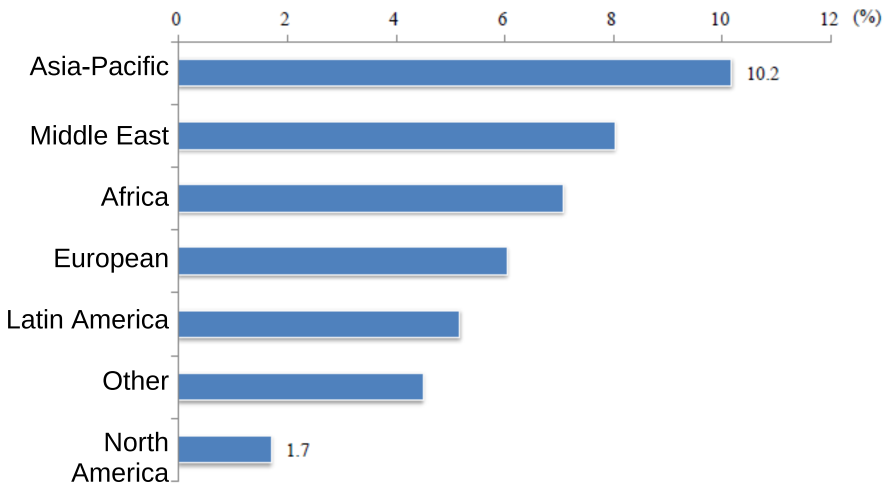


Proportion of sales of generic drugs in various regional markets

Source: BMI; compiled by ITIS of DCB Department of Industrial Development (2018.07)

It is estimated that the CAGR of the Asia-Pacific region's generic drug market in 2017-2022 is 10.2%, which is the fastest growing market for generic drugs; the second largest market for generic drugs is the slowest growth in North America, with only 1.7% CAGR; the third largest market is Europe, the CAGR is 6.0%.

Estimating the sales of generic drugs in various regions of the world from 2017 to 2022 CAGR



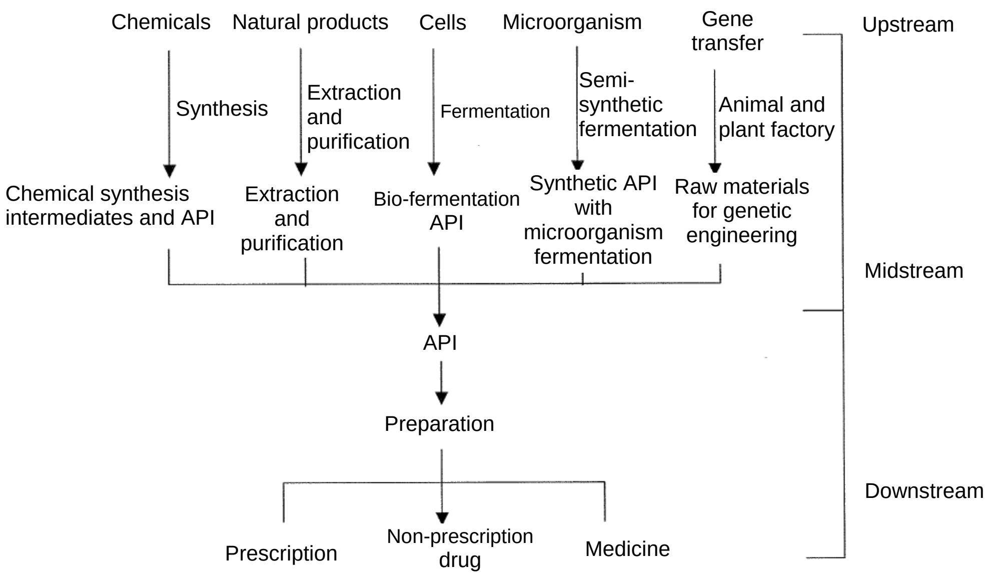
Source: Biotechnology Development Center

2. Relations between upstream, midstream and downstream of the industry:

There are more than 3,000 API manufacturers in the world, but only about 542 API manufacturers have the ability to meet the cGMP requirements of the US, Europe and Japan in terms of quality and regulations. According to the NEWPORT database, these 542 companies Most of the API manufacturers are located in the United States, Europe, Japan, China and India. The company's cGMP system has been officially inspected by the United States, Europe and Japan many times. We have been one of the major suppliers of high-tech companies in the United States, Europe and Japan, although we face low-cost competition in the market from Chinese and Indian API manufacturers. With the increasingly strict inspection of the US and EU pharmaceutical authorities and the increasingly stringent requirements for cGMP requirements, the quality requirements of APIs have established a new milestone. The company faced with the improvement of pharmaceutical quality thresholds in advanced countries, it is also an opportunity for Chunghwa Chemical Synthesis & Biotech Co. Ltd who has a strong cGMP foundation. We will strive to enhance our competitiveness, deepen our research and development technology, and develop high-tech raw materials with market potential. In the harsh competition environment of the internal and external markets, we strive to break through and grow steadily.

The Company is an API manufacturer in the midstream of the industry. Different drug characteristics require different manufacturing methods, which include biological fermentation, chemical synthesis and extraction and purification or a mixture of these processes. Based on product requirements, the Company purchases raw chemical materials or intermediates from upstream suppliers and manufactures APIs to be sold to downstream drugmakers who add in the related excipients to manufacture convenient dosage forms. As APIs possess curative effects, they directly impact the health and safety of medicine users. To ensure the effectiveness and safety of drugs, drug manufacturers in all aspects of the pharmaceutical industry (APIs and formulation) demand strict requirements on the quality of raw materials. Government agencies in all countries also provide regulations for the major intermediates of APIs. To comply with the cGMP of the FDA and maintain stability of quality, companies from upstream to downstream are usually long-term strategic partners.

Supply chain structure showing the upstream, midstream and downstream of the API industry:



Source: Provided by the Company

3. Various product trends:
   (1) Trends of biotechnology products:

   Medical biotechnology products that involve proteins of macromolecules, high activity products, fermentation and genetic engineering are what most API drugmakers focus on. Ibalizumab from TaiMed Biologics, long-term interferon-α and long-term interferon-β from PharmaEssentia and the protein inhibitor for hepatitis C virus made by TaiGen Biotechnology are some examples of biotechnology products as mentioned above. Apart from biosimilars and generic drugs, these biotechnology products are also what the Company plans for the future. For the past two years, the Company has established preliminary work with European and North American drugmakers regarding the aforementioned products, and gradually developed basic research capabilities and equipment. The Company will commit itself into developing anticoagulants, hepatitis B medication and macromolecule hormones at the right time.

   (2) Trends of non-biotechnology products:

   Besides our company which is capable of manufacturing microbial biotechnology products, the other domestic API drugmakers are all in the manufacturing of organic synthesis products. In addition to the general chemical synthesis process used in the past, key manufacturing processes such as heavy metals reaction, bromination, Grignard reaction and sodium azide reaction have also been introduced, making products more diverse. In addition to developing chemical synthesis products such as the -fungin series for antifungal medication, the Company is also focusing on contract manufacturing of non-biotechnology products. ACE inhibitor, Trandolapril, and the anti-allergy medicine Olopatadine will experience demand growth, and the Company will take these opportunities to enhance its capabilities, attracting more clients and developing more products with more growth potential.

4. Competition

   Medicines are used to treat diseases and injuries and help your body to recover health, and it remains a difficult task to find any other alternatives or services to replace the effectiveness of medicines. Different drugs can offer different effectiveness treating the same disease and drugmakers compete with each other. The Company mainly manufactures API for immunosuppressants and hypolipidemic drugs and more explanation regarding the competition in these two types of drugs will be provided.

   Currently, the main immunosuppressants in the market are Mycophenolate Mofetil, Tacrolimus and Rapamycin derivatives. The three products of our company have successfully developed their APIs. Among them, Mycophenolate Mofetil has become the company’s main product and the largest supplier in the US market; Tacrolimus has also been commercialized, and Japanese customers have obtained drug certificates. It was launched at the end of 2013. In addition, Everolimus developed by Novartis and Sirolimus developed by Pfizer, the famous medicine will soon be launched into commercial supply. The company has increased production capacity in order to meet customer needs. Although in addition to the company, there are other peers who want to cut into such product market, but the company’s products are of high quality, and cGMP inspection records are excellent, and trusted by customers. By taking these competitive advantages, the company continues to grow with mass production and shipment.

   Currently, Statin is the best-selling hypolipidemic drug, with about 90% of the market share. Classified by the manufacturing processes, there are Atorvastatin and Rosuvastatin, made by chemical synthesis, and Pravastatin and Simvastatin, made by fermentation. Rosuvastatin has replaced Atorvastatin to be the best seller. Pravastatin (after the expired patent of Pravachol) developed by our fermentation process had been officially introduced and delivered to the market in 2003 and we remain the only domestic drugmaker that manufactures the drug.

Our competitive advantage is in that we have successfully mass-produced and delivered immunosuppressants and hypolipidemic drugs, with years of experience in strain optimization, process improvement, purity improvement and reduction of impurities and residuals. We have proven our quality to be better than that of the other international suppliers and continued to reduce cost to provide competitive products.

(III) Overview of technology and R&D

1. R&D expenses spent in the most recent year as of the publication date of the annual report:

Unit: NTD thousand

Item \ Year	2018	March 31, 2019(Note)
Research and development expenses	161,537	45,665
Net operating income	1,019,452	345,464
Percentage of net operating income	15.85%	13.22%

Note：The financial information was not reviewed by the CPA.

2. Technologies and products successfully developed:

Synthesis research institute:

(1) Completing a new production process for Mycophenolate Mofetil, an immunosuppressive drug, which can effectively lower production costs and increase product competitiveness.
(2) Developed Etelcalcetide API Etelcalcetide process.
(3) Developed chronic, idiopathic constipation API Plecanatide process.
(4) Developed osteoporosis API Abaloparatide process.
(5) Developed rheumatoid arthritis API Baricitinib process.

Biotechnology research institute:

(1) Completed immune suppressant API Rapamycin new process development and amplification, with purity able to reach 98% or higher, which can effectively reduce the cost by 30% or more.
(2) Completed oral breast cancer API Ribociclib laboratory process amplification, with purity able to reach 99.5% or higher, its new crystallization type has been petitioned for patent in Taiwan and the U.S.
(3) Completed multiple sclerosis API Ozanimod laboratory process development, with purity able to reach 99% or higher.

3. Future R&D projects and projected R&D expenses:

(1) Synthesis research institute:

Name of research project	Current progress	Expected production date	Main factors affecting the outcome of R&D projects	Projected R&D expenses
Etelcalcetide process amplification and validation	70%	2019 Q3	Quality and process amplification are key for development and growth.	NTD 10 Million
Abaloparatide process amplification and validation	60%	2019 Q4	Quality and process amplification are key for development and growth.	NTD 10 Million
Baricitinib process amplification and validation	50%	2020 Q2	Quality and process amplification are key for development and growth.	NTD 8 Million
Lanreotide Lab process development	20%	2020 Q3	Quality meeting requirements?	NTD 20 Million
Teriparatide Lab process development	20%	2021 Q3	Quality meeting requirements?	NTD 20 Million

(2) Biotechnology research institute:

Name of research project	Current progress	Expected production date	Main factors affecting the outcome of R&D projects	Projected R&D expenses
Midostaurin Lab process development	40%	2020 Q2	How to avoid patent infringement and keep the price competitive	NTD 20 Million
Edoxaban process amplification and validation	80%	2019 Q2	Quality and process amplification are key for development and growth.	NTD 18 Million
Ribociclib process amplification and validation	80%	2019 Q4	Quality and process amplification are key for development and growth.	NTD 8 Million
Palbociclib Lab process development	30%	2020 Q2	How to avoid patent infringement and keep the price and quality competitive	NTD 15 Million

(IV) Long- and short-term business development plans:

1. Long-term business development plan:
   (1) The company will adjust the R&D strategy and continuously improve R&D energy to develop products with high price, high technology threshold, few competitors, high profit, and global demand of only tens to hundreds of kilograms, to improve the production efficiency and revenue of the current site.
   (2) The company will develop unique key technologies to develop special products, such as high-growth products such as anti-cancer, high potency and peptide drugs, to support the development of new customers and enhance the niche and appeal of product differentiation.
   (3) Develop key technologies such as hydrogenation, optical splitting, asymmetric synthesis and organometallic reactions.
   (4) The company will integrate chemical synthesis and microbial fermentation technology to develop biotechnology and semi-synthetic products in the fields of cancer, immunosuppression and anti-fungals, and strengthen product features to facilitate market competition.
   (5) Strengthen the strategic alliance between CCPC and other firms. Use Tacrolimus SD20 as a blueprint to expand the product line and distribution in the global market.
2. Short-term business development plan:
   (1) The company will continuously enhance and integrate the company's unique fermentation and chemical synthesis technology to differentiate its competitors with only chemical synthesis or fermentation technology products, enhance its competitiveness in the API market, and strengthen the company's niche products. Such as Everolimus, Mycophenolate Mofetil, Rapamycin, Tacrolimus, Caspofungin, investment in process optimization, capacity increase and cost reduction to enhance the company's market share in the global API market.
   (2) The company will ensure compliance with regulations, strengthen the inspection of raw materials and API intermediate supply plants, ensure compliance with the upstream supply plants, raw materials comply with the latest requirements of the official drug regulatory authorities of all countries and the supply is intact, and ensure the quality of the products of the company and the domestic verification of the cGMP factory is continuously passed through the inspection of the US FDA, Japan PMDA and EU EMA.
   (3) To develop CDMO/CMO business, by rallying to participate in domestic, foreign major drug makers' new drug R&D plans, through which to enter into early stage joint R&D relation, such as pre-clinical and various clinical stages' intermediary, products' trial, manufacturing process development and related work, in anticipation to form a strategic alliance with major pharmaceutical plants, for joint growth.
   (4) The company will enhance multi-party procurement of raw materials to reduce prices, reduce production costs, and actively promote the outsourcing of fermentation intermediates, release the production capacity of fermented intermediates, increase the production of biopharmaceutical raw materials, reduce costs, and increase market share.
   (5) Develop solvent recovery technology, continue to incorporate the various management systems and mechanisms, autonomously implement waste reduction and emission reduction operations, reduce operating costs, and fulfill the social obligations of environmental friendliness in response to the increasingly strict environmental protection requirements.

II. Market and sales overview:

(I) Market analysis:

1. Major market of the Company's products

Unit: NTD thousand; %

Region \ Year		2017 Amount	2017 %	2018 Amount	2018 %
Exports	Asia	354,654	30.36	189,528	18.59
	America	630,538	53.97	511,757	50.20
	Europe	100,665	8.62	155,685	15.27
	Others	632	0.05	1,592	0.16
	Subtotal	1,086,489	93.00	858,562	84.22
Domestic sales		81,759	7.00	160,890	15.78
Total		1,168,248	100.00	1,019,452	100.00

2. Market share

In recent years, the output value of the Taiwanese pharmaceutical industry has generally grown. The average growth rate in the past decade has reached 3.5%. In 2017, the output value reached NTD 77.3 billion, a record high. From January to July 2018, the output value reached NTD 45.8 billion, an annual increase of 4.2%. The output value is expected to be created again as a new record. According to the main industry, western medicine and APIs accounted for more than 75% of the total pharmaceutical industry in 2017.

The Taiwanese bulk pharmaceutical manufacturing industry is export oriented. Due to its excellent development capability and product quality, many raw material pharmaceutical factories in Taiwan have become important suppliers of famous foreign pharmaceutical companies, but they have been negotiated by the scientific name drug channel and then reduced the price. The fierce influence of international competition has dragged down the output value of the Taiwanese raw material pharmaceutical industry in recent years. As Taiwanese APIs are mainly exported, according to the Ministry of Finance’s Customs Department, the export value in 2017 is NTD 13.9 billion. The cumulative export value from January to September 2018 is NTD 11.61 billion. The cumulative amount of the company’s exports from January to September 2018 accounts for about 6.8% of Taiwan’s export value of raw materials. It is expected that as the market size of generic drugs continues to expand, the company will continue to develop new products and actively improve production efficiency to gradually increase market share.

Table 1. Statistics on the output value of the fine industry in Taiwan's pharmaceutical industry

Unit: NTD 100 million ,

Statistics project	2007	2014	2015	2016	2017	January to July 2018	Average growth rate in the past decade
Pharmaceutical industry output value	550	688	732	768	773	458	3.5
API	87	157	166	162	139	92	4.8
Western medicine	371	372	397	427	449	254	1.9
Medical biological products	11	12	10	11	14	10	2.7
Chinese medicine	55	77	77	77	79	46	3.7
Medical chemicals	25	71	82	91	91	56	13.9
Annual growth rate of the pharmaceutical industry	7.3	-2.3	6.3	5.0	0.6	4.2	-
API	36.8	-13.9	5.8	-2.8	-14.2	14.8	-
Western medicine	1.5	2.7	6.8	7.5	5.2	0.1	-
Medical biological products	10.4	32.4	-17.1	15.9	27.6	13.4	-
Chinese medicine	11.4	7.2	0.1	0.7	2.8	0.4	-
Medical chemicals	7.0	-10.3	15.0	11.3	0.4	10.1	-

Source: Department of Statistics, Ministry of Economic Affairs

3. Future supply and demand and growth of the market

(1) Global demand

With large international pharmaceutical companies continuing to outsource API and waves of patent drug expiring, the domestic API drugmakers are receiving more orders. The global demand for API continues to growth and there are 10 to 15% growth every year, higher than the 2 to 5% growth experienced by generic drugs. According to the statistics provided by Department of Industrial Technology under Ministry of Economic Affairs, the API market for the past 3 years has experienced growth stimulated by the patent expiration of popular drugs that account for US$ 75 billion in value. In other words, the global demand for API will reach a peak within three years. It was estimated that the global API market in 2017 would reach US$ 195.9 billion, directly driving the growth of domestic API manufacturers.

(2) Global supply

Due to production efficiency and cost of environmental protection, many US-based pharmaceutical companies have reduced and withdrawn from the manufacturing of API and started to source from API manufacturers in the developing companies that meet cGMP requirements and have passed plant inspection. As for Western Europe, the drugmakers there are equipped with more advanced technologies due to their earlier start in the pharmaceutical industry and are still the main exporters of API. However, the competition of lower pricing from China and India has led to excessive production from European drugmakers. They actively look for transformations in order to enter the supply chain of the generic drug industry. With cheap production costs and lower requirements in environmental protection, as well as the support from their governments' long-term policies, both China and India have established good industry API foundations, gradually becoming one of the world's production bases for API. Overall, the emergence of China and India has moved the center of API development from Europe to Asia. Taiwan's API manufacturers may be small in terms of production scale, but their excellent product quality, management of the manufacturing process and cGMP implementation are all better than China and India's. They focus on developing high-priced niche API and are starting to play an important role in the global niche market.

Table 2. Pharmaceutical industry export statistics in Taiwan

Unit: NTD million , %

			2007	2015	2016	2017	Annual growth rate	Jan. to Sep. 2018	Annual growth rate	Average growth rate in the past decade
Total export value			294.2	515.5	541.3	532.3	-1.7	402.0	1.9	6.1
Industry	Amount	API	109.2	132.2	153.2	139.0	-9.2	116.1	11.7	2.4
		Western medicine	172.0	349.1	351.1	344.1	-2.0	202.8	-20.4	7.2
		Medical biological products	3.5	11.8	15.3	21.6	40.9	59.9	290.5	20.1
		Chinese medicine	9.5	22.4	21.7	27.6	27.2	23.2	13.8	11.3
	Percentag	API	37.1	25.6	28.3	26.1	(-2.2)	28.9	(2.6)	-
		Western medicine	58.5	67.7	64.9	64.6	(-0.3)	50.4	(-14.2)	-
		Medical biological products	1.2	2.3	2.8	4.1	(1.3)	14.9	(11)	-
		Chinese medicine	3.2	4.3	4.0	5.2	(1.2)	5.8	(1.0)	-
Region	Amount	U.S.	39.4	96.9	121.6	150.4	23.7	128.2	15.5	14.3
		Mainland China (including Hong Kong)	31.5	85.7	84.6	105.6	24.8	72.3	-5.3	12.8
		Japan	27.7	50.5	55.4	53.1	-4.2	42.7	11.6	6.7
		ASEAN-6	32.8	58.9	59.3	68.3	15.2	42.6	-17.0	7.6
	Percentag	U.S.	13.4	18.8	22.5	28.2	(5.7)	31.9	(3.8)	-
		Mainland China (including Hong Kong)	10.7	16.6	15.6	19.8	(4.2)	18.0	(-1.4)	-
		Japan	9.4	9.8	10.2	10.0	(-0.2)	10.6	(0.9)	-
		ASEAN-6	11.2	11.4	11.0	12.8	(1.8)	10.6	(-2.4)	-

Source: Customs Administration, Ministry of Finance

(3) Growth

The global pharmaceutical industry has maintained a steady growth over the past hundred years. In recent years, the industry has started to experience changes due to population aging, the governments of many countries promoting the use of generic drugs, waves of brand-name drugs experiencing patent expiration and being replaced by generic drugs, and the FDA approving fewer new drugs. With industry players changing their business strategies and conducting industrial restructuring to improve production efficiency, the industry manages to maintain a steady growth. According to the statistics from IMS Health, the global pharmaceutical industry expects to keep its annual growth between 5-6%, and the global market value in 2018 may reach US$ 1.25 trillion. The global pharmaceutical industry expects to continue its steady growth.

4. Competitive niche

(1) The Company has passed the US FDA and European PIC/S regulations and their requirements for plant inspection

The company had passed the Food and Drug Administration (FDA) and the Japanese authorities (PMDA), the Rpamycin-based CGMP (Current Good Manufacturing Practices) inspection factory certification after March and July of 2017, respectively. In November 2018, the company was once again certified by the Food and Drug Administration (FDA) and registered on the DMF Approved List on the FDA website for inquiries from major pharmaceutical companies. In addition to the official inspections in the United States and Japan, the company has also passed the inspection of the Pravastatin-based biotech factory in the Cologne Drug Administration of Germany, the most stringent drug certification unit in Europe. We have met the cGMP standards of various global pharmaceutical companies. Being listed on the certification platforms will encourage global drugmakers from Europe, the US and Japan to work with us.

(2) Many products have been certified for DMF and proven competitive in export.

A Drug Master File (DMF) mainly introduces manufacturers' company profiles, organizational charts, chemistry, manufacturing and control (CMC) in quality control and assurance, stability tests, product specifications and impurity profiles. In general, the sales of API in a particular country requires DMF registration with the local FDA. When downstream drugmakers prepare medicine and apply for certification, the FDA reviews the DMF of the API manufacturers to make sure the API meet the local requirements. Since a DMF requires approval from the FDA, registering more DMF with the FDA can demonstrate the R&D, production and export capabilities of a company. So far, we have completed the DMF registration with the US FDA for 18 products and received many orders for export. We will continue to develop new products, obtain their DMF registrations and improve our competitiveness in export.

(3) An API manufacturer that is equipped with bio-fermentation and chemical synthesis technologies and equipment.

Currently, most API manufacturers still use the chemical synthesis approach as it offers steady manufacturing processes, short product time and relatively simple equipment requirements. However, as the barriers to entry are lower for this type of manufacturing process, there are more competitors in the market. The concept of bio-fermentation is similar to the production of yogurt in which cell strains, animal and plant tissues, enzymes and bacterial species used in biotransformation, fermentation and purification are used to manufacture API. Since fermentation requires longer processing time, as well as the consideration of humidity, temperature and strain quality, product prices tend to be higher. The process involves many conditions and complex factors, so there are fewer capable manufacturers which offer API based on fermentation. We are one of the few companies in Asia which possesses both bio-fermentation and chemical synthesis technologies and equipment. To improve our market competitiveness, we develop API medicine using bio-fermentation or a mixture of bio-fermentation and chemical synthesis in anticipation of the future growth in biotechnology medicines.

(4) Enters the part of market in which small-batches of API are used for R&D.

Smaller pharmaceutical companies tend to use smaller batches of API for clinical trials when developing new drugs. These short-term and small-batch orders may not contribute greatly to the revenue, but the collaboration can provide future business opportunities. In other words, once their products enter large-scale clinical trials or obtain commercialization approval, they become an important source of orders for API manufacturers. We have worked with drugmakers to provide them with API and they are in the third stage of clinical trials. Once they successfully obtain marketing authorization, we will benefit from the increased sales and improve our competitiveness.

5. Favorable and unfavorable factors affecting the future outlook:

(1) Favorable:

① The production experience with cGMP over the years, passing cGMP plant inspections conducted by the domestic drug agency and the US FDA, Germany and Japan's PMDA. This ensures the sales of both cGMP products and newly-developed products in Europe, the US and Japan. Our company is mainly export-oriented, showing stability in export.

② The successful introduction of Pravastatin, Rapamycin, Tacrolimus & Mycophenolate Mofetil helps us accumulate experience and facilitates the development of Caspofungin, Everolimus and Peptide and open up the markets in Europe, the US and Japan.

③ We are the only API manufacturer in Taiwan which uses both synthesis and bio-fermentation processes. This capability proves to be a strong asset to develop new products such as Everolimus and others in the -rolimus series, fungin products in the Caspofungin series and Peptide.

(2) Unfavorable:

① The US market may be big and offer higher unit price, but it requires lengthy preparation and a lot of manpower. Passing the FDA plant inspection within a short time for further export is often not expected. Clients' R&D schedule and ANDA application progress can take forever, affecting the timing entering the market.

② Every European country has its own GMP requirements and inspection is needed before entering the local market. The review process of drug certification is becoming stricter, making it difficult to control the overall schedule which can impact business opportunities.

③ Tacrolimus may have been in the market for a while, but the diverse preparation methods result in it being unable to reach its target. Many patents in Europe and the US are expiring but at the same time a lot of competitive firms are showing up, causing prices to drop and making the market competition more intense.

④ The domestic healthcare policy on drug price-regulation greatly impacts the domestic sales market. The rigorous PIC/S requirements had driven the domestic drugmakers to withdraw from the market. The low-volume and low-price conditions make the market competition even more severe.

⑤ The main source of supply to raw materials used in upstream and chemical intermediates is in China. Policy changes, environmental awareness, more strict labor laws and the rise in crude oil prices are driving up the cost.

⑥ Taiwan's API manufacturers are all export-oriented and they need to face the risk of exchange rate. After Trump became the 45th president of the United States, he announced his withdrawal from the TPP (Trans-Pacific Partnership Agreement) and the direction of US policy, especially the “China-US trade war,” “protectionism,” “fair trade,” and “the dollar is too strong”, these speeches and actions on the topics have made the risk of the US dollar against major currency exchange rates rise.

(3) Countermeasures:

The company put efforts to diversify its supply and seek qualified suppliers in India and other emerging market countries. In the intermediate-term, improve the manufacturing technology and add in hydrogenation and metals reactions to reduce dependence on foreign intermediates.

(II) Main uses and production processes of major products:

1. Main uses:

(1) Biotechnology products:

① Mycophenolate Mofetil: An immunosuppressive drug which inhibits ejection of organ transplant.

② Rapamycin: An immunosuppressive agent which inhibits ejection of organ transplant.

③ Tacrolimus: An immunosuppressive agent which inhibits ejection of organ transplant.

④ Pravastatin: A hypolipidemic drug used to reduce total cholesterol and low-density lipoprotein cholesterol (LDL) and reduce vascular sclerosis and cardiovascular disease.

⑤ Everolimus: An anti-cancer or cardiovascular stent coating drug and also serves as an immunosuppressive agent.

(2) Non-biotechnology products:

① Methocarbamol: A muscle relaxant for muscle tension and pain and it has a relaxing effect.

② Trandolapril: For prevention and treatment of heart disease and hypertension.

③ Metaxalone: A muscle relaxant for muscle tension and pain and it has a relaxing effect.

④ Ethyl Icosapentate: Lower triglyceride

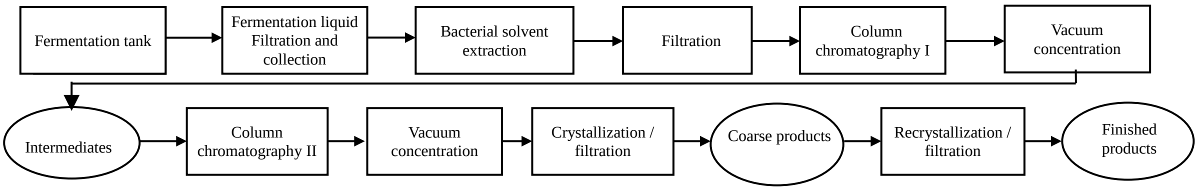
⑤ Omega-3 Carboxylic Acids: Lower triglyceride

⑥ Others: Including Fluconazole, which treats respiratory and digestive tract diseases caused by Candida and Microcystis fungi.

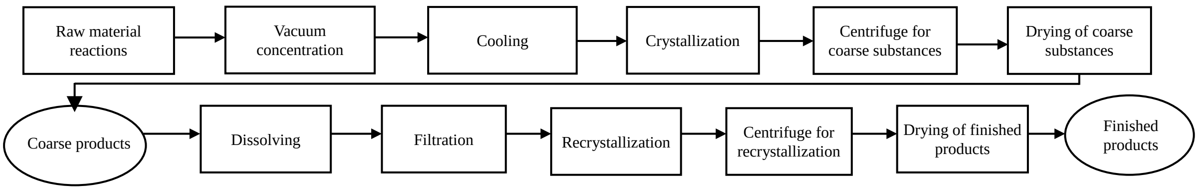
2. Manufacturing processes:

API:

(1) Biotechnology products (fermentation):



(2) Non-biotechnology products (synthetic):



(III) Supply status of main raw materials:

We always purchase raw materials from our long-term contracted suppliers who have no material shortage problems.

Main raw materials	Main suppliers	Supply status
Mycophenolic Acid/Compactin	Supplier A	Good
Solvent	Supplier B	
Solvent	Chengtai Chemical Materials Co., Ltd.	
Guaiacol	SOLVAY	
BU2SNO	Qiming Enterprise	

(IV) Parties who deliver more than 10% of the total raw materials or buy more than 10% of goods sold in any one of the past two years, their amount, proportion and reasons for changes:

1. Suppliers who account for more than 10% of the total purchased amount:

Information about the main suppliers the past two years — Unit: NTD thousand

	2017				2018				As of the end of the previous quarter in 2019 (Note 1)			
Item	Name	Amount	Percentage of the net purchase of the year (%)	Relationship with the issuer	Name	Amount	Percentage of the net purchase of the year (%)	Relationship with the issuer	Name	Amount	Percentage of the net purchase as of the end of the previous quarter in the year (%)	Relationship with the issuer
1	Supplier A	175,179	50.51	None	Supplier A	152,013	44.49	None	—	—	—	—
2	Supplier B	39,471	11.38	None	Supplier B	40,644	11.89	None	—	—	—	—
3	Others	132,165	38.11	—	Others	149,048	43.62	—	—	—	—	—
	Net purchase	346,815	100.00	—	Net purchase	341,705	100.00	—	—	—	—	—

Note 1: As of the publication date of the annual report, there is no recent financial information to be audited or reviewed by accountants.

Reasons for increase and decrease in the “Purchase” account are as follows: In 2018, supplier A lowered the average annual raw material price, which reduced the total amount of raw materials purchased. In 2018, the demand for raw materials and items purchased through supplier B increased slightly, so the purchase amount increased.

2. Clients who account for more than 10% of the total sales amount:

Information about the main clients the past two years — Unit: NTD thousand

	2017				2018				As of the end of the previous quarter in 2019 (Note 1)			
Item	Name	Amount	Percentage of the net sales of the year (%)	Relationship with the issuer	Name	Amount	Percentage of the net sales of the year (%)	Relationship with the issuer	Name	Amount	Percentage of the net sales as of the end of the previous quarter in the year (%)	Relationship with the issuer
1	Client A	412,535	35.31	None	Client A	317,386	31.13	None	—	—	—	—
2	—	—	—	—	Client B	136,806	13.42	None	—	—	—	—
3	Others	755,713	64.69	—	Others	565,260	55.45	—	—	—	—	—
	Net sales	1,168,248	100.00	—	Net sales	1,019,452	100.00	—	—	—	—	—

Note 1: As of the publication date of the annual report, there is no recent financial information to be audited or reviewed by accountants.

Reasons for increase or decrease in the “Sale” accounts are as follows: The net sales of 2018 decreased compared with that of 2017, mainly due to the decrease in shipments of EVE products and the consolidation of business between customers. As a result, the amount of sales to customer A was reduced, and the amount of sales to customer B was relatively increased.

(V) Production volume the most recent two years:

Unit: amount (kg), value (NTD in thousands)

Year / Main products	2017			2018		
	Production capacity	Production volume	Production value	Production capacity	Production volume	Production value
Biotechnology products	63,380	52,954	703,118	66,328	49,738	626,513
Non-biotechnology products	308,614	152,678	144,877	196,675	94,494	126,113
Total	371,994	205,632	847,995	263,003	144,232	752,626

Note: Only the capacity, volume and value of finished products.

(VI) Sales volume in the most recent two years:

Unit: amount (kg), value (NTD in thousands)

Year / Sales revenue / Main products	2017				2018			
	Domestic sales		Exports		Domestic sales		Exports	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Biotechnology products	106	21,322	47,635	985,125	221	60,296	51,993	771,979
Non-biotechnology products	26,691	60,437	112,045	101,364	34,422	100,594	74,421	86,583
Total	26,797	81,759	159,680	1,086,489	34,643	160,890	126,414	858,562

III. Employees:

Year		2017	2018	Year-to-date April 30, 2019
Number of employees	Administrative department	38	30	28
	Quality control	32	36	35
	Production (Note)	153	162	151
	R&D	50	57	67
	Marketing	8	9	11
	Total	281	294	292
Average age		36.7	37.0	36.9
Average years of service		7.0	7.2	7.3
Academic qualification	Doctoral Degree	6.4%	6.5%	6.8%
	Master’s Degree	25.5%	24.1%	23.3%
	Bachelor’s Degree	46.8%	40.8%	41.8%
	High school	19.7%	26.9%	26.4%
	Below high school	1.6%	1.7%	1.7%

Note: 2017, 41 production staff, including foreign workers. 2018, 54 production staff, including foreign workers. As of April 30, 2019, 54 production staff, including foreign workers.

IV. Contribution to Environmental Protection:

Total amount of loss (including compensation) and fines incurred due to pollution as of the most recent year and the date of publication of the annual report. This also explains future countermeasures (including improvement) and their potential expenditures (including estimates for potential loss, fines and compensation if countermeasures are not taken. Provide descriptions for items that cannot be reasonably estimated):

(I) Total amount of loss and fine incurred due to pollution as of the most recent year and the date of publication of the annual report

Pollution status	Compensated parties or the government agencies handing out the fines	Compensation amount or the status of punishment	Other losses
Our toxic compounds do not indicate toxicity and pollution control measures.	Environmental Protection Department, New Taipei City Government	A fine of NTD 60,000	None

(II) Future response measures and potential expenses: We have completed improvements and will continue to build necessary pollution prevention facilities to fulfill the corporate social responsibility in energy conservation and emission reduction.

V. Employer and employee relationships:

(I) The availability of employee welfare, training, ongoing education, and retirement policies. Elaborate on the agreements between employers and employees, and the protection of employees' rights:

1. Employee benefits and implementation status:

Employees are the most important assets of the company. The company provides a safe and comfortable office environment. It is a 45-minute flexible working time for the understanding of the hard work of the children and the long-distance commuting.

In addition to various group insurance plans and proper health examinations, we take care of our colleagues' health and establish a diverse community to encourage employees to participate actively, so that employees can achieve a balance between work and family, family and self.

The employees who have served for one year enjoy 100% ESOP (Employee Stock Ownership Plan) awards in the company. The ESOP help the company's colleagues to achieve long-term savings and accumulated wealth through the "ESOP" to ensure the stability of the future life and enhance employees' sense of belonging to the company. Employees could have the ability to hold company stocks and share business profit.

The company immediately announced on various occasions that the company would not be classified as race, class, language, thought, religion, partisanship, place of birth, place of birth, gender, sexual orientation, age, marriage, appearance, facial features, physical and mental disabilities or former union members. The company will implement workplace equality, building a happy enterprise, and move towards a society of plural respect.

In addition to policies meeting the Labor Standards Act, the Company also provides health examination for employees. An employee welfare committee has also been established to handle benefits and manage benefit payments. The employee benefits are listed as follows:

(1) Pay out pension as required by law.

(2) In addition to having all employees participate in labor insurance and national health insurance according to law, the Company also provides group insurance and periodic health examination.

(3) Paid holidays according to law.

(4) Employees in the company, who are married, mourned, happy, and celebrated are entitled to a vacation and receive a subsidy for benefits, in addition to the provisions of the Law on Labor. In 2018, there were 37 applicants.

(5) A monthly birthday gift is issued to employees in the company; a total of 291 persons were issued them in 2018.

(6) Employees can receive annual bonuses or prizes during festivals such as Spring Festival, Labor Day, Dragon Boat Festival and Mid-Autumn Festival; a total of 1,123 people were issued them in 2018.

(7) The company organizes company trips or provides travel subsidy every year; in 2018, a total of 93 people participated in company trips.

(8) Employee housing or dorms

2. Self-improvement, training and implementation status:

To enhance employees' professional and technical capabilities and to improve work efficiency and product quality, the Company provides an Annual Education and Training Planning Chart. In addition to conducting employee training based on the chart, internal courses on management and professional skills are provided from time to time. Employees are also sent to external organizations to receive training to strengthen their professional capabilities.

(1) Education and training of new hires:

To help new hires learn about the environment, understand the Company's regulations and history, pay attention to work safety, know the work of every department, and learn about the Company's approach to environmental management, professional capabilities and requirements, labor laws and safety and health training so they can become the talent that the Company really needs.

(2) Education and training of the existing employees:

Conduct training based on the education and training program every year. Provide education on the existing task and position and knowledge and skills needed for additional specialty so they can perform better in their positions.

Implementation progress of education and training in 2018:

Types of training	Man-hours	Total cost (NTD in thousands)
cGMP	6,442	507
SOP	377	
Specialized training	1,216	
Instrument	395	
New-hires	423	
General	328	
Others	834	
Total training hours	10,015	
Average training hours / per person per year	33.95	

3. Retirement system and implementation progress

In accordance with the employee retirement plan specified in the "Labor Standards Act" (referred to as "the old system") and "Regulations for the Allocation and Management of the Workers' Retirement Reserve Funds" regulated by the Ministry of the Interior, we allocate a specific percentage of the monthly total payroll as the retirement reserve and deposit that into the account of employee reserve fund in Bank of Taiwan.

With "Labor Pension Act" (referred to as "the new system") becoming effective on July 1, 2005, incumbent employees under the "old system" who have qualified service tenure under the "new system" and new hires after the effective date of Labor Pension Act" who select the contribution plan with the "new system" have no less than 6% of their monthly pay deposited into the account of employee reserve fund by the Company. With regard to the contribution plan, we contribute 6% of the monthly payroll, in accordance with Labor Pension Act, to Bureau of Labor Insurance and the amount contributed is recognized as part of the annual expense.

4. Agreement between the employers and employees

   We respect employees' opinions and are committed to build a work environment that offers open communication. Employer-employee meetings are held periodically to encourage colleagues to voice their opinions in an open and transparent manner. Supervisors and the related work departments are required to provide prompt responses in order to achieve the goal of having two-way communication.

5. Protection measures for employee benefits

   We have a well-established management system which specifies employees' rights, obligations and welfare. The content is reviewed regularly to protect employees' interests.

6. Protection measures for work environment and employees' personal safety:

Item	Content
Entrance Security	The Company maintains strict access control day and night and is in contract with a security firm to provide office and factory plant security.
Equipment maintenance and inspection	1. In accordance with the requirements of Fire Services Act, the Company commissions professional fire inspectors to conduct inspection. 2. In accordance with the occupational safety and health guidelines, the Company invites professional inspection agency to check industrial lifts and elevators every half a year (completed as of July 2018, December 2018) and issue certificates. Boiler (completed as of March, May and November of 2018), high-pressure equipment (completed as of February and March 2018) and Class 1 pressure vessel (completed as of May 2018) inspections are conducted once a year to obtain necessary certificates. 3. In accordance with the occupational safety and health guidelines, all the responsible departments conduct daily, monthly, quarterly, semi-annual or annual inspection of forklifts, lifts, ventilation system, storage tanks, high- and low-voltage electrical equipment, fire fighting equipment and others and perform maintenance and repair based on the inspection plan. Industrial lift vendors are hired to perform professional inspections and maintenance of lifts on a monthly basis.
Disaster prevention and response actions	1. In order to maintain the safety and health of employees, the Department of Safety and Health is established, and two occupational safety and health administrators are prepared to handle occupational safety and health affair related business. 2. "Response Measures for Emergencies," "Occupational Safety and Health Rules" and "Occupational Safety and Health Management Plan" are established to clearly define the responsibilities and tasks of personnel at all levels before and after incidents, and employees and contractors are required to follow the rules to prevent any occupational disasters. 3. Employees are given personal protective gears which include goggles, protective clothing and gloves, work safety shoes, respiratory protection equipment and others, and they are required to wear the gears in their daily work. 4. According to the provisions of “Fire Services Act” and “Environmental Protection Law”, there are emergency response groups in the factory, and necessary emergency rescue equipment is set up, and fire protection and annual poisonous disaster prevention drills are conducted every six months. In 2018 (including the rehearsal exercise), the company held forums on June 20, November 16, December 6 and December 14 with a total of 140 participants.
Physical and mental health	1. Health examination: The existing employees are given a free health check every year, better than what the provisions of the “Occupational Safety and Health Act"

Item	Content
and work environment hygiene	require. A total of 201 people took the health examination in 2018, including 42 people who took special health examination (for those who handle specific chemicals). 2. Work environment hygiene: Smoking is prohibited within the factory floor. Full-time cleaners are hired to clean office space, factory and warehouses. 3. In accordance with the requirements of the “Occupational Safety and Health Act,” specialized testing organizations are invited to perform chemical exposure assessment in the product areas every half a year. The most recent testing was done in February and August 2018. There were 5 product processes areas and research department, 9 chemicals and 23 testing items. The results were in compliance with the allowable concentration to ensure employees' health. 4. Expressing opinions: A "General Manager's Mailbox" is set up in the cafeteria to welcome employees' inputs regarding the Company's operations and current status. Suggestions for improvement are also welcomed. The input can be anonymous or with employees' name attached and the general manager will personally handle the cases. 5. Online communication channels: A "CCSB Employee Discussion Forum" is established in the Company's system which serves as a platform for announcements and for employees to voice their opinions and concerns. In addition, employees can file complaints via "Stakeholders' Area" of the Company's website. The management will conduct investigation and handle issues in accordance with the relevant regulations to protect the interests of the Company and employees.
Education and training	1. Education and training for new hires: To help new hires learn about the environment, understand the Company's regulations and history, pay attention to work safety and know the work of every department, management of chemicals, professional capabilities and requirements, labor laws, safety and health training and cGMP training so they can understand the environment, safety and policies better. In 2018, a total 13 education and training sessions on general safety and health were held, with a total of 46 participants. A total of 13 education and training sessions on chemical hazards were held, with a total of 41 participants. 2. Education and training for the existing employees: To enhance employees' professional and technical capabilities and improve work efficiency and product quality, the Company provides an Annual Education and Training Planning Chart. In addition to conducting employee training based on the chart, internal courses on management and professional skills are provided from time to time. Employees are also sent to external organizations to receive training to strengthen their professional capabilities. The Company has these professional safety and health licenses: Operation supervisor for handling organic solvents, operation supervisor for specific chemicals, operation supervisor for anoxic treatment, forklift operator, stationary crane operator, boiler operator, high-pressure equipment operator, fire protection manager, security and safety monitoring staff, first-aid personnel and others, a total of 50 specialized licenses. In 2018, 8 people took re-training course and 2 people were assigned as new trainees. 3. Education and training for contractors: In accordance with the "Occupational Safety and Health Act,” the "Guidelines for Contractors' Operations" is formulated to perform education and training with and to notify contractors when they come to the factory so as to prevent potential disasters from occuring and to maintain work environment safety.

(II) Losses due to labor disputes and the disclosure of potential current and future amount and response measures as of the most recent year and the date of publication of the annual report: None.

VI. Major contracts

The following shows the Company's effective renewed and expiring vendors and order contracts, technical collaboration contracts, engineering contracts, long-term loans and other important contracts that can affect shareholders' equity as of the publication date of the annual report:

Contract nature	Participants	Contract start and end dates	Main contents	Restrictive clauses
Loans contract	Hua Nan Commercial Bank	2017/10/06~2020/10/06	Long-term borrowings	Land mortgage and pledge
Commission contract	Company A	2018/06/03~2019/06/02	Sales commission contract	Privacy Policy
Commission contract	Company B	2016/01/01~2019/12/31	Sales commission contract	Privacy Policy
Sales cooperation	Company C	2019/01/01~2022/12/31	Sales cooperation contract for immunosuppressant	Privacy Policy
Sales cooperation	Company D	2017/11/27~2027/11/26	Sales cooperation contract for immunosuppressant	Privacy Policy
Sales cooperation	Company E	2019/02/18~2024/02/17	Sales contract for painkillers	Privacy Policy

Six. Financial summary

I. Concise balance sheet, comprehensive income statement, and CPA names and audit opinions for the last five years:

(I) Condensed balance sheet for the past five years

1. Condensed and consolidated balance sheet - International Financial Reporting Standards

Unit: NTD thousand

Item \ Year		Financial information for the latest 5 years (Note 1)					The current year as of March 31, 2019 Financial information (Note 3)
		2014	2015	2016	2017	2018	
Current assets		1,236,995	864,494	728,768	1,027,116	613,794	–
Available-for-sale financial assets - non-current		102,574	99,306	91,512	93,775	–	–
Financial assets carried at cost – non-current		24,838	33,115	33,115	30,000	–	–
Financial assets that are measured at fair value through profit or loss-non-current		–	–	–	–	29,978	–
Investments accounted for by the equity method		–	–	–	–	325,381	–
property , plant, and equipment		1,815,786	1,838,916	1,837,806	2,242,930	2,195,594	–
Real property for investment-net		10,700	10,700	10,700	10,700	10,700	–
Intangible assets		1,452	1,297	214	3,185	2,193	–
Deferred income tax assets		13,822	17,291	13,076	14,787	20,511	–
Other current non-assets		1,296	5,514	10,451	25,432	23,267	–
Total assets		3,207,463	2,870,633	2,725,642	3,447,925	3,221,418	–
Current liabilities	Before dividend distribution	696,094	635,101	611,558	808,308	425,690	–
	After dividend distribution	734,874	751,441	650,338	847,088	(Note 2)	–
Non-current liabilities		895,443	371,738	342,917	818,396	811,825	–
Total liabilities	Before dividend distribution	1,591,537	1,006,839	954,475	1,626,704	1,237,515	–
	After dividend distribution	1,630,317	1,123,179	993,255	1,665,484	(Note 2)	–
Attributable to owners of the parent company		1,571,135	1,835,710	1,770,873	1,820,828	1,983,657	–
Share capital		775,600	775,600	775,600	775,600	775,600	–
Capital reserve		334,323	334,323	334,323	334,323	334,323	–
Retained earnings	Before dividend distribution	461,637	728,805	671,989	720,928	873,169	–
	After dividend distribution	422,857	612,465	633,209	682,148	(Note 2)	–
Other equity		(425)	(3,018)	(11,039)	(10,023)	565	–
Treasury stock		–	–	–	–	–	–
Non-controlling interests		44,791	28,084	294	393	246	–
Total equity	Before dividend distribution	1,615,926	1,863,794	1,771,167	1,821,221	1,983,903	–
	After dividend distribution	1,577,146	1,747,454	1,732,387	1,782,441	(Note 2)	–

Note 1: The above financial information for each year was audited by the CPAs.

Note 2: The dividend payment for 2018 has not been approved by the general shareholder meeting, so the figure is omitted.

Note 3: As of the publication date of the annual report, there is no recent financial information to be audited or reviewed by accountants.

2. Condensed individual balance sheet - International Financial Reporting Standards

Unit: NTD thousand

Item \ Year		Financial information for the latest 5 years (Note 1)				
		2014	2015	2016	2017	2018
Current assets		1,154,647	804,454	704,779	953,224	573,219
Available-for-sale financial assets - non-current		102,574	99,306	91,512	93,775	—
Financial assets carried at cost – non-current		15,000	30,000	30,000	30,000	—
Financial assets that are measured at fair value through profit or loss-non-current		—	—	—	—	29,978
Investments accounted for by the equity method		46,617	33,349	24,408	61,542	355,439
property , plant, and equipment		1,815,704	1,838,842	1,837,720	2,242,419	2,195,207
Real property for investment-net		10,700	10,700	10,700	10,700	10,700
Intangible assets		1,452	1,297	214	3,185	2,193
Deferred income tax assets		13,822	17,291	13,076	14,787	20,285
Other current non-assets		1,200	5,414	10,353	25,341	23,174
Total assets		3,161,716	2,840,653	2,722,762	3,434,973	3,210,195
Current liabilities	Before dividend distribution	695,138	633,205	608,972	795,749	414,713
	After dividend distribution	733,918	749,545	647,752	834,529	(Note 2)
Non-current liabilities		895,443	371,738	342,917	818,396	811,825
Total liabilities	Before dividend distribution	1,590,581	1,004,943	951,889	1,614,145	1,226,538
	After dividend distribution	1,629,361	1,121,283	990,669	1,652,925	(Note 2)
Attributable to owners of the parent company		1,571,135	1,835,710	1,770,873	1,820,828	1,983,657
Share capital		775,600	775,600	775,600	775,600	775,600
Capital reserve		334,323	334,323	334,323	334,323	334,323
Retained earnings	Before dividend distribution	461,637	728,805	671,989	720,928	873,169
	After dividend distribution	422,857	612,465	633,209	682,148	(Note 2)
Other equity		(425)	(3,018)	(11,039)	(10,023)	565
Treasury stock		—	—	—	—	—
Non-controlling interests		—	—	—	—	—
Total equity	Before dividend distribution	1,571,135	1,835,710	1,770,873	1,820,828	1,983,657
	After dividend distribution	1,532,355	1,719,370	1,732,093	1,782,048	(Note 2)

Note 1: The above financial information for each year was audited by the CPAs.

Note 2: The dividend payment for 2018 has not been approved by the general shareholder meeting, so the figure is omitted.

(II) Condensed and comprehensive income statement for the past five years

1. Condensed and comprehensive income statement - International Financial Reporting Standards

Unit: NTD thousand

Year / Item	Financial information for the latest 5 years (Note 1)					Financial results for the year ended March 31, 2019 (Note 2)
	2014	2015	2016	2017	2018	
Operating revenues	946,704	1,162,211	1,198,670	1,168,248	1,019,452	—
Operating gross profit	296,756	406,473	414,462	407,866	351,510	—
Operating gains and losses	23,350	99,515	98,130	78,135	30,976	—
Non-operating revenues and expenses	14,557	236,591	(5,041)	31,402	209,270	—
Earnings before tax	37,907	336,106	93,089	109,537	240,246	—
Continuing operations Current period net profit	14,911	308,311	60,183	85,891	234,288	—
Gain(loss) from discontinued operations	—	—	—	—	—	—
Current period net profit (loss)	14,911	308,311	60,183	85,891	234,288	—
Current other comprehensive income (post-tax profit or loss)	(17,001)	(4,987)	(8,784)	2,943	(32,585)	—
Total comprehensive income for the period	(2,090)	303,324	51,399	88,834	201,703	—
Net income attributable to owners of the parent company	14,592	308,356	60,283	85,766	234,251	—
Net income attributable to non-controlling interests	319	(45)	(100)	125	37	—
Total comprehensive income attributable to owners of the parent company	(2,424)	303,355	51,503	88,735	201,666	—
Total comprehensive income attributable to non-controlling interests	334	(31)	(104)	99	37	—
Earnings per share ($)	0.19	3.98	0.78	1.11	3.02	—

Note 1: The above financial information for each year was audited by the CPAs.

Note 2: As of the publication date of the annual report, there is no recent financial information to be audited or reviewed by accountants.

2. Condensed individual income statement - International Financial Reporting Standards

Unit: NTD thousand

Item \ Year	Financial information for the latest 5 years (Note 1)				
	2014	2015	2016	2017	2018
Operating revenues	856,847	1,148,686	1,159,773	1,141,506	994,632
Operating gross profit	276,504	375,650	391,325	384,176	658,526
Operating gains and losses	22,900	89,316	95,930	69,219	28,971
Non-operating revenues and expenses	13,884	242,319	(3,407)	28,902	208,108
Earnings before tax	36,784	331,635	92,523	98,121	237,079
Continuing operations Current period net profit	14,592	308,356	60,283	85,766	234,251
Gain(loss) from discontinued operations	—	—	—	—	—
Current period net profit (loss)	14,592	308,356	60,283	85,766	234,251
Current other comprehensive income (post-tax profit or loss)	(17,016)	(5,001)	(8,780)	2,969	(32,585)
Total comprehensive income for the period	(2,424)	303,355	51,503	88,735	201,666
Net income attributable to owners of the parent company	14,592	308,356	60,283	85,766	234,251
Net income attributable to non-controlling interests	—	—	—	—	—
Total comprehensive income attributable to owners of the parent company	(2,424)	303,355	51,503	88,735	201,666
Total comprehensive income attributable to non-controlling interests	—	—	—	—	—
Earnings per share ($)	0.19	3.98	0.78	1.11	3.02

Note 1: The above financial information for each year was audited by the CPAs.

(III) Names of financial statement auditors in the last 5 years, and their audit opinions:

Year	Name of auditor	Audit opinion
2014	Jun-Yao Lin, Shufen Yu	Unqualified opinion
2015	Jun-Yao Lin, Shufen Yu	Unqualified opinion
2016	Shufen Yu, Shu-Qiong Zhang	Unqualified opinion
2017	Shufen Yu, Shu-Qiong Zhang	Unqualified opinion
2018	Shufen Yu, Shu-Qiong Zhang	Unqualified opinion

II. Financial analysis for the latest 5 years:

(I) Consolidated financial analysis- IFRS

Items of analysis	Year	Financial analysis for the latest 5 years (Note 1)					Financial results for the year ended March 31, 2019 (Note 2)
		2014	2015	2016	2017	2018	
Financial structure (%)	Debt to assets ratio	49.61	35.07	35.01	47.17	38.41	—
	Ratio of long-term capital to property, plant and equipment	138.30	121.56	115.03	117.68	127.33	—
Solvency (%)	Current ratio	177.70	136.11	119.16	127.06	144.18	—
	Liquid ratio	114.63	68.22	52.89	52.29	57.39	—
	Interest coverage ratio	3.70	41.14	15.18	14.11	23.10	—
Management capacity	Receivable turnover ratio (times)	8.53	6.74	5.94	5.65	5.47	—
	Average collection days	42.79	54.15	61.44	64.60	66.72	—
	Average inventory turnover (times)	1.45	1.47	1.58	1.72	1.55	—
	Average payables turnover (times)	8.75	9.94	11.72	12.01	11.38	—
	Average inventory turnover days	251.72	248.29	231.01	212.20	235.48	—
	Fixed asset turnover (times)	0.47	0.63	0.65	0.57	0.43	—
	Total asset turnover (times)	0.30	0.38	0.42	0.37	0.30	—
Profitability	Return on assets (%)	0.84	10.37	2.34	3.00	7.28	—
	Return on equity (%)	0.89	17.72	3.31	4.78	12.31	—
	Ratio of pre-tax net income to paid-in capital (%) (Note 7)	4.88	43.33	12.00	14.12	30.97	—
	Net profit margin (%)	1.57	26.52	5.02	7.35	22.98	—
	Earnings per share ($)	0.19	3.98	0.78	1.11	3.02	—
Cash flow	Cash flow ratio (%)	3.31	12.54	42.72	19.71	55.12	—
	Cash flow adequacy ratio (%)	42.83	33.89	41.20	37.45	44.11	—
	Cash flow reinvestment ratio (%)	-1.52	1.20	4.29	3.01	4.60	—
Leverage	Operating leverage	14.28	4.46	4.80	6.13	14.11	—
	Financial leverage	2.50	1.09	1.07	1.11	1.54	—

Please describe the reasons for the changes in the financial ratios over the last two years. (Changes less than 20% can be exempted from analysis)

1. The increase in times interest earned ratios was mainly due to the increase in net profit before tax for the period compared with that of the same period last year.
2. The fixed asset turnover ratio decreased, which was due to the decrease in the sales during the period compared with that of the same period last year.
3. Return on assets, return on equity, Ratio of net income before tax to paid in capital, net profit ratio, and earnings per share increased as a result of the increase in net profit for the period compared with that of the same period last year.
4. The increase in cash flow ratio was due to the increase in net cash inflows from operating activities during the period and the repayment of bank borrowings.
5. The increase in cash reinvestment ratio is due to the increase in net cash inflows from operating activities during the period compared to that of the same period last year.
6. The increase in operating leverage was due to the decrease in operating profit for the period compared to that of the same period last year.
7. The increase in financial leverage was due to the decrease in operating profit for the period compared to that of the same period last year.

(II) Individual financial analysis- IFRS

Items of analysis		Financial analysis for the latest 5 years (Note 1) 2014	2015	2016	2017	2018
Financial structure (%)	Debt to assets ratio	50.30	35.37	34.96	46.99	38.20
	Ratio of long-term capital to property, plant and equipment	135.84	120.04	115.02	117.69	127.34
Solvency (%)	Current ratio	166.10	127.04	115.73	119.78	138.22
	Liquid ratio	103.75	62.35	50.63	44.70	49.48
	Interest coverage ratio	3.62	40.60	15.09	12.74	22.81
Management capacity	Receivable turnover ratio (times)	5.76	6.02	4.92	5.05	5.34
	Average collection days	63.36	60.63	74.18	72.27	68.35
	Average inventory turnover (times)	1.44	1.55	1.60	1.74	1.54
	Average payables turnover (times)	8.14	10.16	11.49	11.98	11.22
	Average inventory turnover days	253.47	235.48	228.12	209.77	237.01
	Fixed asset turnover (times)	0.42	0.62	0.63	0.55	0.42
	Total asset turnover (times)	0.27	0.38	0.41	0.37	0.29
Profitability	Return on assets (%)	0.85	10.50	2.36	3.01	7.31
	Return on equity (%)	0.90	18.10	3.34	4.77	12.31
	Ratio of pre-tax net income to paid-in capital (%) (Note 7)	4.74	42.75	11.92	12.65	30.56
	Net profit margin (%)	1.70	26.84	5.19	7.51	23.55
	Earnings per share ($)	0.19	3.98	0.78	1.11	3.02
Cash flow	Cash flow ratio (%)	3.54	10.88	41.17	23.00	63.64
	Cash flow adequacy ratio (%)	47.05	33.91	41.27	37.52	44.79
	Cash flow reinvestment ratio (%)	-1.49	0.89	3.98	3.60	5.29
Leverage	Operating leverage	13.07	4.73	4.76	6.66	14.75
	Financial leverage	2.57	1.10	1.07	1.13	1.60

Please describe the reasons for the changes in the financial ratios over the last two years (Changes less than 20% can be exempted from analysis)

1. The increase in times interest earned ratios was mainly due to the increase in net profit before tax for the period compared with that of the same period last year.
2. The fixed asset turnover ratio decreased, which was due to the decrease in the sales during the period compared with that of the same period last year.
3. Return on assets, return on equity, Ratio of net income before tax to paid in capital, net profit ratio, and earnings per share increased as a result of the increase in net profit for the period compared with that of the same period last year.
4. The increase in cash flow ratio was due to the increase in net cash inflows from operating activities during the period and the repayment of bank borrowings.
5. The increase in cash reinvestment ratio is due to the increase in net cash inflows from operating activities during the period compared to that of the same period last year.
6. The increase in operating leverage was due to the decrease in operating profit for the period compared to that of the same period last year.
7. The increase in financial leverage was due to the decrease in operating profit for the period compared to that of the same period last year.

Note 1: The above annual financial reports have been verified by certified public accountants.

Note 2: As of the publication date of the annual report, there is no recent financial information to be audited or reviewed by accountants.

Note 3: Formulas are shown as follows:

1. Financial structure
   (1) The ratio of total liabilities to total assets =total liabilities/total assets
   (2) Ratio of long-term capital to property, plant and equipment=(Total equities＋noncurrent liabilities) /property, plant and equipment.
2. Solvency
   (1) Current ratio = current assets / current liabilities.
   (2) Quick ratio=(current assets－inventories－prepaid expense) /current liabilities
   (3) Interest coverage ratio = net profit before interest and tax / interest expenses for the current period.
3. Management capacity
   (1) Receivables (including accounts receivable and notes receivable due to business operation) turnover = Net sales / Balance of average receivables of different periods (including accounts receivable and notes receivable due to business operation)
   (2) Average collection days = 365 / Receivable turnover ratio
   (3) Average inventory turnover = Cost of goods sold / Average inventory
   (4) Payables (including accounts payables and notes payable due to business operation) turnover = Cost of goods sold / Balance of average payables of different periods (including accounts payables and notes payable due to business operation)
   (5) Average inventory turnover days = 365 / Inventory turnover
   (6) Fixed asset turnover = Net sales / Average net value of fixed asset
   (7) Total asset turnover = Net sales/ Average total asset
4. Profitability
   (1) Return on assets = (after tax net profit + interest expenses x (1- tax rate)) / average asset balance.
   (2) Return on shareholders' equity = after tax net profit/ total average equity.
   (3) Profit ratio=net income/net sales
   (4) Earnings per share=(profits or loss attributable to owners of the parent company－preferred stock dividend) /weighted average stock shares issued (Note 4)
5. Cash flow
   (1) Cash flow ratio = net cash flow from operating activities / current liabilities.
   (2) Cash flow adequacy ratio=net cash flow from operating activities within five years/(capital expenditure＋inventory increase ＋cash dividend) within five years
   (3) Cash re-investment ratio=(net cash flow from operating activity－cash dividend) /(gross property , plant, and equipment＋long-term investment＋other noncurrent assets＋working capital) (Note 5)
6. Leverage:
   (1) Operating leverage = (Net operating income - Variable operating costs and expenses) / Operating profit (Note 6)
   (2) Financial leverage = Operating profit / (Operating profit - Interest expense)

III. Audit report on the latest year financial statements by the audit committee:

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Audit Committees' Review Report

The management board has compiled and presented the company’s 2018 operating report, financial statements (including the individual and merged financial statements), earnings distribution proposal and the like, of which the financial statements (including the individual and merged financial statements) have had audits completed by PwC Taiwan CPAs Yu Shu-fen, Chang Shu-chung, complete with an audit report issued. The audit committee has also reviewed all of the reports and statements mentioned above and found no inconsistencies. Therefore, the audit committee has acted in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, and clarified as above.

Best regards

Chunghwa Chemical Synthesis & Biotech Co., Ltd. 2019 scheduled shareholders’ meeting

Audit Committee Convener, Kuo-Chiang Wang

March 26, 2019

IV. Latest financial reports:

Auditor’s Report

(2019) Cai-Shen-Bao-Zi No. 18004146

To Chunghwa Chemical Synthesis & Biotech Co., Ltd.,

Audit opinion

We have audited the accompanying proprietary consolidated balance sheet of Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries (hereinafter referred to as Chunghwa Group) as of December 31, 2018 and 2017 and the related consolidated statements of income, of changes in shareholders’ equity and of cash flows and Notes to consolidated financial statement (including significant accounting policies) for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chunghwa Group as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers,” and International Financial Reporting Standards (IFRS) that was recognized by the Financial Supervisory Commission, International Accounting Standards, Interpretations, and Notices (IFRS), International Accounting Standards (IAS), Interpretation (IFRIC) and Interpretative Announcement (SIC).

Basis of an audit opinion

We conducted our audit in accordance with the “Rules Governing the Examination of Financial Statements by Certified Public Accountants” and generally accepted auditing standards. The responsibilities of the independent auditor under these standards will be further explained in the paragraph of “independent auditor’s responsibility for consolidated financial statements.” The personnel of the CPA Firm subject to the independence requirement have acted independently from the business operations of Chunghwa Group in accordance with the Code of Ethics and with other responsibilities of the Code of Ethics performed. We believe that our audit provides a reasonable basis for our opinion.

Key Audit Matters

The “key audit matters” means that the independent auditor has used their professional judgment to audit the most important matters on the 2018 consolidated financial statements of Chunghwa Group. The key audit matters have been responded to in the process of auditing the consolidated financial statements as a whole and forming an audit opinion; therefore, the independent auditor does not express an opinion on these matters separately.

The key audit items from the 2018 consolidated financial statement of Chunghwa Chemical Synthesis and Biotech Co., Ltd. are presented below:

Accounting assessment of inventory valuation

Description of the matter

See Note 4 (13) in the consolidated financial report regarding the accounting policy on inventory valuation, Note 5 (2) for the accounting assessment and hypothetical uncertainty on inventory valuation, and Note 6 (5) for the description of the inventory account.

Chunghwa Chemical Synthesis & Biotech Ltd. is engaged mainly in the production and sale of active pharmaceutical ingredients. Since drug tests are now stricter and it takes a longer time to obtain drug certificates, the risk of inventory loss or obsolescence becomes higher. Since the inventories involve large amounts of money and large numbers of items that require laborious work by human beings to identify expired or damaged goods, we regard the assessment of allowance to reduce inventory to market as a key audit item.

The responsive auditing process

Our key audit procedures performed in respect of the above area included the following:

1. Assessing the policy on allowance to reduce inventory to market in accordance with our understanding of the Company’s operations and the nature of the business.
2. Performing sampling tests to examine if the market price of net realized value is consistent with the Company’s policy, and randomly examining the accuracy of the selling price of individual inventory parts and the way net realized value is calculated.
3. Obtain out-of-date inventory details that are identified by the management, check the related information and verify the account records.

Checking whether the time point of sales income recognition is appropriate

Description of the matter

See Note 4 (29) in the consolidated financial report for the accounting policy on income recognition. As stated in the accounting policies, the sales revenue is recognized when products are delivered to customers who have discretionary power in channels and prices of products sold and Chunghwa Chemical Synthesis and Biotech has no outstanding performance obligations which may affect customers' acceptance of products. As exports are the main source of income for Chunghwa Chemical Synthesis & Biotech Co., Ltd., the terms of business agreed upon between the Company and its customers are the basis of income assessment. However, such a process often involves a lot of manpower for verification and may lead to inappropriate income recognition time points. Therefore, we regard the sales income recognition time points as a key audit item.

The responsive auditing process

Our key audit procedures performed in respect of the above area included the following:

1. The group's operating procedure for and internal control on income recognition time points were examined and assessed, while the Company's internal control on sales deadlines was tested to verify the correctness of the income recognition time points.
2. The execution of sales and income over a certain period before and after the time periods covered in the financial report were examined with the packing lists, customer orders and declaration forms in order to confirm that income was recognized at appropriate periods.

Other matters - individual financial report

Chunghwa Group has compiled its 2018 and 2017 individual financial statements, for which we issued unqualified opinion.

The responsibility of the management and management units to the consolidated financial statements

The responsibility of the management is to have the consolidated financial statements presented fairly, in all material respects, in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", and International Financial Reporting Standards (IFRS) that was recognized by the Financial Supervisory Commission, International Accounting Standards, Interpretations, and Notices (IFRS), International Accounting Standards (IAS), Interpretation (IFRIC) and Interpretative Announcement (SIC); also, maintain the necessary internal controls related to the consolidated financial statements in order to ensure that the consolidated financial statements are free of any material misstatement arising from fraud or errors.

While preparing the consolidated financial statements, the management's responsibility also includes assessing the continuing operation of Chunghwa Group, the disclosure of the relevant matters, and the adoption of the accounting base for continuing operation, unless the management intends to liquidate Chunghwa Group or cease the business operation, or there is lack of any alternative except for liquidation or suspension.

The governance units (including the Audit Committee) of Chunghwa Group are responsible for supervising the financial reporting process.

The responsibilities of the independent auditor to the consolidated financial statements

The purpose of the independent auditor's auditing the consolidated financial statements is to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement arising from fraud or errors and with an audit report issued. Reasonable assurance means a high degree of assurance. However, the audit conducted in accordance with generally accepted auditing standards of the R.O.C. does not guarantee having any material misstatement in the individual financial statements detected. Material misstatement could arise from fraud or errors. If the misstated amount or aggregated amount is reasonably expected to affect the economic decisions made by the users of the consolidated financial statements, it is considered significant.

The independent auditor when conducting the audit in accordance with generally accepted auditing standards of the R.O.C. exercises professional judgment and maintains professional skepticism. The independent auditor also performs the following tasks:

1. Identify and evaluate the risk of material misstatement arising from fraud or errors of the consolidated financial statements; design and implement proper responsive measures to the risk assessed; also, obtain sufficient and adequate audit evidences for forming an audit opinion. The risk of fraud may involve conspiracy, forgery, deliberate omission, false declaration, or violating internal control; therefore, the risk of material misstatement arising from the undetected fraud is higher than that caused by errors.
2. Obtain necessary understanding on the internal control related to the audit in order to design appropriate audit procedures under the circumstance, but the purpose is not to express an opinion on the effectiveness of the internal control of Chunghwa Group.
3. Assess the appropriateness of the accounting policies adopted by the management; also, the reasonableness of the accounting estimates and related disclosures made.
4. Base on the audit evidence obtained to make conclusions on the suitability of the accounting base for continuing operation base adopted by the management and whether or not the events or circumstances causing significant doubts to the continuing operation ability of Chunghwa Group are with significant uncertainties. If the independent auditor believes that such events or circumstances are with significant uncertainties, it is necessary to remind the users of the consolidated financial statements in the audit report to pay attention to the relevant disclosure or to revise the audit opinion when such disclosures are inappropriate. The conclusion of the independent auditor is based on the audit evidence obtained as of the audit report date. However, future events or circumstances may result in the inability of Chunghwa Group to continue operating.
5. Assess the overall expression, structure, and content of the consolidated financial statements (including the relevant notes) and whether or not the relevant transactions and events in the consolidated financial statements are presented fairly.
6. Obtain sufficient and appropriate audit evidence on the financial information of business entities within the Group in order to express an opinion on the consolidated financial statements. The independent auditor is responsible for guiding, supervising, and

implementing the audit of the Group; also, is responsible for forming an opinion on the audit of the Group.

The matters communicated by the independent auditor to the governing unit include the scope and timing of the planned audit, and the significant findings (including the major nonconformities of internal controls identified in the auditing process).

The independent auditor has provided the declaration of independence of the CPA Firm personnel subject to the Code of Ethics to the governing unit; also, it has communicated with the governing unit regarding the relationship and other matters (including the relevant protection measures) that may affect the independence of the independent auditor.

The independent auditor has based on the communications with the governing unit to determine the key audit matters to be performed on the 2018 consolidated financial statements of Chunghwa Group. The independent auditor shall state the key audit matters in the audit report except for the specific matters prohibited by law from being disclosed, or, in rare cases; the independent auditor decides not to have specific matters communicated in the audit report since the negative effect of such disclosure can be reasonably expected to be greater than the increase of public interest.

PricewaterhouseCoopers, Taiwan

March 26, 2019

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries
Consolidated Balance Sheet
December 31, 2018 and 2017

Unit: NTD thousand

			December 31, 2018		December 31, 2017	
	Assets	Additional notes	Amount	%	Amount	%
	Current assets					
1100	Cash and cash equivalents	6 (1)	$ 106,367	4	$ 155,995	5
1150	Notes receivable-net	6 (4) and 12 (4)	666	-	1,787	-
1170	Net accounts receivable	6 (4) and 12 (4)	105,404	3	220,956	6
1180	Account receivables-Related Parties- net	7 and 12 (4)	26,449	1	16,531	-
1200	Other receivable	7	5,447	-	27,425	1
1220	Current income tax assets		2,076	-	-	-
130X	Inventory	6 (5)	362,398	11	335,604	10
1410	Prepayments		4,987	-	5,265	-
1460	Available-for-sale financial assets—noncurrent	6 (9)	-	-	263,553	8
11XX	**Total of Current Assets**		613,794	19	1,027,116	30
	Non-Current assets					
1510	Financial assets that are measured at fair value through profit or loss-non-current	6 (2)	29,978	1	-	-
1523	Available-for-sale financial assets - non-current	12 (4)	-	-	93,775	3
1543	Financial assets carried at cost – non-current	12 (4)	-	-	30,000	1
1550	Investments accounted for by the equity method	6 (6)	325,381	10	-	-
1600	property , plant, and equipment	6 (7) (10) and 8	2,195,594	68	2,242,930	65
1760	Real property for investment- net	6 (8)	10,700	-	10,700	-
1780	Intangible assets		2,193	-	3,185	-
1840	Deferred income tax assets	6 (24)	20,511	1	14,787	-
1900	Other current non-assets	6 (15)	23,267	1	25,432	1
15XX	**Total of Non-Current Assets**		2,607,624	81	2,420,809	70
1XXX	**Total assets**		$ 3,221,418	100	$ 3,447,925	100

(Continued next page)

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries
Consolidated Balance Sheet
December 31, 2018 and 2017

Unit: NTD thousand

	Liabilities and equity	Additional notes	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities					
2100	Shot-term borrowings	6 (11)	$ 150,000	5	$ 242,376	7
2110	Short-term bills payable	6 (12)	79,956	2	249,902	7
2130	Contract liabilities - Current	6 (19)	1,579	-	-	-
2150	Payable notes		1,192	-	345	-
2170	Accounts payable		60,595	2	55,201	2
2200	Other payable	6 (13)	118,636	4	111,527	3
2230	Current Income Tax Liability		12,878	-	12,816	-
2320	Long-term liabilities due within one year or one operating cycle	6 (14) and 8	-	-	130,000	4
2399	Other current liabilities- other		854	-	6,141	-
21XX	**Total of current liabilities**		425,690	13	808,308	23
	Non-current liabilities					
2540	Long-term borrowings	6 (14) and 8	567,440	18	567,440	17
2570	Deferred income tax liabilities	6 (24)	243,863	7	250,380	7
2600	Other non-current liabilities		522	-	576	-
25XX	**Total of non-current liabilities**		811,825	25	818,396	24
2XXX	**Total liabilities**		1,237,515	38	1,626,704	47
	Attributable to owners of the parent company					
	Share capital	6 (16)				
3110	Ordinary shares capital		775,600	24	775,600	22
	Capital reserve	6 (17)				
3200	Capital reserve		334,323	11	334,323	10
	Retained earnings	6 (18)				
3310	Legal earnings reserve		135,919	4	127,342	4
3320	Special earnings reserve		183,296	6	183,296	5
3350	Undistributed earnings		553,954	17	410,290	12
	Other equity					
3400	Other equity		565	-	(10,023)	-
31XX	**Equity attributable to owners of the parent Company**		1,983,657	62	1,820,828	53
36XX	**non-controlling interests**		246	-	393	-
3XXX	**Total equity**		1,983,903	62	1,821,221	53
	Significant contingent liabilities and unrecognized contractual commitments	6 (26) and 9				
	Major post-balance sheet events	6 (18) and 11				
3X2X	**Total liabilities and equity**		$ 3,221,418	100	$ 3,447,925	100

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries
Consolidated comprehensive income statements
January 1 to December 31, 2018 and 2017

Unit: NTD thousand
(except EPS in NTD)

	Item	Additional notes	2018 Amount	2018 %	2017 Amount	2017 %
4000	**Operating revenues**	6 (19), 7 and 12 (5)	$ 1,019,452	100	$ 1,168,248	100
5000	**Operating cost**	6 (5) (23)	(667,942)	(66)	(760,382)	(65)
5900	**Operating gross profit**		351,510	34	407,866	35
	Operating expenses	6 (23)				
6100	Marketing expenses		(78,756)	(7)	(84,620)	(7)
6200	Administrative expenses		(/80,325)	(8)	(95,792)	(8)
6300	Research and development expenses		(161,537)	(16)	(149,319)	(13)
6450	Expected gain on credit impairment	12 (2)	84	-	-	-
6000	**Total operating expenses**		(320,534)	(31)	(329,731)	(28)
6900	**Operating profit**		30,976	3	78,135	7
	Non-operating revenues and expenses					
7010	Other revenue	6 (20)	14,522	2	13,478	1
7020	Other profits and losses	6 (21)	204,216	20	26,275	2
7050	Financial costs	6 (22)	(10,870)	(1)	(8,351)	-
7060	Shareholding in the affiliated companies and joint ventures under the equity method	6 (6)	1,402	-	-	-
7000	**Total non-operating revenues and expenses**		209,270	21	31,402	3
7900	**Earnings before tax**		240,246	24	109,537	10
7950	Income tax expense	6 (24)	(5,958)	(1)	(23,646)	(2)
8200	**Current period net profit**		$ 234,288	23	$ 85,891	8

(Continued next page)

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries
Consolidated comprehensive income statements
January 1 to December 31, 2018 and 2017

Unit: NTD thousand
(except EPS in NTD)

	Item	Additional notes	2018 Amount	2018 %	2017 Amount	2017 %
	Other comprehensive income (net)					
	Items not re-classified under profit or loss					
8311	Defined benefit plan revaluation amount and volume	6 (15)	($ 2,494)	-	$ 2,353	-
8316	Unrealized valuation gains and losses on Investment of equity instruments at fair value through other comprehensive income	6(3)	(30,108)	(3)	-	-
8320	The proportion of other comprehensive incomes from associates, and equity joint-ventures accounted for under the equity method – not reclassified as profit and loss		(828)	-	-	-
8349	Income tax related to accounts not being reclassified	6 (24)	248	-	(400)	-
8310	**Total amount of items not reclassified to profit or income**		(33,182)	(3)	1,953	-
	Items that may be re-classified subsequently under profit or loss					
8361	Exchange differences arising from translating the financial statements of foreign operations		383	-	(1,273)	-
8362	Unrealized valuation gains and losses of available-for-sale financial assets	12 (4)	-	-	2,263	-
8370	The proportion of other comprehensive incomes from associates, and equity joint-ventures accounted for under the equity method – may be reclassified as profit and loss.		214	-	-	-
8360	**Total amount of items probably reclassified to profit or loss subsequently**		597	-	990	-
8300	**Other comprehensive income (net)**		($ 32,585)	(3)	$ 2,943	-
8500	**Total comprehensive income for the period**		$ 201,703	20	$ 88,834	8
	Profit attributable to:					
8610	Owners of parent		$ 234,251	23	$ 85,766	8
8620	non-controlling interests		$ 37	-	$ 125	-
	Total comprehensive income attributable to:					
8710	Owners of parent		$ 201,666	20	$ 88,735	8
8720	non-controlling interests		$ 37	-	$ 99	-
	Earnings per share	6 (25)				
9750	**Base earnings per share**		$ 3.02		$ 1.11	
9850	**Diluted earnings per share**		$ 2.99		$ 1.10	

Please refer to the notes enclosed in the consolidated financial reports that are an integral part of the consolidated financial statements.

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries
Consolidated statement of changes in equity
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

	Additional notes	Attributable to owners of the parent company	Capital reserve		Retained earnings			Other equity					
		Ordinary shares capital	Issuance premium	Others	Legal earnings reserve	Special earnings reserve	Undistributed earnings	Exchange differences arising from translating the financial statements of foreign operations	Unrealized gain or loss on financial assets at fair value through other comprehensive profit or loss	Unrealized gain or loss on available-for-sale financial assets	Total	non-controlling interests	Total equity
2017													
Balance at January1, 2017		$ 775,600	$ 333,746	$ 577	$ 121,314	$ 183,296	$ 367,379	$ 874	$ -	($ 11,913)	$ 1,770,873	$ 294	$ 1,771,167
Current period net profit		-	-	-	-	-	85,766	-	-	-	85,766	125	85,891
Current other comprehensive income		-	-	-	-	-	1,953	(1,247)	-	2,263	2,969	(26)	2,943
Total comprehensive income for the period		-	-	-	-	-	87,719	(1,247)	-	2,263	88,735	99	88,834
The 2016 appropriation and distribution of earnings:	6 (18)												
Legal earnings reserve		-	-	-	6,028	-	(6,028)	-	-	-	-	-	-
Cash dividend		-	-	-	-	-	(38,780)	-	-	-	(38,780)	-	(38,780)
Balance at December 31, 2017		$ 775,600	$ 333,746	$ 577	$ 127,342	$ 183,296	$ 410,290	($ 373)	$ -	($ 9,650)	$ 1,820,828	$ 393	$ 1,821,221
2018													
Balance as of January 1, 2018		$ 775,600	$ 333,746	$ 577	$ 127,342	$ 183,296	$ 410,290	($ 373)	$ -	($ 9,650)	$ 1,820,828	$ 393	$ 1,821,221
Effects applying the modified retrospective approach	12 (4)	-	-	-	-	-	(57)	-	(9,650)	9,650	(57)	-	(57)
Balance on January 1, 2018 after adjustment		775,600	333,746	577	127,342	183,296	410,233	(373)	(9,650)	-	1,820,771	393	1,821,164
Current period net profit		-	-	-	-	-	234,251	-	-	-	234,251	37	234,288
Current other comprehensive income		-	-	-	-	-	(3,415)	597	(29,767)	-	(32,585)	-	(32,585)
Total comprehensive income for the period		-	-	-	-	-	230,836	597	(29,767)	-	201,666	37	201,703
The 2017 appropriation and distribution of earnings:	6 (18)												
Legal earnings reserve		-	-	-	8,577	-	(8,577)	-	-	-	-	-	-
Cash dividend		-	-	-	-	-	(38,780)	-	-	-	(38,780)	-	(38,780)
Equity instrument at fair value through other comprehensive income statement	6(3)	-	-	-	-	-	(39,758)	-	39,758	-	-	-	-
Change in non-controlling interests		-	-	-	-	-	-	-	-	-	-	(184)	(184)
Balance at December 31, 2018		$ 775,600	$ 333,746	$ 577	$ 135,919	$ 183,296	$ 553,954	$ 224	$ 341	$ -	$ 1,983,657	$ 246	$ 1,983,903

Please refer to the notes enclosed in the consolidated financial reports that are an integral part of the consolidated financial statements.

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries
Consolidated cash flow statement
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

	Additional notes	January 1 to December 31, 2018	January 1 to December 31, 2017
Cash flow from operating activities			
Pre-tax profit for the current period		$ 240,246	$ 109,537
Adjustments			
Income, expense, and loss			
Depreciation	6 (7) (23)	132,971	132,833
Amortization	6 (23)	1,786	1,293
Expected gain on credit impairment	12 (2)	(84)	-
Interest expenses	6 (22)	10,870	8,351
Net loss on financial assets and liabilities at fair value through profit and loss	6 (2) (21)	150	-
Interest income	6 (20)	(247)	(227)
Dividend income	6 (20)	(3,778)	(3,017)
Share of income from associates and joint ventures		(1,402)	-
Losses (gains) from disposal of property or equipment	6 (7) (21)	(214,600)	146
Loss in impairment of non-financial assets	6(10)(21)	9,841	-
Disposition of gains and losses from financial assets evaluated at cost	6 (21)	-	(39,830)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss- current		211	-
Notes receivable-net		1,114	(1,166)
Net accounts receivable		115,247	(60,372)
Accounts receivable-related parties (net)		(9,918)	(3,976)
Other receivable		306	921
Inventory		(26,794)	66,150
Prepayments		278	(1,733)
Net defined benefit assets		(1,527)	(9,517)
Net changes in liabilities relating to operating activities			
Contract liabilities - Current		13	-
Payable notes		847	-
Accounts payable		5,394	(15,475)
Other payable		4,670	(1,903)
Other current liabilities-others		(3,721)	2,752
Net cash provided by operating activities		261,873	184,767
Interest received		235	207
Dividends received	6 (20)	3,778	3,017
Interest paid		(10,987)	(7,797)
Income tax paid		(20,235)	(20,855)
Net cash inflow from operating activities		234,664	159,339

(Continued next page)

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries
Consolidated cash flow statement
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

	Additional notes	January 1 to December 31, 2018	January 1 to December 31, 2017
Cash flow from investing activities			
Acquisition of financial assets at fair value through other comprehensive profit or loss		($ 200,161)	$ -
Disposition of financial assets evaluated at cost	6 (27)	21,684	21,684
Acquisition of investment under the equity method	6 (6)	(60,764)	-
Costs of property, plant and equipment acquired	6 (27)	(92,933)	(803,183)
Proceeds from disposal of property, plant and equipment	6 (7) (9)	478,180	1,095
Acquisition of Intangible assets		(794)	(2,617)
Decrease (increase) in deposits paid		1,200	(3,118)
Net cash inflow (outflow) from investing activities		146,412	(786,139)
Cash flow from financing activities			
Increase (decrease) in Shot-term borrowings	6 (28)	(92,376)	32,376
Increase (decrease) in short-term payable notes	6 (28)	(169,946)	80,004
Proceeds from long-term loan	6 (28)	-	717,440
Re-payments of long-term borrowings	6 (28)	(130,000)	(150,000)
Decrease (increase) in deposits received		(54)	310
Cash dividend distribution	6 (18)	(38,780)	(38,780)
Cash dividends paid by subsidiaries - Changes in non-controlling interests		(184)	-
Net cash inflow (outflow) from financing activities		(431,340)	641,350
Effects of exchange rate fluctuation on cash		636	(1,635)
Increase (decrease) in cash and cash equivalents for the current period		(49,628)	12,915
Opening balance of cash and cash equivalents		155,995	143,080
Closing balance of cash and cash equivalents		$ 106,367	$ 155,995

Please refer to the notes enclosed in the consolidated financial reports that are an integral part of the consolidated financial statements.

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries
Consolidated Notes to financial statements
2018 and 2017

Unit: NTD thousand
(Except where otherwise stated)

I. Company history

Chunghwa Chemical Synthesis and Biotech Co., Ltd. (hereinafter referred to as the Company) was established in Taiwan on May 19, 1964. Originally named as China Chemical Synthesis Industry Co., Ltd., the company was renamed to the current name at the shareholder meeting in 2003. The main areas of business of the Company and the subsidiaries (collectively referred to as the Group) include research, development, manufacturing and sales of active pharmaceutical ingredients. The Company was officially listed in the Taiwan Stock Exchange on December 20, 2010.

II. Financial reporting date and procedures

The Board of Directors approved the consolidated financial statements for publication on March 8, 2019.

III. Application of new and revised standards and interpretation

(I) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

The new publication, amendments, and revision of the 2018 International Financial Reporting Standards (IFRS) that was recognized by the Financial Supervisory Commission are as follows:

New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment"	January 1, 2018
Amendments to International Financial Reporting Standards No. 4 "The application of IFRS No. 9 'Financial Instruments' to IFRS 4 'Insurance Contracts'"	January 1, 2018
IFRS 9 "Financial instruments"	January 1, 2018
Amendment to IFRS No. 15 "Income of Customer Contract"	January 1, 2018
Amendments to IFRS 15 "IFRS No. 15 "Income of Customer Contract"	January 1, 2018
IAS 7 Amendment "Disclosure Initiative"	January 1, 2017
IAS 12 Amendment "Recognition of unrealized losses of deferred income tax assets"	January 1, 2017
Amendments to IAS 40 "Investment real estate conversion"	January 1, 2018
IFRIC No. 22 "Foreign currency transactions and Advance consideration"	January 1, 2018

Improvements to 2014-2016 IFRS No. 1 "Adopting IFRS for the first time"	January 1, 2018
Improvements to 2014-2016 IFRS No. 12 "Disclosure of interests in other entities"	January 1, 2017
Improvements to 2014-2016 IAS No. 28 "Investment Affiliates and Joint Ventures"	January 1, 2018

Except for the following statements, the Group has assessed the aforementioned standards, interpretations, and interpretative announcements and has concluded that they have no material impact on the Group's financial position and financial performance.

1. IFRS 9 "Financial instruments"
   (1) Financial asset and liability instruments are judged in accordance with the business model of the enterprise and the characteristics of the contract cash flow, which can be classified into the categories of financial assets measured at fair value through profit and loss, financial assets measured at fair value through other comprehensive profits and losses, and financial assets measured at amortized cost. Financial assets and equity instruments are classified into the categories of financial assets measured at fair value through profit and loss, unless the enterprise makes an irrevocable option to have the fair value of the equity instrument that is for non-trading purposes recognized in the "other comprehensive profits and losses."
   (2) The impairment assessment of financial asset and liability instruments should be implemented with the "expected credit loss model" and assess whether the credit risk of such instruments is increasing significantly on each balance sheet date. Based on the expected credit loss for 12 months or the expected credit loss for the duration (the interest income before impairment occurred is estimated according to the total book value of the assets); or whether there has been an impairment loss occurred, the interest income after the impairment occurred should be estimated according to the book value net of the allowance for bad debt. The allowance for loss of the accounts receivable (excluding significant financial components) shall be measured according to the expected credit loss for the duration of the period.
   (3) The Group intends not to restate the financial statements of prior period (referred to as the "modified retrospective approach") with respect to International Financial Reporting Standards 9 (IFRS 9). Please refer to Note 12 (4) 2 and 3 for details on significant impacts as of January 1, 2018.
2. Amendment to IFRS No. 15 "Income of Customer Contract" and related amendments
   (1) IFRS 15 replaces all previous revenue requirements in IFRS, mainly IAS 11 Construction Contracts and IAS 18 Revenue and their interpretations. The standard outlines the principles an entity must apply to measure and recognize revenue. The principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.
   Applying IFRS 15, an entity recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To recognize revenue under IFRS 15, an entity applies the following five steps to determine the

timing and amount:

1. Identify the contracts with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

To help users of financial statements to understand the nature, amount, timing and uncertainty about revenue and cash flows arising from contracts with customers, disclosures about an entity's performance obligations have to be made.

(2) The Group intends not to restate the financial statements of the prior period with respect to the initial adoption of the International Financial Reporting Standards 15 (IFRS 15). The Group adopts the retrospective application of IFRS 15 (referred to as the "modified retrospective method") for the contracts that have not yet been completed as of January 1, 2018. The significant impacts as of January 1, 2018, from adopting the modified retrospective method, include the following:

A. Interpretation of contract assets and contract liabilities of customers
Due to the application of the relevant provisions of IFRS 15, the Group revised some of the accounting items interpreted in the balance sheet:
According to IFRS 15, the recognition of contract liabilities associated with sales contracts of products used to be interpreted as the "Other current liabilities - others" on the balance sheet during the past reporting period, and the balance as of January 1, 2018 was NT$ 1,566.

B. Please refer to Note 12 (5) for additional disclosures on the initial application of IFRS 15.

(II) Effect of new issuances of or amendments to IFRS as endorsed by the FSC but not yet adopted by the Company and subsidiaries

The following table summarizes the applicable newly released, corrected and amended standards and interpretations of the International Financial Reporting Standards recognized by the Financial Supervisory Commission in 2019.

New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
Amendments to IFRS 9 "Characteristics of payback ahead of schedule with negative compensation."	January 1, 2019
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Amendment, curtailment or reimbursement of projects."	January 1, 2019
Amendments to IAS 28 "Long-term equity of affiliated enterprises and joint venture enterprises."	January 1, 2019
IFRS 23 "Handling of uncertain income tax"	January 1, 2019
Improvements to IFRS 2015-2017	January 1, 2019

The Group has assessed the aforementioned standards, interpretations, and interpretative announcements and has concluded that they have no material impact on the Group's financial position and financial performance.

(III) IFRS issued by IASB but not yet endorsed by the FSC

The newly released, revised and amended IFRS standards and interpretations by the IASB but not yet recognized by the FSC are summarized as follows:

New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
IAS 1 and IAS 8 amendments, Disclosure Initiative - Definition of Material.	January 1, 2020
IFRS 3 amendments, Definition of a business	January 1, 2020
Amendment to IFRS 10 and IAS 28 "The Assets Sales or Purchase between Investors and Their Affiliates or Joint Ventures"	To be determined by the "International Accounting Standards Board (IASB).
IFRS 17 "Insurance Contracts"	January 1, 2021

The Group has assessed the aforementioned standards, interpretations, and interpretative announcements and has concluded that they have no material impact on the Group's financial position and financial performance.

IV. Summary of significant accounting policies

The principal accounting polices applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the period presented, unless otherwise stated.

(I) Compliance Statement

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

(II) Basis of preparation

1. Besides the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and financial assets at fair value through other comprehensive income, the consolidated financial report is prepared on a historical cost basis.
2. The preparation of financial statements in conformity with IFRS requires the use of certain critical estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumption and estimates are significant to the consolidated financial statements are disclosed in Note 5.
3. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group elected to apply the modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the 2017 was not restated. The financial statements for the 2017 were prepared in compliance with International Accounting Standard 39 (IAS 39), International

Accounting Standards 18 (IAS 18) and related financial reporting interpretations. Please refer to Notes XII (IV) and (V) for details of significant accounting policies and details of significant accounts.

(III) Basis of consolidation

1. The basis of preparation for consolidated financial statements

(1) The Group incorporates all subsidiaries for the preparation of the consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are incorporated into the consolidated financial statements from the date they are controlled by the Group and cease to be consolidated on the date it is no longer controlled by the Group.

(2) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated from the consolidated financial statements. Subsidiaries' financial statements are adjusted to align the accounting policies with those of the Group.

(3) The components of profit and loss and other comprehensive income are attributable to the owner of the parent company and non-controlling interests. The total comprehensive income is also attributable to the owner of the parent company and non-controlling interests, even if it results in a loss of non-controlling interests.

(4) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(5) When the Group loses control of a subsidiary, the Group re-measures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss, on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

2. Subsidiaries included in the financial statements:

Investor	Subsidiary name	Nature of the operation	Percentage of shareholdings December 31, 2018	December 31, 2017	Description
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	PHARMAPORTS, LLC	Trading of API drugs	98.00%	98.00%	
“	Siang Ta Pharmaceutical Co., Ltd.	Manufacturing of chemical products	-	-	Note
“	CCSB HOLDING CO., LTD.	Engaged in shares holding and intercorporate investments	100.00%	100.00%	
CCSB HOLDING CO., LTD.	CCPC Suzhou	Trading of raw chemical materials and agency and consultation patents and technologies	100.00%	100.00%	

Note 2: Team Global Logistics Co., Ltd. was dissolved on August 9, 2016 via shareholders' meeting resolution; completed liquidation on December 15, 2017; and obtained court settlement on January 23, 2018.

3. Subsidiary company not included in the consolidated financial statements are as follows: None.
4. Adjustments on subsidiary companies with different accounting periods: None.
5. Significant limitations: None
6. Subsidiaries of the Group with significant non-controlling interests: None.

(IV) Foreign-currency translations

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company’s functional currency.

1. Foreign Currency Transactions and Balances
   (1) Transactions denominated in foreign currency are translated into a functional currency at the spot exchange rate on the date of the transaction or measurement. Foreign currency differences arising from translating such transactions are recognized in

current profit or loss.

(2) The foreign currency asset or liability balances are revaluated based on spot exchange rate of the balance sheet date, and any exchange difference arising from the adjustment is included in the profit and loss for the year.

(3) Non-monetary assets and liabilities denominated in foreign currency held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in current profit or loss ; Non-monetary assets and liabilities denominated in foreign currency held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currency that are not measured at fair value are translated using the historical exchange rates at the date of the initial transaction.

(4) All foreign exchange gains and losses are presented in the statement of comprehensive income within “Other gains and losses”.

2. Translation of the financial statements of foreign operations

(1) The operating results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

A. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet.

B. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

C. All resulting exchange differences are recognized in other comprehensive income.

(2) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. However, if the Group retains partial interest in the former subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interests in the foreign operation.

(V) Criteria for distinguishing Current or Non-Current on the Balance Sheet

1. Assets that meet one of the following criteria are classified as current assets:

(1) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.
(2) Held mainly for the purpose of trading.
(3) Assets that are expected to be realized within twelve months from the balance sheet date.
(4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve month after the balance sheet date.

The Group classifies assets that do not meet any of the above criteria as non-current assets.

2. Liabilities that meet one of the following criteria are classified as current liabilities:

(1) Liabilities that are expected to be paid off within the normal operating cycle.
(2) Held mainly for the purpose of trading.
(3) Expected to be repaid within 12 months of the balance sheet date
(4) Liabilities for which the repayment date cannot be extended unconditionally to more

than 12 months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies liabilities that do not meet any of the above criteria as non-current liabilities.

(VI) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(VII) Financial assets at fair value through profit and loss

1. Refer to the financial assets that are not measured at amortized cost or are measured at fair value through other comprehensive income.
2. A regular way purchase or sale of financial assets is recognized and derecognized using either trade date or settlement date accounting.
3. The Group measures financial assets at fair value in initial recognition. The related transaction costs are recognized in profit and loss. These financial assets are subsequently re-measured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.
4. Once the right to receive dividends is confirmed, the Group recognizes the dividend income in profit or loss if the future economic benefits are expected to flow to the entity and the dividend can be measured reliably.

(VIII) Financial assets at fair value through other comprehensive profit or loss

1. Equity investments not held for trading, for which the entity has irrevocably elected at initial recognition to present changes in fair value in “other comprehensive income”, or the debt instrument that also meets the following conditions:
   (1) Holds the financial assets within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
   (2) The contractual terms of the financial assets generate cash flows on a specific date, which are solely for the payment of principal and interest on the outstanding principal amount.
2. A regular way purchase or sale of financial assets at fair value through other comprehensive income is recognized and derecognized using either trade date or settlement date accounting.
3. The Group measures financial assets at fair value in initial recognition. The related transaction costs are recognized in profit and loss. These financial assets are subsequently re-measured and stated at fair value.

   The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the de-recognition of the investment. Once the right to receive dividends is confirmed, the Group recognizes the dividend income in profit or loss if the future economic benefits are expected to flow to the Group and the dividend can be measured reliably.

(IX) Accounts receivable and notes

1. Refers to accounts and notes that have been unconditionally charged for the right to exchange the value of the consideration due to the transfer of goods or services.
2. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(X) Impairment of Financial Assets

Regarding the accounts receivable that have a significant financing component, the Group, on each balance sheet date, considers all reasonable and supportable information (including forward-looking ones) and measures the loss allowance based on the 12-month expected credit losses for those that do not have their credit risk increased significantly since initial recognition. For those that have increased significantly since initial recognition, the loss allowance is measured based on the full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is also required for trade receivables that do not constitute a financing transaction.

(XI) The de-recognition of financial assets

A financial asset is derecognized when the Group's rights to receive cash flows from the financial assets have expired.

(XII) Lease (lessor)

Income from under an operating lease (net of any incentives given to the lessee) are recognized in profit or loss on a straight-line basis over the lease term.

(XIII) Inventory

Inventories are measured at the lower of cost or net realizable value, and the cost is determined by weighted-average method. The costs of finished and work in process goods include raw materials, direct labor, other direct costs and manufacturing-related expenses, excluding borrowing costs. At the end of year, inventories are evaluated at the lower of cost or net realizable value. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable costs of completion and selling expenses.

(XIV) Non-current assets held for sale

Noncurrent assets are classified as noncurrent assets held-for-sale if their carrying amount is mainly recovered through a sale rather than through usage and the sale is highly probable, and the assets are measured at the lower of carrying amount and fair value less costs to sell.

(XV) Investments in associate companies by equity method

1. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for under the equity method and are initially recognized at cost.
2. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss in the current period, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (including

any other unsecured receivables), the Group does not recognize further losses, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.

3. When there is equity change in non-profit and loss and other consolidated profit and loss occurring to the affiliated enterprises that do not affect the shareholding of the affiliated enterprises, the Group will have the equity change recognized as “additional paid-in capital” proportionally to the shareholding ratio.
4. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the polices adopted by the Group.

(XVI) Property , plant, and equipment

1. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
2. Subsequent costs are included in the asset’s carrying amount or recognized as a spate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.
3. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
4. The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets’ residual values and useful lives differ from previous estimates or the patterns of consumption of the assets’ future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, from the date of change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	2 years ~ 60 years
Machinery equipment	2 years ~ 20 years
Transport equipment	3 years ~ 5 years
Other equipment	2 years ~ 40 years

(XVII) Lease (lessee)

Operating lease payments less any incentives from the lessor amortized over the lease term using the straight-line method are recognized in profit or loss in the current period.

(XVIII) Investment property

Investment properties are initially measured at cost and may be subsequently measured using a cost model.

(XIX) Intangible assets

Computer software is recognized at cost and is amortized over the estimated useful life of 1 to 3 years according to the straight-line method.

(XX) Losses in non-financial asset

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount refers to an asset's fair value less the cost of disposal or the useful value, whichever is the higher. Except for goodwill, when the impairment of assets recognized in prior period is non-existent or reduced, the impairment loss should be reversed. However, the increased book value of the asset due to the reversed impairment loss may not exceed the book value net of depreciation or amortization before recognizing impairment loss.

(XXI) Loans

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(XXII) Notes and accounts payable

1. Refers to debts incurred as a result of the purchase of raw materials, goods or services and the notes payable due to business and non-business purposes.
2. The short-term accounts and notes payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(XXIII) Financial liabilities at fair value through profit and loss

1. Refers to the financial liabilities for trading that are repurchased in the near future and the derivatives other than those which are designated as hedging instruments by hedge accounting.
2. The Group measures financial assets at fair value in initial recognition. The related transaction costs are recognized in profit and loss. These financial assets are subsequently re-measured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(XXIV) De-recognition of financial liabilities

The Group derecognizes financial liabilities when the obligations specified in the contract are fulfilled, cancelled or expired.

(XXV) Financial assets and liabilities written-off against each other

Recognized financial liabilities and assets are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(XXVI) Employee benefits

1. Short-term employee benefits

   Short-term employee benefits are measured at the discounted amount of the benefits expected to be paid in respect of service rendered by employees and are recognized as expenses in the period when the employees render service.

2. Pension

   (1) Defined contribution plan
   For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized to the extent of a cash refund or a reduction in the future payments.

   (2) Defined benefit plan

   A. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) instead.

   B. Re-measurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recoded as retained earnings.

   C. The expense associated with prior service cost is recognized immediately as a profit or loss.

3. Termination benefits

   Resignation benefit refers to the benefit for the employee who is terminated from employment before the normal retirement date or who has decides to accept termination of employment in exchange for the benefit. The Group has resignation benefit recognized as expense when the invitation of resignation benefit can no longer be withdrawn or recognizing the related restructuring expense whichever is sooner. The benefit that is not expected to be liquidated within 12 months after the balance sheet date should be discounted.

4. Remunerations for employees and directors

   Remunerations for employees and directors are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. If the accrued amounts for employees' compensation and remuneration to directors and supervisors are different from the actual distributed amounts, the differences should be recognized based on the accounting for changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(XXVII) Income tax

1. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other

comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

2. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with the applicable tax regulations. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
3. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as of the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
4. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
5. Current income tax and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(XXVIII) Dividends

Dividends distributed to shareholders of the Company are recognized in the financial statements when the shareholder meeting resolves to distribute dividends, and the cash dividends are recognized as liabilities.

(XXIX) Recognition of revenue

Product sales

1. The Group manufactures and sells API-related products. The sales revenue is recognized when products are delivered to customers who have discretionary power in channels and prices of products sold and the Group has no outstanding performance obligations which may affect customers’ acceptance of products. The delivery of products is considered occurs when the products are shipped to the

designated locations and the risks of obsolescence and loss have been transferred to customers who accept the products under sales contracts, or when there is objective evidence showing that all acceptance criteria have been met.

2. Account receivables are recognized when goods are delivered to customers. Since the Group has unconditional rights to the contract price from that point in time, only the passage of time is required before the payment is due.

(XXX) Operating segments

The operating segment information and the internal management reports submitted to the mainly operational decision makers are consistent in the way of reporting. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

V. Main source of significant accounting judgment, estimates and assumptions uncertainty

The preparation of these consolidated financial statements requires management to make critical judgments in applying the Group's accounting policies and make critical assumptions and estimates based on the expectation of future events that are believed to be reasonable under the circumstances at the end of the reporting period. The resulting accounting estimates might be different from the related actual results, the judgments and estimates are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Critical accounting judgments, estimates and key sources of assumption uncertainty are explained as follows:

(I) Critical judgments concerning the application of accounting policies

None.

(II) Critical accounting estimates and assumptions

Evaluation of inventory

The Group measures the normal sales of inventories by the lower of cost and net realizable value. For inventories that have existed longer than a certain period of time and are obsolete and damaged, net realizable value of each inventory is identified to be recognized as a loss. Therefore, the Group must use its best judgments and estimates to determine the net realizable value of inventory at the balance sheet date. Due to the stricter verification of active pharmaceutical ingredients and the lengthening time required to obtain drug licenses, the disposal of inventory is below expectation, resulting in the loss from inventory depreciation or the higher risk of inventory obsolescence. The Group assesses on the balance sheet date the inventory due to normal wear and tear, obsolescence or without market sales value and reduces the inventory cost to net realizable value. The inventory assessment may experience significant changes due to fluctuations in the net realizable value of future products. As of December 31, 2018, the book balance of the Group's inventories is $362,398.

VI. Summary of significant accounting titles

(I) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and petty cash	$ 339	$ 190
Checking accounts and demand deposits	75,313	155,805
Time deposits	30,715	-
	$ 106,367	$ 155,995

1. The financial institutions that the Group deals with are with good credit quality; also, the Group deals with a number of financial institutions to diversify credit risk; therefore, the possibility of default is very unlikely.
2. None of the Group's cash and cash equivalents pledged to others as collateral.

(II) Financial assets at fair value through profit and loss

Item	December 31, 2018
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
China Development Biomedical Venture Capital (limited company)	$ 30,000
Evaluation adjustment	(22)
	$ 29,978

1. Financial assets at fair value through profit and loss is detailed as follows:

	2018
Financial assets mandatorily measured at fair value through profit or loss	
Equity instruments	($ 361)
Derivatives	211
	($ 150)

2. The Group's transactions in respect of derivative financial assets not covered by the hedge accounting are as follows:

   In order to avoid the risk of price fluctuation in value of foreign currency assets and liabilities due to exchange rate fluctuations, the Group adopts forward foreign exchange transactions and no hedge accounting is applied.
3. Please see Note 12 (2) for the credit risk information related to financial assets at fair value through profit and loss.

4. Please see Note 12 (4) for the information on financial assets carried at cost as of December 31, 2017.

(III) Financial assets at fair value through other comprehensive profit or loss

1. The Group chooses to classify the shares of China Chemical & Pharmaceutical, which are for the purpose of stable dividends and strategic investment, as financial assets at fair value through other comprehensive income when first adopting the IFRS 9.
2. The Group's holding of the shares of China Chemical & Pharmaceutical is classified as financial assets at fair value through other comprehensive income, and the dividend income recognized in profit or loss for 2018 was $3,778 and a net loss of $30,108 was recognized in other comprehensive income.
3. The Group obtained a board seat in the CCSB after it re-elected its board on November 14, 2018. Due to the significant impact on the company, it was transferred to "Investments accounted for using equity method" at an amount of $263,828, and the retained earnings was $39,758.
4. Please see Note 12 (2) for the credit risk information related to financial assets at fair value through other comprehensive income.
5. Please see Note 12 (4) for the information on financial assets available for sale as of December 31, 2017.

(IV) Note receivable and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	$ 666	$ 1,787
Less: Allowance for losses	-	-
	$ 666	$ 1,787
Accounts receivable	$ 105,670	$ 220,956
Less: Allowance for losses	(266)	-
	$ 105,404	$ 220,956

1. Aging of accounts receivable and notes receivable is as follows:

(1)Notes receivable

	December 31, 2018	December 31, 2017
Not overdue	$ 666	$ 1,787

(2) Accounts receivable

	December 31, 2018	December 31, 2017
Not overdue	$ 77,842	$ 165,958
Overdue within 30 days	27,693	54,700
Overdue 31-90 days	135	298
	$ 105,670	$ 220,956

The aforementioned aging analysis is based on the overdue days.

2. While not considering the collaterals or other credit enhancements, the notes and accounts receivable held by the Group had the maximum exposure of credit risk at $106,070 and $222,743, respectively, as of December 31, 2018 and 2017.
3. The Group does not hold any collaterals.
4. Please see Note 12 (2) for the credit quality of the accounts receivable and notes receivable.

(V) Inventory

	December 31, 2018		
	Cost	Price loss allowance	Book value
Raw materials	$ 65,175	($ 18,109)	$ 47,066
Work in process	118,584	(3,905)	114,679
Finished products	261,417	(60,764)	200,653
	$ 445,176	($ 82,778)	$ 362,398

	December 31, 2017		
	Cost	Price loss allowance	Book value
Raw materials	$ 70,802	($ 23,543)	$ 47,259
Work in process	47,223	(3,191)	44,032
Finished products	296,091	(51,778)	244,313
	$ 414,116	($ 78,512)	$ 335,604

The Group’s current inventory cost recognized as expenses:

	2018	2017
Cost of inventory sold	$ 669,048	$ 755,981
Falling price of inventory	4,266	11,663
Proceeds from sale of scraps.	(5,372)	(7,262)
	$ 667,942	$ 760,382

(VI) Investments accounted for by the equity method

	December 31, 2018	December 31, 2017
Affiliate business:		
China Chemical & Pharmaceutical Co., Ltd.	$ 325,381	$ -

1. Affiliate business

(1) The basic information of the Group's main affiliates is shown as follows:

Company name	Main places of business operations	Ratio of Shareholding December 31, 2018	Type of affiliation	Measurement
China Chemical & Pharmaceutical Co., Ltd.	Taiwan	6.00%	Affiliate business	Equity method

(2) The aggregated information of the Group's main affiliates is shown as follows:

Balance Sheet

	China Chemical & Pharmaceutical Co., Ltd. December 31, 2018
Current assets	$ 2,870,206
Non-Current assets	6,415,908
Current liabilities	(1,553,152)
Non-current liabilities	(2,062,404)
Total net assets	$ 5,670,558
Book value of affiliates	$ 325,381

Comprehensive income statement

	China Chemical & Pharmaceutical Co., Ltd. 2018
Income	$ 3,273,208
Current net profits from continuing operations	$ 369,870
Other comprehensive income (net after tax)	(50,802)
Total comprehensive income for the period	$ 319,068

2. Profit and loss of subsidiaries and associates recognized by using equity method:

	2018
China Chemical & Pharmaceutical Co., Ltd.	$ 1,402

3. Please refer to Note 6 (3) 3 for the description on the transfer of investment of China Chemical & Pharmaceutical using the equity method. The Group acquired the Company's shares, totaling $60,764, from November 14, 2018 to December 31, 2018.

4. The Group's investment in China Chemical & Pharmaceutical has a public offer of which the fair value was $322,996 as of December 31, 2018.

(VII) Property , plant, and equipment

	Land	Buildings and structures	Machinery equipment	Transport equipment	Other equipment	Uncompleted construction and equipment pending inspection	Total
January 1, 2018							
Cost	$ 1,454,384	$ 643,427	$ 1,035,402	$ 7,482	$ 485,076	$ 7,845	$ 3,633,616
Accumulated depreciation and impairment	-	(374,637)	(693,014)	(6,094)	(316,941)	-	(1,390,686)
	$ 1,454,384	$ 268,790	$ 342,388	$ 1,388	$ 168,135	$ 7,845	$ 2,242,930
2018							
January 1	$ 1,454,384	$ 268,790	$ 342,388	$ 1,388	$ 168,135	$ 7,845	$ 2,242,930
Additions	-	3,562	14,844	-	18,387	58,697	95,490
Disposition	-	-	(27)	-	-	-	(27)
Reclassification	-	1,635	19,677	(119)	20,748	(41,941)	-
Depreciation	-	(24,039)	(73,748)	(443)	(34,741)	-	(132,971)
Impairment loss	-	-	(9,841)	-	-	-	(9,841)
Net exchange differences	-	-	-	13	-	-	13
December 31	$ 1,454,384	$ 249,948	$ 293,293	$ 839	$ 172,529	$ 24,601	$ 2,195,594
December 31, 2018							
Cost	$ 1,454,384	$ 648,624	$ 1,063,615	$ 7,488	$ 520,744	$ 24,601	$ 3,719,456
Accumulated depreciation and impairment	-	(398,676)	(770,322)	(6,649)	(348,215)	-	(1,523,862)
	$ 1,454,384	$ 249,948	$ 293,293	$ 839	$ 172,529	$ 24,601	$ 2,195,594

	Land	Buildings and structures	Machinery equipment	Transport equipment	Other equipment	Uncompleted construction and equipment pending inspection	Total
January 1, 2017							
Cost	$ 1,004,953	$ 615,305	$ 1,019,058	$ 6,583	$ 451,352	$ 24,501	$ 3,121,752
Accumulated depreciation and impairment	-	(351,777)	(639,480)	(5,626)	(287,063)	-	(1,283,946)
	$ 1,004,953	$ 263,528	$ 379,578	$ 957	$ 164,289	$ 24,501	$ 1,837,806
2017							
January 1	$ 1,004,953	$ 263,528	$ 379,578	$ 957	$ 164,289	$ 24,501	$ 1,837,806
Additions	712,984	9,973	11,614	899	16,243	52,701	804,414
Disposition	-	-	(1,241)	-	-	-	(1,241)
Reclassification (Note)	(263,553)	18,149	29,790	-	19,771	(69,357)	(265,200)
Depreciation	-	(22,860)	(77,353)	(467)	(32,153)	-	(132,833)
Net exchange differences	-	-	-	(1)	(15)	-	(16)
December 31	$ 1,454,384	$ 268,790	$ 342,388	$ 1,388	$ 168,135	$ 7,845	$ 2,242,930
December 31, 2017							
Cost	$ 1,454,384	$ 643,427	$ 1,035,402	$ 7,482	$ 485,076	$ 7,845	$ 3,633,616
Accumulated depreciation and impairment	-	(374,637)	(693,014)	(6,094)	(316,941)	-	(1,390,686)
	$ 1,454,384	$ 268,790	$ 342,388	$ 1,388	$ 168,135	$ 7,845	$ 2,242,930

Note: Due to reclassification in 2017, they were transferred to “Intangible assets” and “Non-current assets for sale”.

1. The Group signed a land purchase agreement, worth $709,302, with Lion Corporation in August 2017.
2. There were impairments in 2018 due to the replacement of old equipment in the production line. The impairment loss was valued at $9,841, subtracting the disposal cost from the fair value of the equipment.
3. Please refer to Note 8 for the information on the property, plant, and equipment provided as collateral.

(VIII) Investment property

	December 31, 2018	December 31, 2017
Land cost	$ 10,700	$ 10,700

1. Rental income and direct operating expenses of investment properties:

	2018	2017
Rental income of investment properties	$ 914	$ 867
Direct operating expenses incurred in investment properties that have rental income in the current period	$ 48	$ 47

2. The fair value of investment properties held by the Group for the years ended December 31, 2018 and 2017 was $50,239 and $36,685, respectively, based on the transaction prices of the adjacent lands.

(IX) Non-current assets held for sale

Assets of the group available for sale:

	December 31, 2018	December 31, 2017
property , plant, and equipment	$ -	$ 263,553

1. The board authorized the chairman to dispose of part of the lands in Guanyin District of Taoyuan City owned by the Group at a price no less than $71 per ping in May 2017, and the land was transferred to the disposal group available for sale at the book value. The board then again authorized the chairman to dispose of part of the lands in Guanyin District of Taoyuan City owned by the Group at a price no less than $70 per ping in May 2018.
2. The Group signed a land sale agreement with Hung-Da Development in May 2018. The total transaction price was $480,000, to be collected in three periods. The payments were received by July 10, 2018. The title transfer of the land was completed in July 2018. With the deduction of the sale-related expenses for $1,856, the income from disposal of the land was $214,591.

(X) Losses in non-financial asset

1. The impairment loss recognized by the Group in the year of 2018 was $9,841, and the breakdown is shown as follows:

	2018
	Recognized in profit or loss of the period
Impairment loss - Machine and equipment	$ 9,841

2. The abovementioned impairment losses are all from the departments in Taiwan.

(XI) Shot-term borrowings

Loans nature	December 31, 2018	Interest rate collars	Collateral
Bank loan			
Credit loan	$ 150,000	1.10%~1.16%	None

Loans nature	December 31, 2017	Interest rate collars	Collateral
Bank loan			
Credit loan	$ 242,376	1.14%～2.54%	None

(XII) Short-term bills payable

	December 31, 2018	December 31, 2017
Face value of commercial paper	$ 80,000	$ 250,0000
Less: Discount in short-term bills payable	(44)	(98)
	$ 79,956	$ 249,902
Interest rate collars	1.04%~1.07%	1.04%~1.13%

(XIII) Other payable

	December 31, 2018	December 31, 2017
Salary and bonus payables	$ 36,895	$ 42,137
Commission payable	4,616	14,403
Remuneration to employees and directors and supervisors payable	17,256	12,346
Equipment payables	9,469	6,912
Repair fees payable	8,488	6,595
Others	41,912	29,134
	$ 118,636	$ 111,527

(XIV) Long-term borrowings

	December 31, 2018	December 31, 2017
Bank loan		
Secured loans	$ 567,440	$ 597,440
Credit loan	-	100,000
Less: Current portion	-	(130,000)
	$ 567,440	$ 567,440
Interest rate collars	1.28%	1.10%~1.30%

1. The one-time repayment of secured loan is due in 2020.
2. Please refer to Note 8 for details of the guarantee.

(XV) Pension

1. (1) The Company has a defined benefit pension plan in accordance with the “Labor Standards Act”, covering all regular employees’ service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. When an employee meets the requirements of retirement, the payment of pension is based on service years and the average salary of the six months prior to retirement, with services within 15 years accumulating 2 basis points per year, and service years beyond 15 years accumulating 1 basis point per year up to a maximum of 45 basis points. The company provisions 5% of total monthly salary to the pension fund in the name of the Pension Supervisory Committee at the Bank of Taiwan. In addition, the Company has the labor pension reserve account balance referred to in the preceding paragraph estimated at the end of each fiscal year. If the account balance is insufficient to pay pension benefit to the employees who qualify for retirement within next year for the pension benefit calculated in the preceding paragraph, the Company will have the spread amount appropriated in a lump sum before the end of March next year.

   (2) The amounts recognized in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of the defined benefit obligations	($ 117,386)	($ 113,635)
The fair value of plan assets	135,882	133,098
Net defined benefit assets (Recognized as Other non-current assets)	$ 18,496	$ 19,463

(3) Changes in net defined benefit assets are as follows:

	Present value of the defined benefit obligations	The fair value of plan assets	Net defined benefit assets
2018			
Balance at January 1	($ 113,635)	$ 133,098	$ 19,463
Current service cost	(1,644)	-	(1,644)
Interest (expense) income	(1,102)	1,322	220
	(116,381)	134,420	18,039
Revaluation amount:			
Return on plan assets (excluding amounts included in interest income or expense)	-	4,356	4,356
Experience adjustments	(6,850)	-	(6,850)
	(6,850)	4,356	(2,494)
The appropriation of pension fund	-	2,951	2,951
Pension payments	5,845	(5,845)	-
Balance at December 31	($ 117,386)	$ 135,882	$ 18,496

	Present value of the defined benefit obligations	The fair value of plan assets	Net defined benefit assets
2017			
Balance at January 1	($ 145,476)	$ 153,069	$ 7,593
Current service cost	(2,355)	-	(2,355)
Interest (expense) income	(1,695)	1,829	134
	(149,526)	154,898	5,372
Revaluation amount:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(404)	(404)
The effect of changes in financial assumptions	(2,653)	-	(2,653)
Experience adjustments	5,410	-	5,410
	2,757	(404)	2,353
The appropriation of pension fund	-	7,668	7,668
Pension payments	33,134	(29,064)	4,070
Balance at December 31	($ 113,635)	$ 133,098	$ 19,463

(4) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). For the use of this fund, the minimum earnings distribution every year shall not be for an amount less than the income calculated in accordance with the local bank's two-year time deposit rate; also, the insufficient fund, if any, should be made up by the National Treasury with the approval of the competent authorities. Since the Company is not entitled to participating in the operation and management of the Fund, the classification of the fair value of plant asset cannot be disclosed in accordance with International Accounting Standards No. 19, paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(5) Assumptions for the actuation of pension funds are summarized as follows:

	2018	2017
Discounted rate	1.00%	1.00%
Future salary increases rate	2.00%	2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with the published statistics and experience in the 5th Taiwan Standard Ordinary Experience Mortality Table.

The present value of the defined benefit obligations affected by the changes in the actuarial assumptions is analyzed as follows:

	Discounted rate		Future salary increases rate	
	Increase by 0.25%	Decrease by 0.25%	Increase by 0.25%	Decrease by 0.25%
December 31, 2018				
The impact on the present value of the defined benefit obligations	($ 2,554)	$ 2,642	$ 2,610	($ 2,536)
December 31, 2017				
The impact on the present value of the defined benefit obligations	($ 2,653)	$ 2,748	$ 2,714	($ 2,633)

The sensitivity analysis above analyzes the impact from changing one of the assumptions while others remain constant. In practice, many changes in assumptions may be mutually interactive. The sensitivity analysis is consistent with the method adopted for calculating the net pension liability on the balance sheet.

(6) The expected contributions to the defined benefit pension plans of the Company for the 2019 are $2,588.

2. (1) The Company has a retirement policy with a defined pension contribution plan regulated in accordance with the “Labor Pension Act” for the employees of Taiwan nationality since July 1, 2005. The Company has established a defined contribution pension plan (the “New Plan”) under the “Labor Pension Act” covering all regular employees. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to an employee’s individual pension account at the Bureau of Labor Insurance. The payment of pension benefits is based on an employee’s individual pension fund account and the cumulative profit in such account, and employees can choose to receive such pension benefits monthly or in one lump sum.

(2) Pharmaports, LLC follows the retirement insurance system in the US and has an internal policy determining the allocation of pensions. Every month, a certain percentage of the local employees’ salary is allocated to the pension fund.

(3) The pension costs under the defined contribution pension plans of the Group for the 2018 and 2017 were $8,734 and $8,010, respectively.

(XVI) Share capital

1. As of December 31, 2018, the Company's authorized capital was $1,600,000, consisting of 160,000 thousand shares of ordinary stock, and the paid-in capital was $775,600 with a par value of $10 (in dollars) per share. All issued capital of the Company were paid up.
2. The number of the Company's outstanding ordinary shares was 77,560 thousand as of 2018 and 2017.
3. The affiliation of the Company held 17,331 thousand shares of the Company as of December 31, 2018.

(XVII) Capital reserve

According to the Company Act, capital reserves from premium income for issuing shares over face values and gift income, not only can offset losses, it can also issue new shares or cash according to the original shareholding when there is no accumulated losses in the company. Further, the Securities and Exchange Act requires that the amount of capital surplus to be capitalized, as above, should not exceed 10% of paid-in capital each year. When the retained earnings of a company is not enough to offset capital losses, the capital reserves cannot be applied.

(XVIII) Retained earnings

1. According to the Company's articles of incorporation, the dividend policy considers the Company's future capital needs and long-term financial planning and meets the shareholders' demand for cash inflows. The current year's earning, if any, shall first be used to offset prior years' operating losses and pay all taxes, and then 10% of the remaining amount shall be set aside as legal reserve. Special reserve shall also be allocated. If there is still surplus, it can be put together with the accumulated undistributed surplus of the previous year as the surplus available this year for distribution. Part of it can be retained, depending on the Company's business needs for the year, before being distributed to shareholders. Cash dividends shall not be less than 50% of the shareholder dividend given, but when the cash dividend is calculated to be less than $0.1 per share, it can be given in the form of stock dividend.
2. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of the legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
3. (1) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

   (2) When adopting IFRSs for the first time, refer to Jin-Guan-Zheng-Fa-Zi Document #1010012865 on special reserve. The Company will conduct a reversal of the originally allocated special reserve when using, disposing of or reclassifying assets.

4. (1) The appropriations of 2017 and 2016 earnings had been resolved at the shareholders' meeting on May 31, 2018 and May 31, 2017, respectively. Details are summarized below:

	2017		2016	
	Amount	Dividends per share ($)	Amount	Dividends per share ($)
Legal earnings reserve	$ 8,577		$ 6,028	
Cash dividend	38,780	$ 0.5	38,780	$ 0.5
	$ 47,357		$ 44,808	

(2) The appropriations of 2018 earnings had been proposed by the Board of Directors on March 8, 2019. Details are summarized below:

	2018	
	Amount	Dividends per share ($)
Legal earnings reserve	$ 23,425	
Cash dividend	93,072	$ 1.2
	$ 116,497	

5. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6 (23).

(XIX) Operating revenues

	2018
Revenue from Contracts with Customers	$ 1,019,452

1. Segmentation of revenue from contracts with customers

The revenue is derived from providing goods that are transferred at a certain point in time, and the sources of revenue can be broken down into the following geographical areas:

2018	Taiwan	United States	Total
Revenue from contracts with external customers	$ 522,270	$ 497,182	$ 1,019,452

2. Contract liabilities

(1) The contract liabilities of customer contract revenue recognized by the Group are shown as follows:

	December 31, 2018
Contract liabilities:	
Contract liabilities - Drug sales contract	$ 1,579

(2) Opening contract liabilities recognized as revenue this period due to sales contract is $1,566.

3. Please refer to Note 12 (5) 2 for the disclosure related to the operating revenue of 2017.

(XX) Other revenue

	2018	2017
Dividend income	$ 3,778	$ 3,017
Rent revenue	2,901	1,439
Interest income		
Interest from bank deposits	235	207
Other interest incomes	12	20
Other Revenue- other	7,596	8,795
	$ 14,522	$ 13,478

(XXI) Other profits and losses

	2018	2017
Gain (loss) on disposal of property, plant and equipment	$ 214,600	($ 146)
Gain on disposal of investments	-	39,830
Net gain (loss) on foreign currency exchange	2,996	(13,674)
Impairment loss	(9,841)	-
Net profit (loss) from financial assets and liabilities at fair value through profit and loss (Note)	(150)	1,741
Miscellaneous income	(3,389)	(1,476)
	$ 204,216	$ 26,275

Note: In order to avoid the risk of price fluctuation in value of foreign currency assets and liabilities due to exchange rate fluctuations, the Group adopts forward foreign exchange transactions, and no hedge accounting is applied. The net profit recognized in 2018 and 2017 were $211 and $1,741, respectively.

(XXII) Financial costs

	2018	2017
Interest expenses	$ 10,870	$ 8,351

(XXIII) Employee benefit expense, depreciation and amortization

1. Employee benefit expense, depreciation and amortization:

Functionality Characteristics	2018		
	Allocated as operating cost	Employee expenses	Total
Employee benefits expenses			
Salaries and wages	$ 101,482	$ 125,444	$ 226,926
Labor insurance and national health insurance	9,434	10,794	20,228
Pension expenses	3,907	6,251	10,158
Other employee expenses	7,665	6,529	14,194
Depreciation	104,522	28,449	132,971
Amortization	25	1,761	1,786

Functionality Characteristics	2017		
	Allocated as operating cost	Employee expenses	Total
Employee benefits expenses			
Salaries and wages	$ 98,007	$ 127,556	$ 225,563
Labor insurance and national health insurance	9,192	9,332	18,524
Pension expenses	3,754	6,477	10,231
Other employee expenses	6,345	6,079	12,424
Depreciation	106,226	26,607	132,833
Amortization	2	1,291	1,293

2. Remunerations for employees and directors:

(1) According to the articles of incorporation of the Company, a portion of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The percentage shall be 1% to 15% for employees' compensation and shall not be higher than 3% for directors' remuneration.

(2) A. For the 2018, employees' compensation was accrued at $15,488 while directors' remuneration was accrued at $1,549. The aforementioned amounts were recognized in salary expenses.

B. For the 2017, employees' compensation was accrued at $11,025 while directors' remuneration was accrued at $1,103. The aforementioned amounts were recognized in salary expenses.

C. The employees' compensation and directors' remuneration were estimated and accrued based on 6.09% and 0.61% of profit of current year distributable for the 2018, respectively.

D. The employees' compensation and directors' remuneration resolved by the Board of Directors for 2017 were $11,025 and $1,103, respectively, consistent with the amount recognized in the 2017 financial report.

E. Information about employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors and shareholders will be posted in the "Market Observation Post System".

(XXIV) Income tax

1. Income tax expense (benefit)

(1) Components of income tax expense (benefit):

	2018		2017	
Current income tax:				
Current income tax	$	16,508	$	16,983
Additional levy on undistributed earnings		4,036		1,472
Over provision of prior year's income tax	(	2,593)	(	427)
Total Current income tax		17,951		18,028
Deferred income tax:				
Origin and reversal of temporary differences	(	10,935)		5,618
Impact from change in tax rate	(	1,058)		-
Income tax expense	$	5,958	$	23,646

(2) Income tax amounts relating to other comprehensive profit and loss:

	2018		2017	
Defined benefit obligation revaluation amount and volume	($	498)	$	400
Impact from change in tax rate		250		-
	($	248)	$	400

2. Reconciliation between income tax expense and accounting profit:

	2018	2017
Income tax derived by applying the statutory tax rate to pre-tax net profit	$ 50,546	$ 28,088
Tax-free income by Income Tax Law	(43,954)	(513)
Impact on income tax from items excluded according to the tax law	188	39
Realizable changes from deferred income tax assets	(1,207)	
Impact on income tax from settlement loss	-	(4,896)
Additional levy on undistributed earnings	4,036	1,472
Over provision of prior year's income tax	(2,593)	(427)
Impact from change in tax rate	(1,058)	(117)
Income tax expense	$ 5,958	$ 23,646

3. Deferred income tax assets or liabilities arising from temporary differences:

	2018			
	January 1	Recognized in the profit or loss	Recognized in other comprehensive net loss	December 31
Temporary differences				
- Deferred income tax assets:				
Falling price of inventory	$ 13,347	$ 3,209	$ -	$ 16,556
Unrealized exchange loss	299	(239)	-	60
Impairment loss of fixed assets	469	1,870	-	2,339
Bonus payable for paid leave not taken	672	365	-	1,037
Profit and loss recognized by using equity method	-	293	-	293
Others	-	226	-	226
Subtotal	14,787	5,724	-	20,511
Deferred income tax liabilities				
Profit and loss recognized by using equity method	(6,760)	6,760	-	-
Unrealized exchange gain	(147)	147	-	-
Determined benefit obligation	(3,309)	(638)	248	(3,699)
Reserve for land revaluation increment tax ("LRIT")	(240,164)	-	-	(240,164)
Subtotal	(250,380)	6,269	248	(243,863)
Total	($ 235,593)	$ 11,993	$ 248	($ 223,352)

	2017			
	January 1	Recognized in the profit or loss	Recognized in other comprehensive net profit	December 31
Temporary differences				
- Deferred income tax assets:				
Falling price of inventory	$ 11,365	$ 1,982	$ -	$ 13,347
Unrealized loss (gain) from sales	-	299	-	299
Impairment loss of fixed assets	622	(153)	-	469
Bonus payable for paid leave not taken	1,089	(417)	-	672
Subtotal	13,076	1,711	-	14,787
Deferred income tax liabilities				
Profit and loss recognized by using equity method	(373)	(6,387)	-	(6,760)
Unrealized loss (gain) from sales	(10)	(137)	-	(147)
Unrealized exchange gain	(814)	814	-	-
Determined benefit obligation	(1,290)	(1,619)	(400)	(3,309)
Reserve for land revaluation increment tax (“LRIT”)	(240,164)	-	-	(240,164)
Subtotal	(242,651)	(7,329)	(400)	(250,380)
Total	($ 229,575)	($ 5,618)	($ 400)	($ 235,593)

4. The Company’s filings of profit-seeking enterprise business income tax returns had been certified by the tax authority up till 2015 (inclusive).
5. The amendments to Taiwan Income Tax Act came into effect on February 7, 2018, and the tax rate for the for-profit business income tax has been increased from 17% to 20%. The amendments have been applied since 2018. The Group has assessed the related income tax implications for the tax rate change.

(XXV) Earnings per share

	2018		
	After-tax amount	Weighted average outstanding shares (thousand shares).	Earnings per share (NT$)
Base earnings per share			
Net income attributable to the parent company	$ 234,251	77,560	$ 3.02
Diluted earnings per share			
Net income attributable to the parent company	$ 234,251	77,560	
Effect of dilutive potential ordinary shares: Employees' compensation	-	769	
Net income attributable to the parent company			
Potential effect on ordinary shares	$ 234,251	78,329	$ 2.99

	2017		
	After-tax amount	Weighted average outstanding shares (thousand shares).	Earnings per share (NT$)
Base earnings per share			
Net income attributable to the parent company	$ 85,766	77,560	$ 1.11
Diluted earnings per share			
Net income attributable to the parent company	$ 85,766	77,560	
Effect of dilutive potential ordinary shares: Employees' compensation	-	641	
Net income attributable to the parent company			
Potential effect on ordinary shares	$ 85,766	78,201	$ 1.10

(XXVI) Operating lease

The Group leases assets such as automobiles and offices by adopting operating leases which last 1 to 6 years. Rental expenses of $3,444 and $4,188 were recognized for 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable leases are as follows:

	December 31, 2018	December 31, 2017
Less than 1 year	$ 2,725	$ 3,713
Over 1 year but less than 5 years	5,198	1,332
	$ 7,923	$ 5,045

(XXVII) Supplemental cash flow information

1. Investment activities with partial cash payments:

	2018	2017
Purchase of property, plant, and equipment	$ 95,490	$ 804,414
Add: Opening balance of payable on equipment	6,912	5,681
Less: Ending balance of payable on equipment	(9,469)	(6,912)
Cash Paid for the Period	$ 92,933	$ 803,183

2. Investment activities with partial cash collection:

	2018	2017
Disposition of financial assets evaluated at cost	$ -	$ 43,368
Add: Opening balance of receivables	21,684	-
Less: Ending balance of receivables	-	(21,684)
Cash received during the year	$ 21,684	$ 21,684

(XXVIII) Changes in liabilities arising from financing activities

	Shot-term borrowings	Short-term bills payable	Long-term borrowings	Total liabilities arising from financing activities
January 1, 2018	$ 242,376	$ 249,902	$ 697,440	$ 1,189,718
Change in cash flow from financing activities	(92,376)	(169,946)	(130,000)	(392,322)
December 31, 2018	$ 150,000	$ 79,956	$ 567,440	$ 797,396

	Shot-term borrowings	Short-term bills payable	Long-term borrowings	Total liabilities arising from financing activities
January 1, 2017	$ 210,000	$ 169,898	$ 130,000	$ 509,898
Change in cash flow from financing activities	32,376	80,004	567,440	679,820
December 31, 2017	$ 242,376	$ 249,902	$ 697,440	$ 1,189,718

VII. Related party transactions

(I) Name and relationship of related parties

Name	Relationship with the Group
China Chemical & Pharmaceutical Co., Ltd. (CCPC)	The Group's main affiliates
Chunghwa Yuming Healthcare Co., Ltd. (CYH)	Subsidiaries of the Group's affiliates

(II) Major transactions with related parties

1. Operating revenue

	2018	2017
Product sales:		
CCPC	$ 60,060	$ 34,759

(1) The transaction price of the Group's sales to related parties is based on the price agreed by both parties.

(2) The Group's collection period for non-interested parties is 30 to 120 days after delivery, and the collection period for interested parties is 120 days after delivery.

(3) The Group signed a contract with CCPC for the production and sales of APIs in 2016. The Group adds 30% to the manufacturing cost of the APIs before selling them to the entity for processing into products. The Group also receives 50% (the gross profit of CCPC and the Group) of the actual sales profit. The contract period lasts 3 years, starting January 1, 2016, and the contract can automatically renew if neither party cancels it in writing 6 months before the end of the period.

2. Receivable from related parties

	December 31, 2018	December 31, 2017
Accounts receivable:		
CCPC	$ 26,495	$ 16,531
Less: Allowance for losses	(46)	-
	$ 26,449	$ 16,531

3. Other receivable

	Nature of main transactions	December 31, 2018	December 31, 2017
CYH	Agency collection and payment	$ 186	$ -

(III) Remuneration to key management

	2018	2017
Salaries and other short-term employee benefits	$ 29,584	$ 33,014
Termination benefits	2,194	-
Retirement benefits	755	745
	$ 32,533	$ 33,759

VIII. Pledged assets

The assets of the Group are offered as collateral as follows:

	Book Value		
Asset Item	December 31, 2018	December 31, 2017	Purpose of guarantee
property , plant, and equipment	$ 712,984	$ 813,630	Long-term borrowings

IX. Significant contingent liabilities and unrecognized contractual commitments

(I) Contingencies

None.

(II) Commitments

1. Capital expenditures that have been signed but not yet incurred

	December 31, 2018	December 31, 2017
property , plant, and equipment	$ 10,898	$ 10,273

2. Operating lease agreement

   Please refer to Note 6 (26) for details.

X. Significant disaster loss

None.

XI. Major post-balance sheet events

Please refer to Note 6 (18) 4 for a description on distribution of surplus for 2018.

XII. Others

(I) Capital management

The Group’s capital risk management objectives are to ensure that the Group is capable of continuing operations, to maintain the most appropriate capital structure in order to reduce cost of capital and to maximize returns for shareholders. The Group may make adjustments to dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce the level of debts in order to maintain or adjust the Group’s capital structure. The Group uses the debt-to-equity ratio to monitor its capital. The ratio is calculated by dividing net debts by total capital. Net debts are calculated as total debts (including “current and non-current borrowings” presented in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as “equity” presented in the consolidated balance sheet plus net debts.

The Group maintained the same strategy in 2018 as in 2017. It is committed to keeping the debt-to-capital ratio between 20% and 45%.

(II) Financial instruments

1. Types of financial instrument

	December 31, 2018	December 31, 2017
Financial assets		
Financial assets at fair value through profit and loss		
Financial assets mandatorily measured at fair value through profit or loss	$ 29,978	$ -
Available-for-sale financial assets	-	93,775
Financial assets at cost	-	30,000
Financial assets at amortized cost / loans and receivable		
Cash and cash equivalents	106,367	155,995
Notes receivable	666	1,787
Accounts receivable (including related parties)	131,853	237,487
Other receivable	5,447	27,425
	$ 244,333	$ 546,469
Financial liabilities		
Financial liability measured at the amortized cost		
Shot-term borrowings	$ 150,000	$ 242,376
Short-term bills payable	79,956	249,902
Payable notes	1,192	345
Accounts payable	60,595	55,201
Other payable	118,636	111,527
Long-term borrowings (including current portion)	567,440	697,440
Deposits received	522	576
Other payable	118,636	111,527
Long-term borrowings (including current portion)	567,440	697,440
Deposits received	522	576
	$ 978,341	$ 1,357,367

2. Risk management policies

(1) The Group’s activities expose it to a variety of financial risks, including market risk (exchange rate, interest rate and price), credit risk and liquidity risk. The Group’s overall risk management policy focuses on unpredictable events in the financial market, and the Group seeks to mitigate potential adverse effect on the financial position and performance.

(2) The Group’s Finance Department identifies and assesses financial risks in close collaboration with the Group’s other operating units.

3. The nature and extent of significant financial risks

(1) Market risk

Exchange rate risk

A. The Group is a multinational operation and therefore is subject to exchange rate risk arising from transactions between the different currencies of the Company and its subsidiaries, mainly in US dollars. The related exchange risk from future operating activities have been recognized in assets and liabilities.

B. The Finance Department of the Group conducts hedging for the overall exchange rate risk. Exchange rate risk is measured by highly probable transactions in US dollars. Forward foreign exchange contracts are adopted to reduce the impact of exchange rate fluctuations on expected transactions.

C. The Group circumvents exchange rate risk by using forward exchange rate transactions but does not conduct hedge accounting. Please refer to Note 6 (2) and 12 (4) for details on financial assets at fair value through profit and loss.

D. The Group's operations involve certain non-functional currencies (the Company's and certain subsidiaries' functional currency is the New Taiwan dollar (NTD), and for other certain subsidiaries, the functional currency is the USD), so it is subject to the impact of exchange rate fluctuation. The details of assets and liabilities denominated in foreign currencies whose values would be materially affected by exchange rate fluctuations are as follows:

	December 31, 2018		
	Foreign currency (thousand dollars)	Exchange rate	Book value (NTD)
(Foreign currency: Functional currency)			
Financial assets			
Monetary items			
USD: NTD	$ 4,089	30.72	$ 125,594
Financial liabilities			
Monetary items			
USD: NTD	$ 242	30.72	$ 7,433

	December 31, 2017		
	Foreign currency (thousand dollars)	Exchange rate	Book value (NTD)
(Foreign currency: Functional currency)			
Financial assets			
Monetary items			
USD: NTD	$ 9,714	29.76	$ 289,089
Financial liabilities			
Monetary items			
USD: NTD	$ 3,249	29.76	$ 96,690

E. Total exchange gain, including realized and unrealized gains from significant foreign exchange variations on monetary items held by the Group amounted to a gain of $2,996 and a loss of $13,674 for the 2018 and 2017, respectively.

F. The analysis of foreign currency risk due to significant exchange rate fluctuation is as follows:

	2018		
	Sensitivity analysis		
	Magnitude changes	Profit and loss affected	Other comprehensive profit and loss affected
(Foreign currency: Functional currency)			
Financial assets			
Monetary items			
USD: NTD	1%	$ 1,256	$
Financial liabilities			
Monetary items			
USD: NTD	1%	($ 74)	$

	2017		
	Sensitivity analysis		
	Magnitude changes	Profit and loss affected	Other comprehensive profit and loss affected
(Foreign currency: Functional currency)			
Financial assets			
Monetary items			
USD: NTD	1%	$ 2,891	$ -
Financial liabilities			
Monetary items			
USD: NTD	1%	($ 967)	$ -

Price risk

A. The Group is exposed to the price risk of financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income and financial assets available for sale. To manage the price risk of equity instruments, the Group diversifies its investment portfolio in a manner that is based on the limits set by the Group.

B. The Group invests primarily in equity instruments issued by domestic companies. The price of such equity instrument is subject to the uncertainty of the future value of investment target. If the price of such equity instrument increases or decreases by 10%, while all other factors remain unchanged, the net profit affected by equity instruments at fair value through profit and loss after tax for 2018 is an increase of $2,998, and as for equity investment at fair value through other comprehensive income and equity assets available for sale for 2018 and 2017, they are increased $0 and $9,378, respectively.

Cash flow and fair value interest rate risk

A. The Group's interest rate risk mainly comes from short-term borrowings issued at floating rates, short-term bills payable and long-term borrowing, which exposes the Group to cash flow interest rate risk. The Group's policy is to maintain at least 40% of the borrowings at fixed interest rates, which can be achieved through interest rates when necessary. For 2018 and 2017, the Group's borrowings issued at floating rates were mainly denominated in New Taiwan dollars and US dollars.

B. If the interest rates of borrowing NTD and USD increases or decreases by 1%, while all other factors remain constant, the net profit after tax for 2018 and 2017 is an increase of $6,379 and $9,875, respectively, mainly due to the interest expense changes caused by the floating interest rate.

(2) Credit risk

A. Credit risk refers to the risk of financial loss of the Group arising from default by the clients or counterparties of financial instruments under contract obligations, and the defaults are accounts receivable.

B. The management of credit risk is established with a Group perspective. According to the Company's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Office of the General Manager. The utilization of credit limits is regularly monitored.

C. The Group uses IFRS 9 to provide an assumption that if a contract payment is overdue for more than 90 days in accordance with the agreed payment terms, it is considered a breach of contract.

D. The Group uses IFRS 9 to provide the following assumption as a basis for determining whether there is a significant increase in the credit risk of financial instruments after the original recognition:

   If the contract payment is overdue for more than 30 days in accordance with the agreed payment terms, the credit risk of the financial asset is significantly increased since the original recognition.

E. The Group categorizes the accounts receivable from customers based on their nature. The provision matrix and the loss ratio method are adopted as the basis for estimating the expected credit loss.

F. The Group may write off the amount of financial assets that cannot be reasonably expected to be recovered after recourse. However, the Group will still continue the recourse to protect the rights of the claims. For the year ended December 31, 2018, the Company has no creditor's rights that have been written off but are involved in recourse.

G. The Group has included the global economic indicators and signals and estimated the loss allowance for notes receivable and accounts (including the interested parties) based on the loss rates built according to historic and current data. The provision matrix and loss rate as of December 31, 2018 are show as follows:

December 31, 2018	Expected rate of loss	Total book value	Allowance for losses
Not overdue	0.03%~0.30%	$ 56,561	$ 128
Overdue within 30 days	0.37%~3.69%	6,203	158
Overdue 30 days	0.38%~3.76%	135	8
Overdue 60 days	0.79%~7.92%	-	-
Overdue 90 days	10%~100%	-	-
		$ 62,899	$ 294

The total book value of accounts receivable of Pharmaports, LLC, a subsidiary of the Group, is $69,932.Due to good credit risk, the expected loss is 0.2%. Considering the other credit enhancements held, the Group only needs to bear 10% of the risk, and the loss allowance is $18.

H. The Group adopts a simplified method in which the loss allowance for the accounts receivable is shown below:

	2018
	Notes receivable and accounts (including interested parties)
January 1_IAS 39	$ -
Applicable new criteria	396
January 1_IFRS 9	396
Impairment loss reversal	(84)
December 31	$ 312

The amount recognized above is based on other credit enhancements held, so the unrecognized loss allowance as of December 31, 2018 is $302. Among the reversed loss in 2018, $84 is the impairment loss reversed by payables derived from customer contracts.

I. Please see Note 12 (4) for the information on credit risk in 2017.

(3) Liquidity risk

A. Cash flow forecasting is performed by the operating entities of the Group and aggregated by the Group’s finance department. It monitors rolling forecasts of liquidity requirements to ensure the Group has sufficient cash to meet operational needs and maintain sufficient unencumbered loan commitments at all times. Such forecasting takes into consideration the Group’s debt financing plans, covenant compliance, and compliance with internal balance sheet ratio targets.

B. The Group's unutilized borrowings are shown as follows:

	December 31, 2018	December 31, 2017
Maturing in one year or less	$ 1,010,000	$ 853,576
Mature beyond one year	320,000	320,000
	$ 1,330,000	$ 1,173,576

C. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2018	Within 1 year	1 to 2 years	2 to 5 years
Shot-term borrowings	$ 150,000	$ -	$ -
Short-term bills payable	79,956	-	-
Payable notes	1,192	-	-
Accounts payable	60,595	-	-
Other payable	118,635	-	-
Deposits received	522	-	-
Long-term borrowings	7,263	573,007	-

Non-derivative financial liabilities:

December 31, 2017	Within 1 year	1 to 2 years	2 to 5 years
Shot-term borrowings	$ 242,376	$ -	$ -
Short-term bills payable	249,902	-	-
Payable notes	345	-	-
Accounts payable	55,201	-	-
Other payable	111,527	-	-
Deposits received	576	-	-
Long-term borrowings	137,462	7,263	573,012

(III) Fair value information

1. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: The quotation (unadjusted) of the same assets or liabilities that can be acquired by the company in an active market on the measurement date A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in publicly traded or OTC stocks is included.

Level 2: It refers to the directly or indirectly observable input value of asset or liability, except for those quotations included in Level 1.

Level 3: The unobservable inputs of assets or liabilities.

2. Please refer to Note 6 (8) for the fair value of investment property carried at cost.

3. Financial instrument not measured at fair value:

   Include the book value of cash and cash equivalents, notes receivable, accounts receivable (including the interested parties), other receivable, short-term borrowings, short-term notes payable, Notes payable, accounts payable and other accounts payable as reasonable approximation of fair value.

4. The related information for financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

   (1) The Group classifies them based on the nature of assets and liabilities, and the information is as follows:

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Repeatable fair value				
Financial assets at fair value through profit or loss	$ -	$ -	$ 29,978	$29,978

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Repeatable fair value				
Available-for-sale financial assets				
Equity securities	$ 93,775	$ -	$ -	$93,775

   (2) The methods and assumptions adopted by the Group to measure fair value are as follows:

      A. The Group uses market price as the fair value (Level 1), which is classified as follows according to the characteristics of the instruments:

	Publicly listed companies' stocks or OTC stocks
Market quote	Closing price

B. In addition to the abovementioned financial instruments in active markets, the fair value of other financial instruments is obtained by valuation or reference to quotation from counterparties.

C. When assessing non-standardized and less complex financial instruments, the Group adopts valuation techniques widely used by other market participants. The parameters used in the valuation models for this type of financial instruments are usually observable market information.

D. The valuation of financial derivatives is based on the valuation models widely accepted by market participants, such as the discounting method. Forward exchange contracts are usually evaluated based on the current forward exchange rate.

E. The output of valuation models are estimates, and the valuation techniques may not reflect all factors affecting the financial instruments and non-financial instruments held by the Group. Therefore, the estimates of valuation models will be adjusted according to additional parameters, such as model risk or liquidity risk. Based on the management policies of the Group's valuation model at fair value and the related control procedures, the management believes that to fairly present the fair value of financial and non-financial instruments in the consolidated balance sheet, adjusting valuation may be appropriate and necessary. Price information and parameters used in valuation are carefully assessed and they are appropriately adjusted according to the current market conditions.

5. There were no transfers between Level 1 and 2 in 2018 and 2017.

6. The following table shows the changes in Level 3 in 2018:

	2018
	Equity instruments
January 1	$ 30,000
Income recognized in profit or loss (Note)	(22)
December 31	$ 29,978

Note: Other gains and losses listed.

7. There were no transfers in and/or out of Level 3 in 2018 and 2017.

8. With respect to the valuation of fair value classified as Level 3, the Finance Department is responsible for the independent verification of fair value of financial instruments. Based on independent information, the valuation results can be closer to the market conditions. The independence and reliability of information and the consistency with other sources, as well as other necessary adjustments to the fair value, can ensure that the results are reasonable.

   In addition, the Finance Department develops valuation policies and procedures for fair value of financial instruments and ensure that they comply with the requirements of the International Financial Reporting Standards.

9. The quantitative and sensitivity analysis of significant and unobservable input of valuation models used for measuring Level 3 fair value is shown as follows:

	Fair value as of December 31, 2018	Valuation technique	Significant unobservable input value	Relationship between input value and fair value
Shares of venture capital	$ 29,978	Net asset value method	Not applicable	Not applicable

10. The Group conducts careful assessment before determining the valuation model and parameters to be used, and the use of different valuation models or parameters may lead to different valuation results.

(IV) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017.

1. Summary of significant accounting policies adopted in 2017:

(1) Financial assets and liabilities at fair value through profit and loss

A. Financial assets at fair value through profit or loss refer to those classified as being held for trading or upon initial recognition designated as at fair value through profit or loss. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling or repurchase in the short-term. Derivatives are classified as financial assets and liabilities held for trading besides being designated as hedging instruments by hedge accounting. The Group designates its financial assets and liabilities at fair value through profit or loss at initial recognition when they meet any one of the following conditions:

(A) Mixed (hybrid) contracts, or

(B) Can eliminate or significantly reduce inconsistent measurement or recognition, or

(C) Investments that managed on a fair value basis and the performance is assessed based on written risk management or investment strategies.

B. On a regular way purchase or sale basis, financial assets and liabilities at fair value through profit or loss are recognized and derecognized using settlement date accounting.

C. Financial assets and liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. Subsequent appraisal is at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(2) Available-for-sale financial assets

A. Financial assets available for sale refer to the non-derivative financial assets available for sale or not classified in any other categories.

B. On a regular way purchase or sale basis, financial assets available for sale are recognized and derecognized using trade date accounting.

C. The Group measures financial assets available for sale at fair value in initial recognition, and the related transaction costs are recognized in profit and loss.

These financial assets are subsequently remeasured and stated at fair value, and the changes in fair value are recognized in other comprehensive income. Investments in equity instruments without a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in "financial assets carried at cost".

(3) Loans and receivables

Accounts and notes receivable are original loans and receivables that are due from customers in the normal course of business for the sale of good or services. Loans and receivables are measured at fair value on initial recognition and subsequently at the amortized cost using the effective interest rate less provision for impairment. Short-term non-interest bearing accounts receivable are measured subsequently at the original invoice amount as the effect of discount is insignificant.

(4) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The Group's policies for determining whether there is objective evidence of impairment loss are as follows:

(A) Significant financial difficulty of the issuer or debtor.

(B) A breach of contract, such as a default or delinquency in interest or principal payments.

(C) The Group gives concessions that the debtor could not have had due to economic or legal reasons related to the financial difficulties of the debtor.

(D) The debtor is likely to enter bankruptcy or other financial restructuring.

(E) Experience the disappearance of active market for such financial asset due to financial difficulties.

(F) Observable data indicate that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group.

(G) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.

(H) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assesses that there has been objective evidence of impairment loss of financial assets, the amount of impairment loss is determined as follows according to the category of financial assets:

(A) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(B) Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's current market return rate, and is recognized in profit or loss. Such impairment losses may not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(C) Financial assets available for sale

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from "other comprehensive income" to "profit or loss". If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss in the current period. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

2. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, based on IAS39, to January 1,2018, based on IFRS 9, were as follows:

		Available for sale - Equity				Effect
	Measured at fair values through profit and/or loss	Measured at fair value through other comprehensive income - Equity	Carried at cost	Notes receivable and accounts (including interested parties)	Total	Retained earnings
IAS 39	$ -	$ 93,775	$ 30,000	$ 239,274	$ 363,049	$ -
Transfer-in measured at fair value through profit or loss	30,000	-	(30,000)	-	-	-
Fair value adjustment	339	-	-	-	339	339
Impairment loss adjustment	-	-	-	(396)	(396)	(396)
IFRS 9	$ 30,339	$ 93,775	$ -	$ 238,878	$ 362,992	($ 57)

(1) Equity instruments classified as "Financial assets available for sale" according to IAS 39 amount to $93,775. As the Group holds the instruments not for the purpose of held-for-trading, it chooses to classify them as "Financial assets at fair value through other comprehensive income" when first adopting the IFRS 9.

(2) Equity instruments classified as “Financial assets carried at cost” according to IAS 39 amount to $30,000. They are classified as “Financial assets (equity instruments) measured at fair value through profit or loss” according to IFRS 9 and increased to $30,339, with the “Retained earnings” of $399 being added.

(3) According to IFRS 9 on recognition of impairment loss, “Notes receivable” of $7, “Accounts receivable” of $389 and “Retained earnings” of $396 are subtracted.

3. The adjustment of impairment allowance from the incurred loss model based on IAS 39 as of December 31, 2017 to the expected loss model based on IFRS 9 as of January 1, 2018 is shown as follows:

	Loss allowance - Notes and accounts receivable (including interested parties)
IAS 39	$ -
Impairment loss adjustment	396
IFRS 9	$ 396

4. Statement of major accounting items for the year ended December 31, 2017:

(1) Available-for-sale financial assets

Item	December 31, 2017
Non-current items:	
Publicly listed companies’ stocks	
China Chemical & Pharmaceutical Co., Ltd.	$ 103,425
Valuation adjustment on financial assets available for sale.	(9,650)
	$ 93,775

A. The Group recognized an amount of $2,263 in the other comprehensive income due to changes in fair value in 2017.

B. The Group has no financial assets available for sale pledged to others.

(2) Financial assets carried at cost

Item	December 31, 2017
Non-current items:	
China Development Biomedical Venture Capital (limited company)	$ 30,000
Suzhou Pengxu Pharma Technology Co., Ltd.	-
	30,000
Accumulated impairment	-
	$ 30,000

A. The Group holds unlisted stocks (nor listed in the OTC) and equity investments which are classified as financial assets available for sale. However, the investments are not publicly traded in active markets and the industry information of the similar companies or the financial information of the invested companies cannot be obtained, so their value cannot be reasonably measured and are therefore classified as “Financial assets carried at cost”.

B. The Group signed an equity transfer agreement of Suzhou Pengxu Pharma with non-interested parties on November 16, 2017 and completed the equity transfer on November 29, 2017. The transaction price was $43,368 and the gain on disposal of investments was $39,830. As of December 31, 2017, $21,684 (recognized as other receivables) had not been collected but was received on January 17, 2018.

C. The Group has no financial assets carried at cost pledged to others.

4. Credit risk information as of December 31, 2017:

(1) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Office of the General Manager. The utilization of credit limits is regularly monitored. The main credit risk comes from accounts receivable that have not yet been received.

(2) As of December 31, 2017, no credit limits were exceeded during the reporting period, and management does not expect any significant losses from non-performance by these counterparties.

(3) Information regarding the Group's notes and accounts receivable (including the interested parties) which are not past due and not impaired, according to the Group's credit standards, are shown as follows:

	December 31, 2017
Group A	$ 16,531
Group B	3,460
Group C	164,285
	$ 184,276

Note: Criteria of credit rating for customers (selected in order of 1, 2 and 3)

Group A: 1. No overdue payment in the past.
2. D&B rating1-3；
3. The paid-in capital is greater than or equal to $30,000.

Group B: 1. No overdue payment in the past one year.
2. D&B rating4-5；
3. The paid-in capital is less than $30,000.

Group C: Customer who are not in Group A or B.

(4) The aging analysis of the Group's financial assets that have been overdue but not yet in impairment:

	December 31, 2017
Up to 30 days	$ 54,700
31 to 90 days	298
	$ 54,998

The aforementioned aging analysis is based on the overdue days.

(5) Analysis of changes in financial assets that have suffered impairment:
As of December 31, 2017, the accounts receivable in impairment is $0.

(V) Effects on initial application of IFRS 15 and information on application of IAS 18 in 2017.

1. The significant accounting policies applied on revenue recognition in 2017 are set out below:

   The Group manufactures and sells API-related products. Revenue refers to the fair value of the consideration or receivable for sales of goods to the Company's external customers during normal business activities, which is expressed in the net amount after deducting sales returns, volume discounts and other discounts. The revenue from products sales is recognized when the products are delivered to buyers, the amount of goods sold can be reliably measured and the future economic benefits are likely to flow into the Company. The delivery of products is considered occurs when the significant risks and rewards related to ownership have been transferred to customers, the Group does not continue to participate in the management and maintains effective control of goods, customers have accepted the goods according to the sales contracts or when there is objective evidence that all acceptance terms have been met.

2. The revenue recognized by using the abovementioned accounting policies in 2017 is as follows:

	2017
Sales revenue	$ 1,168,248

3. The effect on and description of current balance sheets if the Group continues adopting above accounting policies on December 31, 2018 are as follows:

   According to IFRS 15, the recognition of contract liabilities associated with sales contracts of products used to be interpreted as the "Other current liabilities - others" on the balance sheet during the past reporting period, and the balance as of December 31, 2018 was NT$1,579.

XIII. Notes of disclosure

(I) Significant transactions information

In accordance with the provisions of the Regulations Governing the Preparation of Financial Reports by Securities Issuers. the major transactions related to the Group in 2018 are as follows:

1. Loans to others: None
2. Provision of endorsements and guarantees to others: None
3. Holding of marketable securities at the end of the period (not including subsidiaries,

associates and joint ventures): Please refer to Attached table 1.

4. Acquisition or sale of the same security with the accumulated cost reaching $300 million or 20% of the Company’s paid-in capital or more: Please refer to Attached table 2.
5. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.
6. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: Pease refer to Attached table 3.
7. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to Attached table 4.
8. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: None.
9. Engaged in derivatives trading: Please see Note 4 (7), 4 (23), 6 (2) and 6 (21).
10. Significant inter-company transactions during the reporting periods: Please refer to Attached table 5.

(II) Information regarding investees

Names, locations and other information of investee companies (not including investees in China): Please refer to Attached table 6.

(III) Information regarding investment in the territory of mainland china

1. Basic information: Please see Attached table 7.
2. Significant transactions, either directly or indirectly through a third area, with investee companies in China: None.

XIV. Segment information

(I) General information

Management has determined the reportable operating segments based on reports reviewed by the general manager and used to make strategic decisions. The general manager operates the business from a geographical perspective, with the production and sales of active pharmaceutical ingredients being the main sources of income. Taiwan is mainly responsible for sales and research and development, and the US mainly is involved in sales. The Group provides the operating results of entities in the consolidated statements to the chief operating decision-maker for review and uses the information to evaluate performance of the departments.

(II) Evaluation of department information

The Group presents the chief operating decision-maker with the pre-tax net profit or loss of each region which uses consistent measurement for revenue and expense in the income statements, and the performance of each operating department is evaluated based on the pre-tax net profit or loss.

The Group did not provide the chief operating decision-maker with total assets and liabilities for operational decisions.

(III) Segment profit/loss

Information on the reporting segments provided to the chief operating decision maker is shown as follows:

2018	Taiwan	United States	Adjustment and write-off	Total
Revenue from external clients	$ 522,270	$ 497,182	$ -	$ 1,019,452
Revenue from internal transactions	472,362	-	(472,362)	-
Department income	$ 994,632	$ 497,182	($ 472,362)	$ 1,019,452
Segment profit/loss	$ 237,646	$ 2,600	$ -	$ 240,246
Segment profit and loss include:				
Depreciation and amortization	$ 134,620	$ 137	$ -	$ 134,757

2017	Taiwan	United States	Adjustment and write-off	Total
Revenue from external clients	$ 537,710	$ 630,538	$ -	$ 1,168,248
Revenue from internal transactions	603,795	-	(603,795)	-
Department income	$ 1,141,505	$ 630,538	($ 603,795)	$ 1,168,248
Segment profit/loss	$ 100,397	$ 9,140	$ -	$ 109,537
Segment profit and loss include:				
Depreciation and amortization	$ 133,984	$ 142	$ -	$ 134,126
Interest income	$ 227	$ -	$ -	$ 227
Interest expenditure	$ 8,351	$ -	$ -	$ 8,351

(IV) Reconciliation of segment profit and loss

The reports provided to the chief operating decision-maker for the segments' operating decision are not different from the segments' profit and loss statement, so no adjustment is required.

(V) Information on types of product and labor service

The income from external customers is mainly in the forms of manufacturing and sales of APIs, and the breakdown of income balance is shown as follows:

	2018	2017
Sales revenue of biotechnology products	$ 832,275	$ 1,006,447
Sales revenue of non-biotech products	187,177	161,801
	$ 1,019,452	$ 1,168,248

(VI) Information by areas

Information by region for the Group in 2018 and 2017:

	2018		2017	
	Income	Non-Current assets	Income	Non-Current assets
Taiwan	$ 135,414	$ 2,208,100	$ 81,759	$2,262,183
U.S.	482,919	387	630,538	601
India	16,025	-	197,049	-
Israel	31,180	-	69,758	-
Others	353,914	-	189,144	-
Total	$ 1,019,452	$ 2,208,487	$ 1,168,248	$2,262,784

(VII) Information about important customers

Major clients who accounted for more than 10% of the sales in 2018 and 2017:

	2018		2017	
	Income	Department	Income	Department
Client A	$ 317,386	United States	$ 412,535	United States

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

January 1 to December 31, 2018

Attached table 1

Unit: NTD thousand

(Except where otherwise stated)

				At ending				
Holding company	Type and name of marketable securities (Note 1)	Relationship with the securities issuer	Account titles in book	Quantity	Book value (Note 2)	Shareholding percentage	Fair value	Remarks
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	Common shares China Development Biomedical Venture Capital (limited company)	None	Financial assets at fair value through profit and loss	3,000,000	$ 29,978	1.71%	$ 29,978	None

Note 1: Securities as stated in this table are the stocks, bonds, beneficiary certificates and the securities deriving from the above items within the scope of IFRS 9, “Financial Instruments”.
Note 2: Book value is determined based on fair value less accumulated impairment for marketable securities measured at fair value. For those not measured at fair value, the book value is determined based on the acquisition cost or amortized cost less accumulated impairment.

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries

Acquisition or sale of the same security with the accumulated cost reaching $300 million or 20% of the Company’s paid-in capital or more

January 1 to December 31, 2018

Attached table 2

Unit: NTD thousand

(Except where otherwise stated)

	Marketable securities		Counterparties	Relation	At beginning		Buy (Note 3)		Sell (Note 3)				At ending	
Buyer and sellers	Name (Note 1)	Account titles in book	(Note 2)	(Note 2)	Quantity	Amount	Quantity	Amount	Quantity	Sale price	Cost in book	Capital gain/loss from disposition	Quantity	Amount
China Chemical & Pharmaceutical Co., Ltd.	Stock	Financial assets at fair value through other comprehensive profit or loss	China Chemical & Pharmaceutical Co., Ltd.	None	5,028,137	$ 93,775	9,581,000	$ 200,161	-	$ 293,936	$ 293,936	$ -	-	$ -
China Chemical & Pharmaceutical Co., Ltd.	Stock	Investments accounted for by the equity method	China Chemical & Pharmaceutical Co., Ltd.	The Company’s main affiliates	-	-	14,609,137	263,828 (Note 6)	-	-	-	-	17,892,137	325,381
					-	-	3,283,000	60,764						
					-	-	-	789 (Note 7)						

Note 1: Marketable securities in the Table refer to stocks, bonds, beneficiary certificates and other related derivative securities of the abovementioned items.

Note 2: Investors using the equity method in the securities account must fill in the two fields, and the rest can be left blank.

Note 3: The accumulated purchase and sale amount should be calculated separately base on the market price to see if they reach $300 million or 20% of the paid-in capital.

Note 4: Paid-in capital refers to the amount of paid-in capital of the parent company. In the event the issuer’s shares have no par value or a par value other than NT$ 10, the calculation of transaction amounts of 20% of paid-in capital will be substituted by the 10% of equity attributable to owners of the parent company.

Note 5: The original account is the non-current equity instrument at fair value through other comprehensive income, and as of November 14, 2018, it was reclassified as an investment using the equity method.

Note 6: Include the original investment cost of $303,586 and the valuation adjustment of $39,758.

Note 7: Include the share of affiliates recognized by the equity method, the exchange difference calculated from financial statements of overseas operating units, unrealized profit or loss of equity instruments at fair value through other comprehensive income and the re-measurement of defined benefit plan, for a total of $789.

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries

Disposal of real estate reaching $300 million or 20% of paid-in capital or more

January 1 to December 31, 2018

Attached table 3

Unit: NTD thousand

(Except where otherwise stated)

Company disposing property	Asset title	Date of occurrence (Note 3)	Original acquisition date	Book value (Note 4)	Trade value	Payment status (Note 5)	Capital gain/loss from disposition	Counterparties	Relation	Purpose of disposition	Reference basis for price (Note 1)	Other stipulations of the transaction
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	Lands in Guanyin District of Taoyuan City	2018/5/8	2012/05/10	$ 265,409	$ 480,000	$ 480,000	$ 214,591	Hung-Da Development	None	Improve the Company's liquidity and enrich the working capital.	The agreed amount of the two parties is $ 432,405	None

Note 1: For the disposal of assets which require appraisal according to the regulations, please specify the appraisal results in the "Reference basis for price" field.

Note 2: Paid-in capital refers to the amount of paid-in capital of the parent company. In the event the issuer's shares have no par value or a par value other than NT$10, the calculation of transaction amounts of 20% of paid-in capital will be substituted by the 10% of equity attributable to owners of the parent company.

Note 3: The event date refers to the transaction date, payment date, commission date, account transfer date, board resolution date, or other dates when the trade counterparty and trade amount is confirmed, whichever is sooner.

Note 4: The carrying amount includes land cost of $263,553 and the sales expense of $1,856.

Note 5: The total transaction price for the disposal of lands was $480,000, to be collected in three periods. The payments were received by July 10, 2018.

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries

Purchase from or sale to

January 1 to December 31, 2018

Attached table 4

Unit: NTD thousand

(Except where otherwise stated)

				Transactions			Trading terms different from general trade and reasons		Notes and accounts receivable (payable)		
Purchase (sale) company	Name of counterparty	Relation	Purchase (sale)	Amount	Percentage of total purchase (sale)	The credit period	Unit price	The credit period	Balance	Percentage of total notes/accounts receivable (payable)	Remarks
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	PHARMAPORTS, LLC	Subsidiaries	Sale	$ 472,362	47%	Collection period is 60 to 90 days after delivery.	The agreed amount of the two parties	-	$ 67,737	52%	None

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries

Significant inter-company transactions during the reporting periods

January 1 to December 31, 2018

Attached table 5

Unit: NTD thousand

(Except where otherwise stated)

				Transactions			
Code (Note 1)	Trader's name	Counterparty	Relationship (Note 2)	Item	Amount	Terms and conditions	Percentage of consolidated total operating revenues or total assets (Note 3)
0	Chunghwa Chemical Synthesis & Biotech Co., Ltd.	PHARMAPORTS, LLC	1	Sales revenue	$ 472,362	Note 4	46%
0	Chunghwa Chemical Synthesis & Biotech Co., Ltd.	PHARMAPORTS, LLC	1	Accounts receivable	67,737	Note 4	2%

Note 1:The information about transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:

(1) Fill in “0” for parent company.

(2) Subsidiaries are numbered from number 1.

Note 2: The relationship with the traders is classified into three categories, which should be specified (the transaction conducted between the parent company and its subsidiaries or between two subsidiaries need not be disclosed in duplication).

(1) Parent company vs. subsidiaries.

(2) Subsidiaries vs. parent company.

(3) Subsidiaries vs. subsidiaries.

Note 3: For computing the ratio of trade amount to total sales revenue or total assets, if it is for asset and liability account, the computation is based on the ratio of ending balance to total consolidated assets; however, if it is for income and expense account, the computation is based on the ratio of interim cumulative amount to total consolidated revenue.

Note 4: The payment period for sales to related parties is 60 to 90 days after shipment.

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries

Names, locations and other information of investee companies (not including investees in China)

January 1 to December 31, 2018

Attached table 6

Unit: NTD thousand

(Except where otherwise stated)

				Sum of initial investment		Ending shareholding				
Investor	Name of investee	Location	Principal business	Current period-end	The end of last year	Quantity	Ratio	Book value	Current period profit / loss of the investee	Remarks
Chunghwa Chemical Synthesis & Biotech Co. Ltd.	PHARMAPORTS, LLC	U.S.	Trading of API drugs	$ 4,925	$ 4,925	-	98.00%	$ 12,070	$ 1,831	Subsidiaries
Chunghwa Chemical Synthesis & Biotech Co. Ltd.	CCSB HOLDING CO., LTD.	Cayman Islands	Engaged in shareholding and reinvestment	17,940	17,940	600,000	100.00%	17,988	(2,415)	Subsidiaries
Chunghwa Chemical Synthesis & Biotech Co. Ltd.	China Chemical & Pharmaceutical Co., Ltd.	Taiwan	Manufacturing and sales of pharmaceuticals and health care products and import of the related medical equipment.	324,593	103,425	17,892,137	6.00%	325,381	25,548	Affiliate business

Chunghwa Chemical Synthesis & Biotech Co., Ltd. and its subsidiaries

Information on investments in China - Basic information

January 1 to December 31, 2018

Attached table 7

Unit: NTD thousand

(Except where otherwise stated)

Names of investees in China	Principal business	Paid-up Capital	Investment method (Note 1)	Accumulated amount of investment remitted from Taiwan at beginning	Amount of investment remitted or recovered in current period: Outward remittance	Amount of investment remitted or recovered in current period: Recover	Accumulated amount of investment remitted from Taiwan at ending	Current period profit / loss of the investee	The Company's directly or indirectly invested shareholding	Investment income (loss) recognized for the year (Note 2 (2) C)	Book value of investment at ending	The investment income received at the end of the current period	Remarks
CCPC Suzhou	Trading of raw chemical materials and agency and consultation patents and technologies	$ 14,827	(2)	$ 14,827	$ -	$ -	$ 14,827	$ 344	100.00%	$ 344	$ 16,216	$ 23,069	None

Company name	Accumulated investment from Taiwan to Mainland China at ending	Amount of investment approved by Investment Commission of MOEA	Investment amount approved by the Investment Commission MOEAIC
CCPC Suzhou	$ 14,827	$ 14,827	$ 1,190,194

Note 1: There are three types of investments labeled by the respective number:

(1) Direct investment in Mainland China.

(2) Investment in China through an existing company established in a third region (please specify the company): Investment in China through CCSB Holding Co., Ltd.

(3) Other ways.

Note 2: Recognized as gains or losses on investment in current period:

(1) Please note if the investee is still under preparation and there was no investment gain or loss.

(2) The basis of recognition of investment income is classified into following three types, which should be marked out.

A. Financial statements audited by an international accounting firm which cooperates with China Accounting Firm.

B. Financial statements audited by the CPAs who audit the parent company in Taiwan.

C. Others: The investment gain or loss recognized in the financial report of the same period that have not been verified by the certified accountant.

Note 3: All amounts are expressed in New Taiwan dollars.

V. Most recent year individual financial report inspected and certified by a CPA：

Auditor's Report

(2019) Cai-Shen-Bao-Zi No. 18002850

To Chunghwa Chemical Synthesis & Biotech Co., Ltd.,

Audit opinion

We have audited the accompanying proprietary individual balance sheet of Chunghwa Chemical Synthesis & Biotech Co., Ltd. as of December 31, 2018 and 2017 and the related individual statements of income, of changes in shareholders’ equity and of cash flows and Notes to individual financial statement (including significant accounting policies) for the years then ended.

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Chunghwa Chemical Synthesis & Biotech Co., Ltd. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in conformity with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis of an audit opinion

We conducted our audit in accordance with the “Rules Governing the Examination of Financial Statements by Certified Public Accountants” and generally accepted auditing standards. Our responsibilities under those standards are further described in the responsibilities of auditors for the audit of the separate financial statements. The personnel of the CPA Firm subject to the independence requirement have acted independently from the business operations of Chunghwa Chemical Synthesis & Biotech Co., Ltd. in accordance with the Code of Ethics and with other responsibilities of the Code of Ethics performed. We believe that our audit provides a reasonable basis for our opinion.

Key Audit Matters

The “key audit matters” means that the independent auditor has used their professional judgment to audit the most important matters on the 2018 individual financial statements of Chunghwa Chemical Synthesis & Biotech Co., Ltd.. The key audit matters have been responded to in the process of auditing the individual financial statements as a whole with an audit opinion formed; therefore, the independent auditor does not express an opinion on these matters separately.

The key audit items of the 2018 individual financial report of Chunghwa Chemical Synthesis & Biotech Co., Ltd. are presented below:

Accounting assessment of inventory valuation

Description of the matter

See Note 4 (12) in the individual financial report for details about the accounting policy on inventory valuation, Note 5 (2) for accounting assessment of inventory valuation and hypothetic uncertainty, and Note 6 (5) for an inventory account description.

Chunghwa Chemical Synthesis & Biotech Ltd. is engaged mainly in the production and sales of active pharmaceutical ingredients. As drug tests grow stricter and drug certificates take longer time to obtain, the risk of inventory loss or obsolescence is higher. Since the inventories involve large amounts of money and large numbers of items that require laborious work by human beings to identify expired or damaged goods, we regard the assessment of allowance to reduce inventory to market as a key audit item.

The responsive auditing process

The corresponding auditing procedures are as follows:

1. Assess the policy for allowing the Company to reduce inventory to market in accordance with our understanding of the Company's operations and the nature of the industry.
2. Conduct sampling tests to see if the basis for market prices of net realized value is consistent with the Company's policy. Randomly check the correctness of the selling prices of individual inventory parts and the way net realized value is calculated.
3. Obtain out-of-date inventory details that are identified by the management, check the related information and verify the account records.

Checking whether the time point of sales income recognition is appropriate

Description of the matter

See Note 4 (28) in the individual financial report for details of the accounting policy on income recognition. As stated in the accounting policies, the sales revenue is recognized when products are delivered to customers who have discretionary power in channels and prices of products sold and Chunghwa Chemical Synthesis and Biotech has no outstanding performance obligations which may affect customers’ acceptance of products. As exports are the main source of income for Chunghwa Chemical Synthesis & Biotech Co., Ltd., the terms of business agreed upon between the Company and its customers are the basis of income assessment. However, such a process often involves a lot of manpower for verification and may lead to inappropriate income recognition time points. Therefore, we regard the sales income recognition time points as a key audit item.

The responsive auditing process

The corresponding auditing procedures are as follows:

1. The Company's internal control on income recognition time points were examined and assessed, while the Company's internal control on sales deadlines was tested to verify the correctness of the income recognition time points.
2. The execution of sales and income over a certain period before and after the time periods covered in the financial report were examined with the packing lists, customer orders and declaration forms in order to confirm that income was recognized at appropriate periods.

The responsibility of the management and management units to the individual financial statements

The management team is responsible for preparing individual financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" to present the Company's financial status in an objective way and for necessary internal controls, ensuring that the statements do not contain any false content due to fraudulence or mistakes.

While preparing the individual financial statements, the management’s responsibility also includes assessing the continuing operation of Chunghwa Chemical Synthesis & Biotech Co., Ltd., the disclosure of the relevant matters, and the adoption of the accounting base for continuing operations, unless the management intends to liquidate Chunghwa Chemical Synthesis & Biotech Co., Ltd. or cease business operation, or there is lack of any alternative except for liquidation or suspension.

The governance units (including the Audit Committee) of Chunghwa Chemical Synthesis & Biotech Co., Ltd. are responsible for supervising the financial reporting process.

The responsibilities of the independent auditor to the individual financial statements

The purpose of the independent auditor’s auditing of the individual financial statements is to obtain reasonable assurance about whether the individual financial statements are free of material misstatement arising from fraud or errors and with an audit report issued. Reasonable assurance means a high degree of assurance. However, the audit conducted in accordance with generally accepted auditing standards of the R.O.C. does not guarantee having any material misstatement in the individual financial statements detected. Material misstatement could arise from fraud or errors. If the misstated amount or aggregated amount is reasonably expected to affect the economic decisions made by the users of the individual financial statements, it is considered significant.

The independent auditor when conducting the audit in accordance with generally accepted auditing standards of the R.O.C. exercises professional judgment and maintains professional skepticism. The independent auditor also performs the following tasks:

1. Identify and evaluate the risk of material misstatement arising from fraud or errors of the individual financial statements; design and implement proper responsive measures to the risk assessed; also, obtain sufficient and adequate audit evidences for forming an audit opinion. The risk of fraud may involve conspiracy, forgery, deliberate omission, false declaration, or violating internal control; therefore, the risk of material misstatement arising from the undetected fraud is higher than that caused by errors.
2. Obtain necessary understanding on the internal control related to the audit in order to design appropriate audit procedures under the circumstance, but the purpose is not to express an opinion on the effectiveness of the internal control of Chunghwa Chemical Synthesis & Biotech Co., Ltd..
3. Assess the appropriateness of the accounting policies adopted by the management; also, the reasonableness of the accounting estimates and related disclosures made.
4. Base on the audit evidence obtained to make conclusions on the suitability of the accounting base for continuing operation base adopted by the management and whether or not the events or circumstances causing significant doubts to the continuing operation ability of Chunghwa Chemical Synthesis & Biotech Co., Ltd. are with significant uncertainties. If the independent auditor believes that such events or circumstances have significant uncertainties, it is necessary to remind the users of the individual financial statements in the audit report to pay attention to the relevant disclosure or to revise the audit opinion when such disclosures are inappropriate. The conclusion of the independent auditor is based on the audit evidence obtained as of the audit report date. However, future events or circumstances may result in the inability of Chunghwa Chemical Synthesis & Biotech Co., Ltd. to continue operating.
5. Assess the overall expression, structure, and content of the individual financial statements (including the relevant notes) and whether or not the relevant transactions and events in the individual financial statements are presented fairly.
6. Obtain sufficient and appropriate audit evidence on the financial information of business entities within the Group in order to express an opinion on the individual financial statements. The independent auditor is responsible for guiding, supervising, and implementing the audit of the business entity; also, it is responsible for forming an opinion on the audit of the individual financial statements.

The matters communicated by the independent auditor to the governing unit include the scope and timing of the planned audit, and the significant findings (including the major nonconformities of internal controls identified in the auditing process).

The independent auditor has provided the declaration of independence of the CPA Firm personnel subject to the Code of Ethics to the governing unit; also, it has communicated with the governing unit regarding the relationship and other matters (including the relevant protection measures) that may affect the independence of the independent auditor.

The independent auditor has based on the communications with the governing unit to determine the key audit matters to be performed on the 2018 individual financial statements of Chunghwa Chemical Synthesis & Biotech Co., Ltd.. The independent auditor shall state the key audit matters in the audit report except for the specific matters prohibited by law from being disclosed, or, in rare cases; the independent auditor decides not to have specific matters communicated in the audit report since the negative effect of such disclosure can be reasonably expected to be greater than the increase of public interest.

PricewaterhouseCoopers, Taiwan

March 26, 2019

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and financial statements shall prevail.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.
Individual Balance Sheet
December 31, 2018 and 2017

Unit: NTD thousand

	Assets	Additional notes	December 31, 2018 Amount		%	December 31, 2017 Amount		%
	Current assets							
1100	Cash and cash equivalents	6 (1)	$	65,472	2	$	107,950	3
1150	Notes receivable-net	6 (4) and 12 (4)		666	-		1,787	-
1170	Net accounts receivable	6 (4) and 12 (4)		35,490	1		130,431	4
1180	Account receivables-Related Parties- net	7 and 12 (4)		94,186	3		109,159	3
1200	Other receivable	7		9,397	1		6,435	-
1220	Current income tax assets			1,697	-		-	-
130X	Inventory	6 (5)		362,398	11		330,435	10
1410	Prepayments			3,913	-		3,474	-
1460	Available-for-sale financial assets—noncurrent	6 (9)		-	-		263,553	8
11XX	**Total of Current Assets**			573,219	18		953,224	28
	Non-Current assets							
1510	Financial assets that are measured at fair value through profit or loss-non-current	6 (2)		29,978	1		-	-
1523	Available-for-sale financial assets - non-current	12 (4)		-	-		93,775	3
1543	Financial assets carried at cost – non-current	12 (4)		-	-		30,000	1
1550	Investments accounted for by the equity method	6 (6)		355,439	11		61,542	2
1600	property , plant, and equipment	6 (7) (10) and 8		2,195,207	68		2,242,419	65
1760	Real property for investment- net	6 (8)		10,700	-		10,700	-
1780	Intangible assets			2,193	-		3,185	-
1840	Deferred income tax assets	6 (24)		20,285	1		14,787	-
1900	Other current non-assets	6 (15)		23,174	1		25,341	1
15XX	**Total of Non-Current Assets**			2,636,976	82		2,481,749	72
1XXX	**Total assets**		$	3,210,195	100	$	3,434,973	100

(Continued next page)

Chunghwa Chemical Synthesis & Biotech Co., Ltd.
Individual Balance Sheet
December 31, 2018 and 2017

Unit: NTD thousand

	Liabilities and equity	Additional notes	December 31, 2018 Amount	%	December 31, 2017 Amount	%
	Current liabilities					
2100	Shot-term borrowings	6 (11)	$ 150,000	5	$ 242,376	7
2110	Short-term bills payable	6 (12)	79,956	3	249,902	7
2150	Payable notes		1,192	-	345	-
2170	Accounts payable		60,595	2	55,201	2
2200	Other payable	6 (13)	109,299	3	110,159	3
2230	Current Income Tax Liability		12,878	-	1,625	-
2320	Long-term liabilities due within one year or one operating cycle	6 (14) and 8	-	-	130,000	4
2399	Other current liabilities- other		793	-	6,141	-
21XX	**Total of current liabilities**		414,713	13	795,749	23
	Non-current liabilities					
2540	Long-term borrowings	6 (14) and 8	567,440	18	567,440	17
2570	Deferred income tax liabilities	6 (24)	243,863	7	250,380	7
2600	Other non-current liabilities		522	-	576	-
25XX	**Total of non-current liabilities**		811,825	25	818,396	24
2XXX	**Total liabilities**		1,226,538	38	1,614,145	47
	Equity					
	Share capital	6 (16)				
3110	Ordinary shares capital		775,600	24	775,600	22
	Capital reserve	6 (17)				
3200	Capital reserve		334,323	11	334,323	10
	Retained earnings	6 (18)				
3310	Legal earnings reserve		135,919	4	127,342	4
3320	Special earnings reserve		183,296	6	183,296	5
3350	Undistributed earnings		553,954	17	410,290	12
	Other equity					
3400	Other equity		565	-	(10,023)	-
3XXX	**Total equity**		1,983,657	62	1,820,828	53
	Significant contingent liabilities and unrecognized contractual commitments	6 (26) and 9				
	Major post-balance sheet events	6 (18) and 11				
3X2X	**Total liabilities and equity**		$ 3,210,195	100	$ 3,434,973	100

Please refer to the notes enclosed in the individual financial reports that are an integral part of the individual financial statements.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.
Individual comprehensive income statements
January 1 to December 31, 2018 and 2017

Unit: NTD thousand
(except EPS in NTD)

	Item	Additional notes	2018 Amount	2018 %	2017 Amount	2017 %
4000	**Operating revenues**	6 (19), 7 and 12 (5)	$ 994,632	100	$ 1,141,506	100
5000	**Operating cost**	6 (5) (23)	(658,526)	(66)	(758,137)	(66)
5900	**Operating gross profit**		336,106	34	383,369	34
5910	Unrealized loss (gain) from sales		-	-	864	-
5920	Realized loss (gain) from sales		(864)	-	(57)	-
5950	**Operating gross profit**		335,242	34	384,176	34
	Operating expenses	6 (23)				
6100	Marketing expenses		(65,019)	(7)	(70,264)	(6)
6200	Administrative expenses		(79,799)	(8)	(95,374)	(9)
6300	Research and development expenses		(161,537)	(16)	(149,319)	(13)
6450	Expected gain on credit impairment	12 (2)	84	-	-	-
6000	**Total operating expenses**		(306,271)	(31)	(314,957)	(28)
6900	**Operating profit**		28,971	3	69,219	6
	Non-operating revenues and expenses					
7010	Other revenue	6 (20)	13,896	1	12,220	1
7020	Other profits and losses	6 (21)	204,301	21	(12,540)	(1)
7050	Financial costs	6 (22)	(10,870)	(1)	(8,351)	(1)
7070	Share of profit of subsidiaries, associates and joint ventures accounted for under equity method	6 (6)	781	-	37,573	4
7000	**Total non-operating revenues and expenses**		208,108	21	28,902	3
7900	**Earnings before tax**		237,079	24	98,121	9
7950	Income tax expense	6 (24)	(2,828)	(1)	(12,355)	(1)
8200	**Current period net profit**		$ 234,251	23	$ 85,766	8

(Continued next page)

Chunghwa Chemical Synthesis & Biotech Co., Ltd.
Individual comprehensive income statements
January 1 to December 31, 2018 and 2017

Unit: NTD thousand
(except EPS in NTD)

	Item	Additional notes	2018 Amount	2018 %	2017 Amount	2017 %
	Other comprehensive income (net)					
	Items not re-classified under profit or loss					
8311	Defined benefit plan revaluation amount and volume	6 (15)	($ 2,494)	-	$ 2,353	-
8316	Unrealized valuation gains and losses on Investment of equity instruments at fair value through other comprehensive income	6(3)	(30,108)	(3)	-	-
8330	The proportion of other comprehensive incomes from subsidiaries, associates, and equity joint-ventures accounted for under the equity method – not reclassified as profit and loss		(828)	-	-	-
8349	Income tax related to accounts not being reclassified	6 (24)	248	-	(400)	-
8310	**Total amount of items not reclassified to profit or income**		(33,182)	(3)	1,953	-
	Items that may be re-classified subsequently under profit or loss					
8361	Exchange differences arising from translating the financial statements of foreign operations		383	-	(1,247)	-
8362	Unrealized valuation gains and losses of available-for-sale financial assets	12 (4)	-	-	2,263	-
8380	The proportion of other comprehensive incomes from subsidiaries, associates, and equity joint-ventures accounted for under the equity method – may be reclassified as profit and loss		214	-	-	-
8360	**Total amount of items probably reclassified to profit or loss subsequently**		597	-	1,016	-
8300	**Other comprehensive income (net)**		($ 32,585)	(3)	$ 2,969	-
8500	**Total comprehensive income for the period**		$ 201,666	20	$ 88,735	8
	Earnings per share	6 (25)				
9750	**Base earnings per share**		$ 3.02		$ 1.11	
9850	**Diluted earnings per share**		$ 2.99		$ 1.10	

Please refer to the notes enclosed in the individual financial reports that are an integral part of the individual financial statements.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.
Individual statement of changes in equity
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

			Capital reserve		Retained earnings			Other equity			
	Additional notes	Ordinary shares capital	Issuance premium	Others	Legal earnings reserve	Special earnings reserve	Undistributed earnings	Exchange differences arising from translating the financial statements of foreign operations	Unrealized gain or loss on financial assets at fair value through other comprehensive profit or loss	Unrealized gain or loss on available-for-sale financial assets	Total equity
2017											
Balance at January1, 2017		$ 775,600	$ 333,746	$ 577	$ 121,314	$ 183,296	$ 367,379	$ 874	$ -	($ 11,913)	$ 1,770,873
Current period net profit		-	-	-	-	-	85,766	-	-	-	85,766
Current other comprehensive income		-	-	-	-	-	1,953	(1,247)	-	2,263	2,969
Total comprehensive income for the period		-	-	-	-	-	87,719	(1,247)	-	2,263	88,735
The 2016 appropriation and distribution of earnings:	6 (18)										
Legal earnings reserve		-	-	-	6,028	-	(6,028)	-	-	-	-
Cash dividend		-	-	-	-	-	(38,780)	-	-	-	(38,780)
Balance at December 31, 2017		$ 775,600	$ 333,746	$ 577	$ 127,342	$ 183,296	$ 410,290	($ 373)	$ -	($ 9,650)	$ 1,820,828
2018											
Balance as of January 1, 2018		$ 775,600	$ 333,746	$ 577	$ 127,342	$ 183,296	$ 410,290	($ 373)	$ -	($ 9,650)	$ 1,820,828
Effects applying the modified retrospective approach	12 (4)	-	-	-	-	-	(57)	-	(9,650)	9,650	(57)
Balance on January 1, 2018 after adjustment		775,600	333,746	577	127,342	183,296	410,233	(373)	(9,650)	-	1,820,771
Current period net profit		-	-	-	-	-	234,251	-	-	-	234,251
Current other comprehensive income		-	-	-	-	-	(3,415)	597	(29,767)	-	(32,585)
Total comprehensive income for the period		-	-	-	-	-	230,836	597	(29,767)	-	201,666
The 2017 appropriation and distribution of earnings:	6 (18)										
Legal earnings reserve		-	-	-	8,577	-	(8,577)	-	-	-	-
Cash dividend		-	-	-	-	-	(38,780)	-	-	-	(38,780)
Equity instrument at fair value through other comprehensive income statement	6(3)	-	-	-	-	-	(39,758)	-	39,758	-	-
Balance at December 31, 2018		$ 775,600	$ 333,746	$ 577	$ 135,919	$ 183,296	$ 553,954	$ 224	$ 341	$ -	$ 1,983,657

Please refer to the notes enclosed in the individual financial reports that are an integral part of the individual financial statements.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.
Individual Cash Flow Statement
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

	Additional notes	January 1 to December 31, 2018	January 1 to December 31, 2017
Cash flow from operating activities			
Pre-tax profit for the current period		$ 237,079	$ 98,121
Adjustments			
Income, expense, and loss			
Depreciation	6 (7) (23)	132,834	132,691
Amortization	6 (23)	1,786	1,293
Expected gain on credit impairment	12 (2)	(84)	-
Interest expenses	6 (22)	10,870	8,351
Net loss on financial assets and liabilities at fair value through profit and loss	6 (2) (21)	150	-
Interest income	6 (20)	(234)	(222)
Dividend income	6 (20)	(3,778)	(3,017)
The profit or loss in the subsidiary, affiliated company and joint ventures recognized under the equity method	6 (6)	(781)	(37,573)
Losses (gains) from disposal of property or equipment	6 (7) (9) (21)	(214,600)	146
Loss in impairment of non-financial assets	6(10)(21)	9,841	-
Unrealized loss (gain) from sales		-	(864)
Realized gain (loss) from sales		864	56
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Financial assets at fair value through profit or loss- current		211	-
Notes receivable-net		1,114	(1,166)
Net accounts receivable		94,688	(40,742)
Account receivables-Related Parties- net		14,940	10,803
Other receivable		455	669
Other receivables - related parties		(435)	227
Inventory		(31,963)	64,308
Prepayments		(439)	(1,784)
Net defined benefit assets		(1,527)	(9,517)
Net changes in liabilities relating to operating activities			
Contract liabilities - Current		(1,566)	-
Payable notes		847	-
Accounts payable		5,394	(15,475)
Other payable		(3,301)	(1,523)
Other current liabilities-others		(3,782)	3,590
Net cash provided by operating activities		248,583	208,372
Interest received		222	202
Dividends received		31,171	3,017
Interest paid		(10,987)	(7,797)
Income tax paid		(5,039)	(20,717)
Net cash inflow from operating activities		263,950	183,077

(Continued next page)

Chunghwa Chemical Synthesis & Biotech Co., Ltd.
Individual Cash Flow Statement
January 1 to December 31, 2018 and 2017

Unit: NTD thousand

	Additional notes	January 1 to December 31, 2018	January 1 to December 31, 2017
Cash flow from investing activities			
Acquisition of financial assets at fair value through other comprehensive profit or loss		($ 200,161)	$ -
Acquisition of investment under the equity method	6 (6)	(60,764)	-
Costs of property, plant and equipment acquired	6 (27)	(92,933)	(802,600)
Proceeds from disposal of property, plant and equipment	6 (7) (9)	478,180	1,095
Acquisition of Intangible assets		(794)	(2,617)
Decrease (increase) in deposits paid		1,200	(3,118)
Net cash inflow (outflow) from investing activities		124,728	(807,240)
Cash flow from financing activities			
Increase (decrease) in Shot-term borrowings	6 (28)	(92,376)	32,376
Increase (decrease) in short-term payable notes	6 (28)	(169,946)	80,004
Proceeds from long-term loan	6 (28)	-	717,440
Re-payments of long-term borrowings	6 (28)	(130,000)	(150,000)
Decrease (increase) in deposits received		(54)	310
Cash dividend distribution	6 (18)	(38,780)	(38,780)
Net cash inflow (outflow) from financing activities		(431,156)	641,350
Increase (decrease) in cash and cash equivalents for the current period		(42,478)	17,187
Opening balance of cash and cash equivalents		107,950	90,763
Closing balance of cash and cash equivalents		$ 65,472	$ 107,950

Please refer to the notes enclosed in the individual financial reports that are an integral part of the individual financial statements.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Individual Notes to financial statements

2018 and 2017

Unit: NTD thousand

(Except where otherwise stated)

I. Company history

Chunghwa Chemical Synthesis and Biotech Co., Ltd. (hereinafter referred to as the Company) was established in Taiwan on May 19, 1964. Originally named as China Chemical Synthesis Industry Co., Ltd., the company was renamed to the current name at the shareholder meeting in 2003. The main areas of business of the Company include research, development, manufacturing and sales of active pharmaceutical ingredients. The Company was officially listed in the Taiwan Stock Exchange on December 20, 2010.

II. Financial reporting date and procedures

The Board of Directors approved the individual financial statements for publication on March 8, 2019.

III. Application of new and revised standards and interpretation

(I) Effect of the adoption of new issuances of or amendments to International Financial ReportingStandards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

The new publication, amendments, and revision of the 2018 International Financial Reporting Standards (IFRS) that was recognized by the Financial Supervisory Commission are as follows:

New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment"	January 1, 2018
Amendments to International Financial Reporting Standards No. 4 "The application of IFRS No. 9 'Financial Instruments' to IFRS 4 'Insurance Contracts'"	January 1, 2018
IFRS 9 "Financial instruments"	January 1, 2018
Amendment to IFRS No. 15 "Income of Customer Contract"	January 1, 2018
Amendments to IFRS 15 "IFRS No. 15 "Income of Customer Contract"	January 1, 2018
IAS 7 Amendment "Disclosure Initiative"	January 1, 2017
IAS 12 Amendment "Recognition of unrealized losses of deferred income tax assets"	January 1, 2017
Amendments to IAS 40 "Investment real estate conversion"	January 1, 2018
IFRIC No. 22 "Foreign currency transactions and Advance consideration"	January 1, 2018

Improvements to 2014-2016 IFRS No. 1 “Adopting IFRS for the first time”	January 1, 2018
Improvements to 2014-2016 IFRS No. 12 “Disclosure of interests in other entities”	January 1, 2017
Improvements to 2014-2016 IAS No. 28 “Investment Affiliates and Joint Ventures”	January 1, 2018

Except for the following statements, the Company has assessed the aforementioned standards, interpretations, and interpretative announcements and has concluded that they have no material impact on the Company’s financial position and financial performance.

1. IFRS 9 “Financial instruments”

    (1) Financial asset and liability instruments are judged in accordance with the business model of the enterprise and the characteristics of the contract cash flow, which can be classified into the categories of financial assets measured at fair value through profit and loss, financial assets measured at fair value through other comprehensive profits and losses, and financial assets measured at amortized cost. Financial assets and equity instruments are classified into the categories of financial assets measured at fair value through profit and loss, unless the enterprise makes an irrevocable option to have the fair value of the equity instrument that is for non-trading purposes recognized in the “other comprehensive profits and losses.”

    (2) The impairment assessment of financial asset and liability instruments should be implemented with the “expected credit loss model” and assess whether the credit risk of such instruments is increasing significantly on each balance sheet date. Based on the expected credit loss for 12 months or the expected credit loss for the duration (the interest income before impairment occurred is estimated according to the total book value of the assets); or whether there has been an impairment loss occurred, the interest income after the impairment occurred should be estimated according to the book value net of the allowance for bad debt. The allowance for loss of the accounts receivable (excluding significant financial components) shall be measured according to the expected credit loss for the duration of the period.

    (3) The Company intends not to restate the financial statements of the prior period (referred to as the “modified retrospective approach”) with respect to International Financial Reporting Standards 9 (IFRS 9). Please refer to Note 12 (4) 2 and 3 for details on significant impacts as of January 1, 2018.

2. Amendment to IFRS No. 15 “Income of Customer Contract” and related amendments

    (1) IFRS 15 replaces all previous revenue requirements in IFRS, mainly IAS 11 Construction Contracts and IAS 18 Revenue and their interpretations. The standard outlines the principles an entity must apply to measure and recognize revenue. The principle is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

    Applying IFRS 15, an entity recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To recognize revenue under IFRS 15, an entity applies the following five steps to determine the timing and amount:

    1. Identify the contracts with a customer

    2. Identify the performance obligations in the contract

    3. Determine the transaction price

4. Allocate the transaction price to the performance obligations in the contract

5. Recognize revenue when (or as) the entity satisfies a performance obligation

To help users of financial statements to understand the nature, amount, timing and uncertainty about revenue and cash flows arising from contracts with customers, disclosures about an entity's performance obligations have to be made.

(2) The Company intends not to restate the financial statements of the prior period with respect to the initial adoption of the International Financial Reporting Standards 15 (IFRS 15). The Company adopts the retrospective application of IFRS 15 (referred to as the "modified retrospective method") for the contracts that have not yet been completed as of January 1, 2018. The significant impacts as of January 1, 2018, from adopting the modified retrospective method, include the following:

A. Interpretation of contract assets and contract liabilities of customers

Due to the application of the relevant provisions of IFRS 15, the Company revised some of the accounting items interpreted in the balance sheet:

According to IFRS 15, the recognition of contract liabilities associated with sales contracts of products used to be interpreted as the "Other current liabilities - others" on the balance sheet during the past reporting period, and the balance as of January 1, 2018 was NT$1,566.

B. Please refer to Note 12 (5) for additional disclosures on the initial application of IFRS 15.

(II) Effect of new issuances of or amendments to IFRS as endorsed by the FSC but not yet adopted by the Company and subsidiaries

The following table summarizes the applicable newly released, corrected and amended standards and interpretations of the International Financial Reporting Standards recognized by the Financial Supervisory Commission in 2019.

New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
Amendments to IFRS 9 "Characteristics of payback ahead of schedule with negative compensation."	January 1, 2019
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Amendment, curtailment or reimbursement of projects."	January 1, 2019
Amendments to IAS 28 "Long-term equity of affiliated enterprises and joint venture enterprises."	January 1, 2019
IFRS 23 "Handling of uncertain income tax"	January 1, 2019
Improvements to IFRS 2015-2017	January 1, 2019

The Company has assessed the aforementioned standards, interpretations, and interpretative announcements and has concluded that they have no material impact on the Company's financial position and financial performance.

(III) IFRS issued by IASB but not yet endorsed by the FSC

The newly released, revised and amended IFRS standards and interpretations by the IASB but not yet recognized by the FSC are summarized as follows:

New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
IAS 1 and IAS 8 amendments, Disclosure Initiative - Definition of Material.	January 1, 2020
IFRS 3 amendments, Definition of a business	January 1, 2020
Amendment to IFRS 10 and IAS 28 “The Assets Sales or Purchase between Investors and Their Affiliates or Joint Ventures”	To be determined by the “International Accounting Standards Board (IASB).
IFRS 17 “Insurance Contracts”	January 1, 2021

The Company has assessed the aforementioned standards, interpretations, and interpretative announcements and has concluded that they have no material impact on the Company’s financial position and financial performance.

IV. Summary of significant accounting policies

The principal accounting polices applied in the preparation of these individual financial statements are set out below. These policies have been consistently applied to all the period presented, unless otherwise stated.

(I) Compliance Statement

These standalone financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Statements by Securities Issuers”.

(II) Basis of preparation

1. Besides the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and financial assets at fair value through other comprehensive profit or loss, the standalone financial report is prepared on a historical cost basis.
2. The financial statements prepared in accordance with the International Financial Reporting Standards, international accounting standards, interpretation and interpretation notice (referred to as “IFRS” hereinafter) that is recognized and approved by the FSC requires the use of some critical accounting estimates; also, the judgment by the management is required while using the Company’s accounting policies. Please refer to Note 5 for the items involving extensive judgment or complexity, or significant assumptions and estimates related to the individual financial statements.
3. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company elected to apply the modified retrospective approach whereby the cumulative impact of the adoption was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the 2017 was not restated. The financial statements for the 2017 were prepared in compliance with International Accounting Standard 39 (IAS 39), International Accounting Standards 18 (IAS 18) and related financial reporting interpretations. Please refer to Notes XII (IV) and (V) for details of significant accounting policies and details of significant accounts.

(III) Foreign-currency translations

Items included in the financial statements of each of the Company are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The individual financial statements are presented in New Taiwan Dollars, which is the Company’s functional currency.

1. Foreign Currency Transactions and Balances
   (1) Transactions denominated in foreign currency are translated into a functional currency at the spot exchange rate on the date of the transaction or measurement. Foreign currency differences arising from translating such transactions are recognized in current profit or loss.
   (2) The foreign currency asset or liability balances are revaluated based on spot exchange rate of the balance sheet date, and any exchange difference arising from the adjustment is included in the profit and loss for the year.
   (3) Non-monetary assets and liabilities denominated in foreign currency held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in current profit or loss ; Non-monetary assets and liabilities denominated in foreign currency held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currency that are not measured at fair value are translated using the historical exchange rates at the date of the initial transaction.
   (4) All foreign exchange gains and losses are presented in the statement of comprehensive income within “Other gains and losses”.
2. Translation of the financial statements of foreign operations
   (1) The operating results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
      A. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet.
      B. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
      C. All resulting exchange differences are recognized in other comprehensive income.
   (2) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. However, if the Company retains partial interest in the former subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interests in the foreign operation.

(IV) <u>Criteria for distinguishing Current or Non-Current on the Balance Sheet</u>

1. Assets that meet one of the following criteria are classified as current assets:
   (1) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle.
   (2) Held mainly for the purpose of trading.
   (3) Assets that are expected to be realized within twelve months from the balance sheet date.
   (4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve month after the balance sheet date.

   The Company classifies assets that do not meet any of the above criteria as non-current assets.
2. Liabilities that meet one of the following criteria are classified as current liabilities:
   (1) Liabilities that are expected to be paid off within the normal operating cycle.

(2) Held mainly for the purpose of trading.
(3) Expected to be repaid within 12 months of the balance sheet date
(4) Liabilities for which the repayment date cannot be extended unconditionally to more than 12 months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies liabilities that do not meet any of the above criteria as non-current assets.

(V) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(VI) Financial assets at fair value through profit and loss

1. Refer to the financial assets that are not measured at amortized cost or are measured at fair value through other comprehensive income.
2. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.
3. The Company measures financial assets at fair value in initial recognition. The related transaction costs are recognized in profit and loss. These financial assets are subsequently re-measured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.
4. Once the right to receive dividends is confirmed, the Company recognizes the dividend income in profit or loss if the future economic benefits are expected to flow to the entity and the dividend can be measured reliably.

(VII) Financial assets at fair value through other comprehensive profit or loss

1. Equity investments not held for trading, for which the entity has irrevocably elected at initial recognition to present changes in fair value in “other comprehensive income”, or the debt instrument that also meets the following conditions:
   (1) Holds the financial assets within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
   (2) The contractual terms of the financial assets generate cash flows on a specific date, which are solely for the payment of principal and interest on the outstanding principal amount.
2. A regular way purchase or sale of financial assets at fair value through other comprehensive income is recognized and derecognized using either trade date or settlement date accounting.
3. The Company measures financial assets at fair value in initial recognition. The related transaction costs are recognized in profit and loss. These financial assets are subsequently re-measured and stated at fair value.

   The changes in fair value of equity investments that were recognized in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the de-recognition of the investment. Once the right to receive dividends is confirmed, the Company recognizes the dividend income in profit or loss if the future economic benefits are expected to flow to the entity and the dividend can be measured reliably.

(VIII) Accounts receivable and notes

1. Refers to accounts and notes that have been unconditionally charged for the right to exchange the value of the consideration due to the transfer of goods or services.
2. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(IX) Impairment of Financial Assets

Regarding the accounts receivable that have a significant financing component, the Company, on each balance sheet date, considers all reasonable and supportable information (including forward-looking ones) and measures the loss allowance based on the 12-month expected credit losses for those that do not have their credit risk increased significantly since initial recognition. For those that have increased significantly since initial recognition, the loss allowance is measured based on the full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is also required for trade receivables that do not constitute a financing transaction.

(X) The de-recognition of financial assets

A financial asset is derecognized when the Company’s rights to receive cash flows from the financial assets have expired.

(XI) Lease (lessor)

Income from under an operating lease (net of any incentives given to the lessee) are recognized in profit or loss on a straight-line basis over the lease term.

(XII) Inventory

Inventories are measured at the lower of cost or net realizable value, and the cost is determined by weighted-average method. The costs of finished and work in process goods include raw materials, direct labor, other direct costs and manufacturing-related expenses, excluding borrowing costs. At the end of year, inventories are evaluated at the lower of cost or net realizable value. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable costs of completion and selling expenses.

(XIII) Non-current assets held for sale

Noncurrent assets are classified as noncurrent assets held-for-sale if their carrying amount is mainly recovered through a sale rather than through usage and the sale is highly probable, and the assets are measured at the lower of carrying amount and fair value less costs to sell.

(XIV) Investments using the equity method - Subsidiaries and affiliates

1. The term "subsidiaries" as set forth herein refers to all entities (including entities oriented for specific objectives) upon which the Company holds dominating powers in financial and operating policies, normally as the shares of more than 50% of the voting power held by the Company either directly or indirectly. On the investment in subsidiaries, the Company evaluates in the equity method in the individual financial reports.
2. The unrealized gains and losses resulting from the transactions conducted between the Company and its subsidiaries had been written-off. Subsidiaries' financial statements are adjusted to align the accounting policies with those of the Company.
3. The Company recognized the shares of profit and/or loss of subsidiaries after acquisition as the profit and/or loss of the current term, and recognized the shares of profit and/or loss of other consolidated income after acquisition as other consolidated profit and/or loss of the current term. In the event that the shares of losses in a subsidiary recognized by the Company exceed the Company's equity in that subsidiary, the Company would continually recognize the losses *pro rata* to the shareholder percentages.
4. According to "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the profit or loss during the period and other comprehensive income presented in standalone financial reports shall be the same as the allocations of profit or loss during the period and of other comprehensive income attributable to owners of the parent presented in the financial reports prepared on a consolidated basis, and the owners' equity presented in the parent company only financial reports shall be the same as the equity attributable to owners of the parent presented in the financial reports prepared on a consolidated basis.
5. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for under the equity method and are initially recognized at cost.
6. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss in the current period, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Group does not recognize further losses, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.
7. When there is equity change in non-profit and loss and other consolidated profit and loss occurring to the affiliated enterprises that do not affect the shareholding of the affiliated enterprises, the Group will have the equity change recognized as "additional paid-in capital" proportionally to the shareholding ratio.
8. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure

consistency with the polices adopted by the Group.

(XV) Property , plant, and equipment

1. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
2. Subsequent costs are included in the asset's carrying amount or recognized as a spate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.
3. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
4. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	2 years ~ 60 years
Machinery equipment	2 years ~ 20 years
Transport equipment	3 years ~ 5 years
Other equipment	2 years ~ 40 years

(XVI) Lease (lessee)

Operating lease payments less any incentives from the lessor amortized over the lease term using the straight-line method are recognized in profit or loss in the current period.

(XVII) Investment property

Investment properties are initially measured at cost and may be subsequently measured using a cost model.

(XVIII) Intangible assets

Computer software is recognized at cost and is amortized over the estimated useful life of 1 to 3 years according to the straight-line method.

(XIX) Losses in non-financial asset

The company estimates recoverable amounts on assets with signs of losses on the balance sheet date, and when the recoverable amount is lower than the book value, then loss is recognized. Recoverable amount refers to an asset's fair value less the cost of disposal or the useful value, whichever is the higher. Except for goodwill, when the impairment of assets recognized in prior period is non-existent or reduced, the impairment loss should be reversed. However, the increased book value of the asset due to the reversed impairment loss may not exceed the book value net of depreciation or amortization before recognizing impairment loss.

(XX) Loans

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(XXI) Notes and accounts payable

1. Refers to debts incurred as a result of the purchase of raw materials, goods or services and the notes payable due to business and non-business purposes.
2. The short-term accounts and notes payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(XXII) Financial liabilities at fair value through profit and loss

1. Refers to the financial liabilities for trading that are repurchased in the near future and the derivatives other than those which are designated as hedging instruments by hedge accounting.
2. The Company measures financial assets at fair value in initial recognition. The related transaction costs are recognized in profit and loss. These financial assets are subsequently re-measured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(XXIII) De-recognition of financial liabilities

The Company derecognizes financial liabilities when the obligations specified in the contract are fulfilled, cancelled or expired.

(XXIV) Financial assets and liabilities written-off against each other

Recognized financial liabilities and assets are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(XXV) Employee benefits

1. Short-term employee benefits

   Short-term employee benefits are measured at the discounted amount of the benefits expected to be paid in respect of service rendered by employees and are recognized as expenses in the period when the employees render service.

2. Pension

   (1) Defined contribution plan

   For defined contribution plans, the contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized to the extent of a cash refund or a reduction in the future payments.

   (2) Defined benefit plan

   A. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) instead.

   B. Re-measurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recoded as retained earnings.

C. The expense associated with prior service cost is recognized immediately as a profit or loss.

3. Termination benefits

Resignation benefit refers to the benefit for the employee who is terminated from employment before the normal retirement date or who has decides to accept termination of employment in exchange for the benefit. The Company has resignation benefit recognized as expense when the invitation of resignation benefit can no longer be withdrawn or recognizing the related restructuring expense whichever is sooner. The benefit that is not expected to be liquidated within 12 months after the balance sheet date should be discounted.

4. Remunerations for employees and directors

Remunerations for employees and directors are recognized as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. If the accrued amounts for employees' compensation and remuneration to directors and supervisors are different from the actual distributed amounts, the differences should be recognized based on the accounting for changes in estimates. If employee compensation is distributed by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(XXVI) Income tax

1. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.
2. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with the applicable tax regulations. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
3. Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the individual financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as of the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.
4. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
5. Current income tax and liabilities are offset and the net amount is reported in the

balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(XXVII) Dividends

Dividends distributed to shareholders of the Company are recognized in the financial statements when the shareholder meeting resolves to distribute dividends, and the cash dividends are recognized as liabilities.

(XXVIII) Recognition of revenue

Product sales

1. The Company manufactures and sells API-related products. The sales revenue is recognized when products are delivered to customers who have discretionary power in channels and prices of products sold and the Company has no outstanding performance obligations which may affect customers' acceptance of products. The delivery of products is considered occurs when the products are shipped to the designated locations and the risks of obsolescence and loss have been transferred to customers who accept the products under sales contracts, or when there is objective evidence showing that all acceptance criteria have been met.
2. Account receivables are recognized when goods are delivered to customers. Since the Company has unconditional rights to the contract price from that point in time, only the passage of time is required before the payment is due.

V. Main source of significant accounting judgment, estimates and assumptions uncertainty

The preparation of these standalone financial statements requires the management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. The resulting accounting estimates might be different from the related actual results, the judgments and estimates are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Critical accounting judgments, estimates and key sources of assumption uncertainty are explained as follows:

(I) Critical judgments concerning the application of accounting policies

none.

(II) Critical accounting estimates and assumptions

Evaluation of inventory

The Company measures the normal sales of inventories by the lower of cost and net realizable value. For inventories that have existed longer than a certain period of time and are obsolete and damaged, net realizable value of each inventory is identified to be recognized as a loss. Therefore, the Company must use its best judgments and estimates to determine the net realizable value of inventory at the balance sheet date. Due to the stricter verification of active pharmaceutical ingredients and the lengthening time required to obtain drug licenses, the disposal of inventory is below expectation, resulting in the loss from inventory depreciation or the higher risk of inventory obsolescence. The Company assesses on the balance sheet date the inventory due to normal wear and tear, obsolescence or without market sales value and reduces the inventory cost to net realizable value. The inventory assessment may experience significant changes due to fluctuations in the net realizable value of future products. As of December 31, 2018, the book balance of the Company's inventories is $362,398.

VI. Summary of significant accounting titles

(I) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand and petty cash	$ 207	$ 188
Checking accounts and demand deposits	34,550	107,762
Time deposits	30,715	-
	$ 65,472	$ 107,950

1. The financial institutions that the Company deals with are with good credit quality; also, the Company deals with a number of financial institutions to diversify credit risk; therefore, the possibility of default is very unlikely.
2. None of the Company's cash and cash equivalents pledged to others as collateral.

(II) Financial assets at fair value through profit and loss

Item	December 31, 2018
Non-current items:	
Financial assets mandatorily measured at fair value through profit or loss	
China Development Biomedical Venture Capital (limited company)	$ 30,000
Evaluation adjustment	(22)
	$ 29,978

1. Financial assets at fair value through profit and loss is detailed as follows:

	2018
Financial assets mandatorily measured at fair value through profit or loss	
Equity instruments	($ 361)
Derivatives	211
	($ 150)

2. The Company's transactions in respect of derivative financial assets not covered by the hedge accounting are as follows:

   In order to avoid the risk of price fluctuation in value of foreign currency assets and liabilities due to exchange rate fluctuations, the Company adopts forward foreign exchange transactions and no hedge accounting is applied.
3. Please see Note 12 (2) for the credit risk information related to financial assets at fair value through profit and loss.
4. Please see Note 12 (4) for the information on financial assets carried at cost as of December 31, 2017.

(III) Financial assets at fair value through other comprehensive profit or loss

1. The Company chooses to classify the shares of China Chemical & Pharmaceutical, which are for the purpose of stable dividends and strategic investment, as financial assets at fair value through other comprehensive income when first adopting the IFRS 9.
2. The Company's holding of the shares of China Chemical & Pharmaceutical is classified as financial assets at fair value through other comprehensive income, and the dividend income recognized in profit or loss for 2018 was $3,778 and a net loss of $30,108 was recognized in other comprehensive income.
3. The Company obtained a board seat in the China Chemical & Pharmaceutical after it re-elected its board on November 14, 2018. Due to the significant impact on the company, it was transferred to "Investments accounted for using equity method" at an amount of $263,828, and the retained earnings was $39,758.
4. Please see Note 12 (2) for the credit risk information related to financial assets at fair value through other comprehensive income.
5. Please see Note 12 (4) for the information on financial assets available for sale as of December 31, 2017.

(IV) Note receivable and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable	$ 666	$ 1,787
Less: Allowance for losses	-	-
	$ 666	$ 1,787
Accounts receivable	$ 35,738	$ 130,431
Less: Allowance for losses	(248)	-
	$ 35,490	$ 130,431

1. Aging of accounts receivable and notes receivable is as follows:

(1) Notes receivable

	December 31, 2018	December 31, 2017
Not overdue	$ 666	$ 1,787

(2) Accounts receivable

	December 31, 2018	December 31, 2017
Not overdue	$ 29,400	$ 82,915
Overdue within 30 days	6,203	47,218
Overdue 31-90 days	135	298
	$ 35,738	$ 130,431

The aforementioned aging analysis is based on the overdue days.

2. While not considering the collaterals or other credit enhancements, the notes and accounts receivable held by the Company had the maximum exposure of credit risk at $36,156 and $132,218, respectively, as of December 31, 2018 and 2017.
3. The Company does not hold any collaterals.
4. Please see Note 12 (2) for the credit quality of the accounts receivable and notes receivable.

(V) Inventory

	December 31, 2018		
	Cost	Price loss allowance	Book value
Raw materials	$ 65,175	($ 18,109)	$ 47,066
Work in process	118,584	(3,905)	114,679
Finished products	261,417	(60,764)	200,653
	$ 445,176	($ 82,778)	$ 362,398

	December 31, 2017		
	Cost	Price loss allowance	Book value
Raw materials	$ 70,802	($ 23,543)	$ 47,259
Work in process	47,223	(3,191)	44,032
Finished products	290,922	(51,778)	239,144
	$ 408,947	($ 78,512)	$ 330,435

The Company's current inventory cost recognized as expenses:

	2018	2017
Cost of inventory sold	$ 659,632	$ 753,736
Falling price of inventory	4,266	11,663
Proceeds from sale of scraps.	(5,372)	(7,262)
	$ 658,526	$ 758,137

(VI) Investments accounted for by the equity method

	December 31, 2018	December 31, 2017
Affiliate business:		
China Chemical & Pharmaceutical Co., Ltd.	$ 325,381	$ -
Subsidiaries:		
PHARMAPORTS, LLC	12,070	20,137
CCSB HOLDING CO., LTD.	17,988	41,405
Siang Ta Pharmaceutical Co., Ltd.	-	-
	$ 355,439	$ 61,542

1. Affiliate business

(1) The basic information of the Group's main affiliates is shown as follows:

Company name	Main places of business operations	Ratio of Shareholding December 31, 2018	Type of affiliation	Measurement
China Chemical & Pharmaceutical Co., Ltd.	Taiwan	6.00%	Affiliate business	Equity method

(2) The aggregated information of the Group's main affiliates is shown as follows:

Balance Sheet

	China Chemical & Pharmaceutical Co., Ltd. December 31, 2018
Current assets	$ 2,870,206
Non-Current assets	6,415,908
Current liabilities	(1,553,152)
Non-current liabilities	(2,062,404)
Total net assets	$ 5,670,558
Book value of affiliates	$ 325,381

Comprehensive income statement

	China Chemical & Pharmaceutical Co., Ltd. 2018
Income	$ 3,273,208
Current net profits from continuing operations	$ 369,870
Other comprehensive income (net after tax)	(50,802)
Total comprehensive income for the period	$ 319,068

2. Profit and loss of subsidiaries and associates recognized by using equity method:

	2018	2017
China Chemical & Pharmaceutical Co., Ltd.	$ 1,402	$ -
PHARMAPORTS, LLC	1,794	6,107
CCSB HOLDING CO., LTD.	(2,415)	31,466
Siang Ta Pharmaceutical Co., Ltd.	-	-
	$ 781	$ 37,573

3. Xiang-Da was dissolved by the shareholder meeting on August 9, 2016. The settlement was completed on December 15, 2017 and a letter of settlement completion was obtained from the court on January 23, 2018.

4. Please refer to Note 6 (3) 3 for the description on the transfer of investment of China Chemical & Pharmaceutical using the equity method. The Company acquired the Company's shares, totaling $60,764, from November 14, 2018 to December 31, 2018.
5. The Company's investment in China Chemical & Pharmaceutical has a public offer of which the fair value was $322,996 as of December 31, 2018.
6. For information on the Company's subsidiaries, please refer to Note 4 (3) of 2018 consolidated financial statements.

(VII) property , plant, and equipment

	Land	Buildings and structures	Machinery equipment	Transport equipment	Other equipment	Uncompleted construction and equipment pending inspection	Total
January 1, 2018							
Cost	$ 1,454,384	$ 643,427	$ 1,035,402	$ 6,899	$ 484,424	$ 7,845	$ 3,632,381
Accumulated depreciation and impairment	-	(374,637)	(693,014)	(6,086)	(316,225)	-	(1,389,962)
	$ 1,454,384	$ 268,790	$ 342,388	$ 813	$ 168,199	$ 7,845	$ 2,242,419
2018							
January 1	$ 1,454,384	$ 268,790	$ 342,388	$ 813	$ 168,199	$ 7,845	$ 2,242,419
Additions	-	3,562	14,844	-	18,387	58,697	95,490
Disposition	-	-	(27)	-	-	-	(27)
Reclassification	-	1,635	19,677	-	20,629	(41,941)	-
Depreciation	-	(24,039)	(73,748)	(326)	(34,721)	-	(132,834)
Impairment loss	-	-	(9,841)	-	-	-	(9,841)
December 31	$ 1,454,384	$ 249,948	$ 293,293	$ 487	$ 172,494	$ 24,601	$ 2,195,207
December 31, 2018							
Cost	$ 1,454,384	$ 648,624	$ 1,063,615	$ 6,899	$ 520,058	$ 24,601	$ 3,718,181
Accumulated depreciation and impairment	-	(398,676)	(770,322)	(6,412)	(347,564)	-	(1,522,974)
	$ 1,454,384	$ 249,948	$ 293,293	$ 487	$ 172,494	$ 24,601	$ 2,195,207

	Land	Buildings and structures	Machinery equipment	Transport equipment	Other equipment	construction and equipment pending inspection	Total
January 1, 2017							
Cost	$ 1,004,953	$ 615,305	$ 1,019,058	$ 6,583	$ 450,631	$ 24,501	$ 3,121,031
Accumulated depreciation and impairment	-	(351,777)	(639,480)	(5,626)	(286,428)	-	(1,283,311)
	$ 1,004,953	$ 263,528	$ 379,578	$ 957	$ 164,203	$ 24,501	$ 1,837,720
2017							
January 1	$ 1,004,953	$ 263,528	$ 379,578	$ 957	$ 164,203	$ 24,501	$ 1,837,720
Additions	712,984	9,973	11,614	316	16,243	52,701	803,831
Disposition	-	-	(1,241)	-	-	-	(1,241)
Reclassification	(263,553)	18,149	29,790	-	19,771	(69,357)	(265,200)
Depreciation	-	(22,860)	(77,353)	(460)	(32,018)	-	(132,691)
December 31	$ 1,454,384	$ 268,790	$ 342,388	$ 813	$ 168,199	$ 7,845	$ 2,242,419
December 31, 2017							
Cost	$ 1,454,384	$ 643,427	$ 1,035,402	$ 6,899	$ 484,424	$ 7,845	$ 3,632,381
Accumulated depreciation and impairment	-	(374,637)	(693,014)	(6,086)	(316,225)	-	(1,389,962)
	$ 1,454,384	$ 268,790	$ 342,388	$ 813	$ 168,199	$ 7,845	$ 2,242,419

Note: Due to reclassification in 2017, they were transferred to “Intangible assets” and “Non-current assets for sale”.

1. The Company signed a land purchase agreement, worth $709,302, with Lion Corporation in August 2017.
2. There were impairments in 2018 due to the replacement of old equipment in the production line. The impairment loss was valued at $9,841, subtracting the disposal cost from the fair value of the equipment.
3. Please refer to Note 8 for the information on the property, plant, and equipment provided as collateral.

(VIII) Investment property

	December 31, 2018	December 31, 2017
Land cost	$ 10,700	$ 10,700

1. Rental income and direct operating expenses of investment properties:

	2018	2017
Rental income of investment properties	$ 914	$ 867
Direct operating expenses incurred in investment properties that have rental income in the current period	$ 48	$ 47

2. The fair value of investment properties held by the Company for the years ended December 31, 2018 and 2017 was $50,239 and $36,685, respectively, based on the transaction prices of the adjacent lands.

(IX) Non-current assets held for sale

Assets of the group available for sale:

	December 31, 2018	December 31, 2017
property , plant, and equipment	$ -	$ 263,553

1. The board authorized the chairman to dispose of part of the lands in Guanyin District of Taoyuan City owned by the Company at a price no less than $71 per ping in May, 2017, and the land was transferred to the disposal group available for sale at the book value. The board then again authorized the chairman to dispose of part of the lands in Guanyin District of Taoyuan City owned by the Company at a price no less than $70 per ping in May 2018.
2. The Company signed a land sale agreement with Hung-Da Development in May 2018. The total transaction price was $480,000, to be collected in three periods. The payments were received by July 10, 2018. The title transfer of the land was completed in July 2018. With the deduction of the sale-related expenses for $1,856, the income from disposal of the land was $214,591.

(X) Losses in non-financial asset

1. The impairment loss recognized by the Company in the year of 2018 was $9,841, and the breakdown is shown as follows:

	2018
	Recognized in profit or loss of the period
Impairment loss - Machine and equipment	$ 9,841

2. The abovementioned impairment losses are all from the departments in Taiwan.

(XI) Shot-term borrowings

Loans nature	December 31, 2018	Interest rate collars	Collateral
Bank loan			
Credit loan	$ 150,000	1.10%~1.16%	None

Loans nature	December 31, 2017	Interest rate collars	Collateral
Bank loan			
Credit loan	$ 242,376	1.14%～2.54%	None

(XII) Short-term bills payable

	December 31, 2018	December 31, 2017
Face value of commercial paper	$ 80,000	$ 250,000
Less: Discount in short-term bills payable	(44)	(98)
	$ 79,956	$ 249,902
Interest rate collars	1.04%~1.07%	1.04%~1.13%

(XIII) Other payable

	December 31, 2018	December 31, 2017
Salary and bonus payables	$ 36,285	$ 42,137
Commission payable	4,616	14,403
Remuneration to employees and directors and supervisors payable	17,256	12,346
Equipment payables	9,469	6,912
Repair fees payable	8,488	6,595
Others	33,185	27,766
	$ 109,299	$ 110,159

(XIV) Long-term borrowings

	December 31, 2018	December 31, 2017
Bank loan		
Secured loans	$ 567,440	$ 597,440
Credit loan	-	100,000
Less: Current portion	-	(130,000)
	$ 567,440	$ 567,440
Interest rate collars	1.28%	1.10%~1.30%

1. The one-time repayment of secured loan is due in 2020.
2. Please refer to Note 8 for details of the guarantee.

(XV) Pension

1. (1) The Company has a defined benefit pension plan in accordance with the "Labor Standards Act", covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. When an employee meets the requirements of retirement, the payment of pension is based on service years and the average salary of the six months prior to retirement, with services within 15 years accumulating 2 basis points per year, and service years beyond 15 years accumulating 1 basis point per year up to a maximum of 45 basis points. The company provisions 5% of total monthly salary to the pension fund in the name of the Pension Supervisory Committee at the Bank of Taiwan. In addition, the Company has the labor pension reserve account balance referred to in the preceding paragraph estimated at the end of each fiscal year. If the account balance is insufficient to pay pension benefit to the employees who qualify for retirement within next year for the pension benefit calculated in the preceding paragraph, the Company will have the spread amount appropriated in a lump sum before the end of March next year.

(2) The amounts recognized in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of the defined benefit obligations	($ 117,386)	($ 113,635)
The fair value of plan assets	135,882	133,098
Net defined benefit assets (Recognized as Other non-current assets)	$ 18,496	$ 19,463

(3) Changes in net defined benefit assets are as follows:

	Present value of the defined benefit obligations	The fair value of plan assets	Net defined benefit assets
2018			
Balance at January 1	($ 113,635)	$ 133,098	$ 19,463
Current service cost	(1,644)	-	(1,644)
Interest (expense) income	(1,102)	1,322	220
	(116,381)	134,420	18,039
Revaluation amount:			
Return on plan assets (excluding amounts included in interest income or expense)	-	4,356	4,356
Experience adjustments	(6,850)	-	(6,850)
	(6,850)	4,356	(2,494)
The appropriation of pension fund	-	2,951	2,951
Pension payments	5,845	(5,845)	-
Balance at December 31	($ 117,386)	$ 135,882	$ 18,496

2017	Present value of the defined benefit obligations	The fair value of plan assets	Net defined benefit assets
Balance at January 1	($ 145,476)	$ 153,069	$ 7,593
Current service cost	(2,355)	-	(2,355)
Interest (expense) income	(1,695)	1,829	134
	(149,526)	154,898	5,372
Revaluation amount:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(404)	(404)
The effect of changes in financial assumptions	(2,653)	-	(2,653)
Experience adjustments	5,410	-	5,410
	2,757	(404)	2,353
The appropriation of pension fund	-	7,668	7,668
Pension payments	33,134	(29,064)	4,070
Balance at December 31	($ 113,635)	$ 133,098	$ 19,463

(4) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). For the use of this fund, the minimum earnings distribution every year shall not be for an amount less than the income calculated in accordance with the local bank's two-year time deposit rate; also, the insufficient fund, if any, should be made up by the National Treasury with the approval of the competent authorities. Since the Company is not entitled to participating in the operation and management of the Fund, the classification of the fair value of plant asset cannot be disclosed in accordance with International Accounting Standards No. 19, paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(5) Assumptions for the actuation of pension funds are summarized as follows:

	2018	2017
Discounted rate	1.00%	1.00%
Future salary increases rate	2.00%	2.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with the published statistics and experience in the 5th Taiwan Standard Ordinary Experience Mortality Table.

The present value of the defined benefit obligations affected by the changes in the actuarial assumptions is analyzed as follows:

	Discounted rate		Future salary increases rate	
	Increase by 0.25%	Decrease by 0.25%	Increase by 0.25%	Decrease by 0.25%
December 31, 2018				
The impact on the present value of the defined benefit obligations	($ 2,554)	$ 2,642	$ 2,610	($ 2,536)
December 31, 2017				
The impact on the present value of the defined benefit obligations	($ 2,653)	$ 2,748	$ 2,714	($ 2,633)

The sensitivity analysis above analyzes the impact from changing one of the assumptions while others remain constant. In practice, many changes in assumptions may be mutually interactive. The sensitivity analysis is consistent with the method adopted for calculating the net pension liability on the balance sheet.

(6) The expected contributions to the defined benefit pension plans of the Company for the 2019 are $2,588.

2. (1) The Company has a retirement policy with a defined pension contribution plan regulated in accordance with the “Labor Pension Act” for the employees of Taiwan nationality since July 1, 2005. The Company has established a defined contribution pension plan (the “New Plan”) under the “Labor Pension Act” covering all regular employees. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to an employee’s individual pension account at the Bureau of Labor Insurance. The payment of pension benefits is based on an employee’s individual pension fund account and the cumulative profit in such account, and employees can choose to receive such pension benefits monthly or in one lump sum.

(2) The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2018 and 2017 were $8,109 and $7,328, respectively.

(XVI) Share capital

1. As of December 31, 2018, the Company’s authorized capital was $1,600,000, consisting of 160,000 thousand shares of ordinary stock, and the paid-in capital was $775,600 with a par value of $10 (in dollars) per share. All issued capital of the Company were paid up.
2. The number of the Company’s outstanding ordinary shares was 77,560 thousand as of 2018 and 2017.
3. The affiliation of the Company held 17,331 thousand shares of the Company as of December 31, 2018.

(XVII) Capital reserve

According to the Company Act, capital reserves from premium income for issuing shares over face values and gift income, not only can offset losses, it can also issue new shares or cash according to the original shareholding when there is no accumulated losses in the company. Further, the Securities and Exchange Act requires that the amount of capital surplus to be capitalized, as above, should not exceed 10% of paid-in capital each year. When the retained earnings of a company is not enough to offset capital losses, the capital reserves cannot be applied.

(XVIII) Retained earnings

1. According to the Company's articles of incorporation, the dividend policy considers the Company's future capital needs and long-term financial planning and meets the shareholders' demand for cash inflows. The current year's earning, if any, shall first be used to offset prior years' operating losses and pay all taxes, and then 10% of the remaining amount shall be set aside as legal reserve. Special reserve shall also be allocated. If there is still surplus, it can be put together with the accumulated undistributed surplus of the previous year as the surplus available this year for distribution. Part of it can be retained, depending on the Company's business needs for the year, before being distributed to shareholders. Cash dividends shall not be less than 50% of the shareholder dividend given, but when the cash dividend is calculated to be less than $0.1 per share, it can be given in the form of stock dividend.
2. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of the legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
3. (1) In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

   (2) When adopting IFRSs for the first time, refer to Jin-Guan-Zheng-Fa-Zi Document #1010012865 on special reserve. The Company will conduct a reversal of the originally allocated special reserve when using, disposing of or reclassifying assets.
4. (1) The appropriations of 2017 and 2016 earnings had been resolved at the stockholders' meeting on May 31, 2018 and May 31, 2017, respectively. Details are summarized below:

	2017		2016	
	Amount	Dividends per share ($)	Amount	Dividends per share ($)
Legal earnings reserve	$ 8,577		$ 6,028	
Cash dividend	38,780	$ 0.5	38,780	$ 0.5
	$ 47,357		$ 44,808	

   (2) The appropriations of 2018 earnings had been proposed by the Board of Directors on March 8, 2019. Details are summarized below:

	2018	
	Amount	Dividends per share ($)
Legal earnings reserve	$ 23,425	
Cash dividend	93,072	$ 1.2
	$ 116,497	

5. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6 (23).

(XIX) Operating revenues

	2018
Revenue from Contracts with Customers	$ 994,632

1. Segmentation of revenue from contracts with customers

   The revenue is derived from providing goods that are transferred at a certain point in time, and the sources of revenue can be broken down into the following geographical areas:

2018	Taiwan	United States	Total
Revenue from contracts with external customers	$ 522,270	$ 472,362	$ 994,632

2. Contract liabilities

   (1) The contract liabilities of customer contract revenue recognized by the Company are shown as follows:

	December 31, 2018
Contract liabilities:	
Contract liabilities - Drug sales contract	$ -

   (2) Opening contract liabilities recognized as revenue this period due to sales contract is $1,566.

3. Please refer to Note 12 (5) 2 for the disclosure related to the operating revenue of 2017.

(XX) Other revenue

	2018	2017
Dividend income	$ 3,778	$ 3,017
Rent revenue	2,901	1,439
Interest income		
Interest from bank deposits	222	202
Other interest incomes	12	20
Sundry income	6,983	7,542
	$ 13,896	$ 12,220

(XXI) Other profits and losses

	2018	2017
Gain (loss) on disposal of property, plant and equipment	$ 214,600	($ 146)
Net gain (loss) on foreign currency exchange	2,982	(13,645)
Impairment loss	(9,841)	-
Miscellaneous income	(3,290)	(490)
Net profit (loss) from financial assets and liabilities at fair value through profit and loss (Note)	(150)	1,741
	$ 204,301	($ 12,540)

Note: In order to avoid the risk of price fluctuation in value of foreign currency assets and liabilities due to exchange rate fluctuations, the Company adopts forward foreign exchange transactions and no hedge accounting is applied. The net profit recognized in 2018 and 2017 were $211 and $1,741, respectively.

(XXII) Financial costs

	2018	2017
Interest expenses:		
Bank loan	$ 10,870	$ 8,351

(XXIII) Employee benefit expense, depreciation and amortization

1. Employee benefit expense, depreciation and amortization:

Functionality / Characteristics	2018 Allocated as operating cost	2018 Employee expenses	2018 Total
Employee benefits expenses			
Salaries and wages	$ 101,482	$ 112,717	$ 214,199
Labor insurance and national health insurance	9,434	9,484	18,918
Pension expenses	3,907	5,626	9,533
Directors' remuneration	-	6,258	6,258
Other employee expenses	7,665	6,399	14,064
Depreciation	104,522	28,312	132,834
Amortization	25	1,761	1,786

Functionality / Characteristics	2017 Allocated as operating cost	2017 Employee expenses	2017 Total
Employee benefits expenses			
Salaries and wages	$ 98,007	$ 115,389	$ 213,396
Labor insurance and national health insurance	9,192	8,915	18,107
Pension expenses	3,754	5,795	9,549
Directors' remuneration	-	5,806	5,806
Other employee expenses	6,345	6,004	12,349
Depreciation	106,226	26,465	132,691
Amortization	2	1,291	1,293

Note: As of the end of 2018 and 2017, there were 300 and 286 employees, respectively, which included 6 directors who did not hold concurrent employee positions.

2. Remunerations for employees and directors:

(1) According to the articles of incorporation of the Company, a portion of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The percentage shall be 1% to 15% for employees' compensation and shall not be higher than 3% for directors' remuneration.

(2) A For the 2018, employees' compensation was accrued at $15,488 while directors' remuneration was accrued at $1,549. The aforementioned amounts were recognized in salary expenses.

B. For the 2017, employees' compensation was accrued at $11,025 while directors' remuneration was accrued at $1,103. The aforementioned amounts were recognized in salary expenses.

C. The employees' compensation and directors' remuneration were estimated and accrued based on 6.09% and 0.61% of profit of current year distributable for the 2018, respectively, with the estimated amount in line with the resolution of the board of directors. The abovementioned employee compensation will be paid in cash.

D. The employees' compensation and directors' remuneration resolved by the Board of Directors for 2017 were $11,025 and $1,103, respectively, consistent with the amount recognized in the 2017 financial report.

E. Information about employees' compensation and directors' remuneration of the Company as resolved by the Board of Directors and shareholders will be posted in the "Market Observation Post System".

(XXIV) Income tax

1. Income tax expense

(1) Components of income tax expense:

	2018	2017
Current income tax:		
Current income tax	$ 13,152	$ 5,692
Additional levy on undistributed earnings	4,036	1,472
Overestimated income tax in prior periods	(2,593)	(427)
Total Current income tax	14,595	6,737
Deferred income tax:		
Origin and reversal of temporary differences	(10,709)	5,618
Impact from change in tax rate	(1,058)	-
Income tax expense	$ 2,828	$ 12,355

(2) Income tax amounts relating to other comprehensive profit and loss:

	2018	2017
Defined benefit obligation revaluation amount and volume	($ 498)	$ 400
Impact from change in tax rate	250	-
	($ 248)	$ 400

2. Reconciliation between income tax expense and accounting profit:

	2018	2017
Income tax derived by applying the statutory tax rate to pre-tax net profit	$ 47,416	$ 16,680
Tax-free income by Income Tax Law	(43,954)	(513)
Impact on income tax from items excluded according to the tax law	188	39
Realizable changes from deferred income tax assets	(1,207)	-
Impact on income tax from settlement loss	-	(4,896)
Additional levy on undistributed earnings	4,036	1,472
Overestimated income tax in prior periods	(2,593)	(427)
Impact from change in tax rate	(1,058)	-
Income tax expense	$ 2,828	$ 12,355

3. Deferred income tax assets or liabilities arising from temporary differences:

	2018			
	January 1	Recognized in the profit or loss	Recognized in other comprehensive net loss	December 31
Timing difference:				
- Deferred income tax assets:				
Falling price of inventory	$ 13,347	$ 3,209	$ -	$ 16,556
Unrealized exchange loss	299	(239)	-	60
Impairment loss of fixed assets	469	1,870	-	2,339
Bonus payable for paid leave not taken	672	365	-	1,037
Profit and loss recognized by using equity method	-	293	-	293
Subtotal	14,787	5,498	-	20,285
- Deferred income tax liabilities:				
Profit and loss recognized by using equity method	(6,760)	6,760	-	-
Unrealized exchange gain	(147)	147	-	-
Determined benefit obligation	(3,309)	(638)	248	(3,699)
Reserve for land revaluation increment tax (“LRIT”)	(240,164)	-	-	(240,164)
Subtotal	(250,380)	6,269	248	(243,863)
Total	($ 235,593)	$ 11,767	$ 248	($ 223,578)

	2017			
	January 1	Recognized in the profit or loss	Recognized in other comprehensive net profit	December 31
Timing difference:				
- Deferred income tax assets:				
Falling price of inventory	$ 11,365	$ 1,982	$ -	$ 13,347
Unrealized exchange loss	-	299	-	299
Impairment loss of fixed assets	622	(153)	-	469
Bonus payable for paid leave not taken	1,089	(417)	-	672
Subtotal	13,076	1,711	-	14,787
- Deferred income tax liabilities:				
Profit and loss recognized by using equity method	(373)	(6,387)	-	(6,760)
Unrealized loss (gain) from sales	(10)	(137)	-	(147)
Unrealized exchange gain	(814)	814	-	-
Determined benefit obligation	(1,290)	(1,619)	(400)	(3,309)
Reserve for land revaluation increment tax ("LRIT")	(240,164)	-	-	(240,164)
Subtotal	(242,651)	(7,329)	(400)	(250,380)
Total	($ 229,575)	($ 5,618)	($ 400)	($ 235,593)

4. The Company's filings of profit-seeking enterprise business income tax returns had been certified by the tax authority up till 2015 (inclusive).
5. The amendments to Taiwan Income Tax Act came into effect on February 7, 2018, and the tax rate for the for-profit business income tax has been increased from 17% to 20%. The amendments have been applied since 2018. The Company has assessed the related income tax implications for the tax rate change.

(XXV) Earnings per share

	2018		
	After-tax amount	Weighted average outstanding shares (thousand shares)	Earnings per share (NT$)
Base earnings per share			
Current period net profit	$ 234,251	77,560	$ 3.02
Diluted earnings per share			
Current period net profit	$ 234,251	77,560	
Effect of dilutive potential ordinary shares: Employees' compensation	-	718	
The effect of net profit in the current period to the potential ordinary shares	$ 234,251	78,278	$ 2.99

	2017		
	After-tax amount	Weighted average outstanding shares (thousand shares).	Earnings per share (NT$)
Base earnings per share			
Current period net profit	$ 85,766	77,560	$ 1.11
Diluted earnings per share			
Current period net profit	$ 85,766	77,560	
Effect of dilutive potential ordinary shares: Employees' compensation	-	641	
The effect of net profit in the current period to the potential ordinary shares	$ 85,766	78,201	$ 1.10

(XXVI) Operating lease

The Company leases assets such as automobiles and offices by adopting operating leases which last 3 to 6 years. Rental expenses of $2,120 and $2,840 were recognized for 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable leases are as follows:

	December 31, 2018	December 31, 2017
Less than 1 year	$ 1,659	$ 2,426
Over 1 year but less than 5 years	2,274	1,039
	$ 3,933	$ 3,465

(XXVII) Supplemental cash flow information

Investing activities partially funded with cash:

	2018	2017
Purchase of property, plant, and equipment	$ 95,490	$ 803,831
Add: Opening balance of payable on equipment	6,912	5,681
Less: Ending balance of payable on equipment	(9,469)	(6,912)
Cash Paid for the Period	$ 92,933	$ 802,600

(XXVIII) Changes in liabilities arising from financing activities

	Shot-term borrowings	Short-term bills payable	Long-term borrowings	Total liabilities arising from financing activities
January 1, 2018	$ 242,376	$ 249,902	$ 697,440	$ 1,189,718
Change in cash flow from financing activities	(92,376)	(169,946)	(130,000)	(392,322)
December 31, 2018	$ 150,000	$ 79,956	$ 567,440	$ 797,396

	Shot-term borrowings	Short-term bills payable	Long-term borrowings	Total liabilities arising from financing activities
January 1, 2017	$ 210,000	$ 169,898	$ 130,000	$ 509,898
Change in cash flow from financing activities	32,376	80,004	567,440	679,820
December 31, 2017	$ 242,376	$ 249,902	$ 697,440	$ 1,189,718

VII. Related party transactions

(I) Name and relationship of related parties

Name	Relationship with The Company
PHARMAPORTS, LLC (PPL)	Subsidiaries
China Chemical & Pharmaceutical Co., Ltd. (CCPC)	The Company's main affiliates
Chunghwa Yuming Healthcare Co., Ltd. (CYH)	Subsidiaries of the Company's affiliates

(II) Major transactions with related parties

1. Operating revenue

	2018	2017
Product sales:		
PPL	$ 472,362	$ 603,795
CCPC	60,060	34,759
	$ 532,422	$ 638,554

(1) The transaction price of the Company's sales to related parties is based on the price agreed by both parties.

(2) The Company's collection period for non-interested parties is 30 to 120 days after delivery, and the collection period for interested parties is 60 to 120 days after delivery.

(3) The Company signed a contract with CCPC for the production and sales of APIs in 2016. The Company adds 30% to the manufacturing cost of the APIs before selling them to the entity for processing into products. The Company also receives 50% (the gross profit of CCPC and the Company) of the actual sales profit. The contract period lasts 3 years, starting January 1, 2016, and the contract can automatically renew if neither party cancels it in writing 6 months before the end of the period.

2. Accounts receivable

	December 31, 2018	December 31, 2017
Account receivable from related parties:		
PPL	$ 67,737	$ 92,628
CCPC	26,495	16,531
Less: Allowance for losses	(46)	-
	$ 94,186	$ 109,159

3. Other receivable

	Nature of main transactions	December 31, 2018	December 31, 2017
PPL	Dividend receivables	$ 3,496	$ 525
PPL	Agency collection and payment	450	201
CYH	Agency collection and payment	186	-
		$ 4,132	$ 726

(III) Remuneration to key management

	2018	2017
Salaries and other short-term employee benefits	$ 25,889	$ 29,494
Termination benefits	2,194	-
Retirement benefits	348	355
	$ 28,431	$ 29,849

VIII. Pledged assets

The Company's assets are used as collateral as follows:

	Book Value		
Asset Item	December 31, 2018	December 31, 2017	Purpose of guarantee
property , plant, and equipment	$ 712,984	$ 813,630	Long-term borrowings

IX. Significant contingent liabilities and unrecognized contractual commitments

(I) Contingencies

none.

(II) Commitments

1. Capital expenditures that have been signed but not yet incurred

	December 31, 2018	December 31, 2017
property , plant, and equipment	$ 10,898	$ 10,273

2. Operating lease agreement
Please refer to Note 6 (26) for details.

X. Significant disaster loss

none.

XI. Major post-balance sheet events

Please refer to Note 6 (18) 4 for a description on distribution of surplus for 2018.

XII. Others

(I) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Company may make adjustments to dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce the level of debts in order to maintain or adjust the Company's capital structure. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the balance sheet plus net debt.

The Company maintained the same strategy in 2018 as in 2017 and is committed to keeping the debt-to-capital ratio between 20% and 45%.

(II) Financial instruments

1. Types of financial instrument

	December 31, 2018		December 31, 2017	
Financial assets				
Financial assets at fair value through profit and loss				
Financial assets mandatorily measured at fair value through profit or loss	$	29,978	$	-
Available-for-sale financial assets		-		93,775
Financial assets at cost		-		30,000
Financial assets at amortized cost / loans and receivable				
Cash and cash equivalents		65,472		107,950
Notes receivable		666		1,787
Accounts receivable (including related parties)		129,676		239,590
Other receivable		9,397		6,435
	$	235,189	$	479,537
Financial liabilities				
Financial liability measured at the amortized cost				
Shot-term borrowings	$	150,000	$	242,376
Short-term bills payable		79,956		249,902
Payable notes		1,192		345
Accounts payable		60,595		55,201
Other payable		109,299		110,159
Long-term borrowings (including current portion)		567,440		697,440
Deposits received		522		576
	$	969,004	$	1,355,999

2. Risk management policies

(1) The Company's activities expose it to a variety of financial risks, including market risk (exchange rate, interest rate and price), credit risk and liquidity risk. The Company's overall risk management policy focuses on unpredictable events in the financial market, and the Company seeks to mitigate potential adverse effect on the financial position and performance.

(2) The Company's Finance Department identifies and assesses financial risks in close collaboration with the Company's other operating units.

3. The nature and extent of significant financial risks

(1) Market risk

Exchange rate risk

A. The Company is a multinational operation and therefore is subject to exchange rate risk arising from transactions between the different currencies, especially in US dollars. The related exchange risk from future operating activities have been recognized in assets and liabilities.

B. The Finance Department of the Company conducts hedging for the overall exchange rate risk. Exchange rate risk is measured by highly probable transactions in US dollars. Forward foreign exchange contracts are adopted to reduce the impact of exchange rate fluctuations on expected transactions.

C. The Company circumvents exchange rate risk by using forward exchange rate transactions but does not conduct hedge accounting. Please refer to Note 6 (2) and 12 (4) for details on financial assets at fair value through profit and loss.

D. The Company's operations involve certain non-functional currencies (the Company's functional currency is the New Taiwan dollar (NTD), so it is subject to the impact of exchange rate fluctuation. The details of assets and liabilities denominated in foreign currencies whose values would be materially affected by exchange rate fluctuations are as follows:

	December 31, 2018		
	Foreign currency (thousand dollars)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD: NTD	$ 4,089	30.715	$ 125,594
Investments accounted for by the equity method			
USD: NTD	$ -	30.715	$ -
Financial liabilities			
Monetary items			
USD: NTD	$ 242	30.715	$ 7,433

	December 31, 2017		
	Foreign currency (thousand dollars)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD: NTD	$ 9,714	29.76	$ 289,089
Investments accounted for by the equity method			
USD: NTD	$ 648	29.76	$ 19,273
Financial liabilities			
Monetary items			
USD: NTD	$ 3,249	29.76	$ 96,690

E. Total exchange gain, including realized and unrealized gains from significant foreign exchange variations on monetary items held by the Company amounted to a gain of $2,982 and a loss of $13,645 for the years ended December 31, 2018 and 2017, respectively.

F. The analysis of foreign currency risk due to significant exchange rate fluctuation is as follows:

	2018		
	Sensitivity analysis		
	Magnitude changes	Profit and loss affected	Other comprehensive profit and loss affected
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD: NTD	1%	$ 1,256	$ -
Financial liabilities			
Monetary items			
USD: NTD	1%	($ 74)	$ -

	2017		
	Sensitivity analysis		
	Magnitude changes	Profit and loss affected	Other comprehensive profit and loss affected
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD: NTD	1%	$ 2,891	$ -
Financial liabilities			
Monetary items			
USD: NTD	1%	($ 967)	$ -

Price risk

A. The Company is exposed to the price risk of financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income and financial assets available for sale. To manage the price risk of equity instruments, the Company diversifies its investment portfolio in a manner that is based on the limits set by the Company.

B. The Company invests primarily in equity instruments issued by domestic companies. The price of such equity instrument is subject to the uncertainty of the future value of investment target. If the price of such equity instrument increases or decreases by 10%, while all other factors remain unchanged, the net profit affected by equity instruments at fair value through profit and loss after tax for 2018 is an increase of $2,998, and as for equity investment at fair value through other comprehensive income and equity assets available for sale for 2018 and 2017, they are increased $0 and $9,378, respectively.

Cash flow and fair value interest rate risk

A. The Company's interest rate risk mainly comes from short-term borrowings issued at floating rates, short-term bills payable and long-term borrowing, which exposes the Company to cash flow interest rate risk. The Company's policy is to maintain at least 40% of the borrowings at fixed interest rates, which can be achieved through interest rates when necessary. For 2018 and 2017, the Company's borrowings issued at floating rates were mainly denominated in New Taiwan dollars and US dollars.

B. If the interest rates of borrowing NTD and USD increases or decreases by 1%, while all other factors remain constant, the net profit after tax for 2018 and 2017 is an increase of $6,379 and $9,875, respectively, mainly due to the interest expense changes caused by the floating interest rate.

(2) Credit risk

A. Credit risk refers to the risk of financial loss of the Company arising from default by the clients or counterparties of financial instruments under contract obligations, and the defaults are accounts receivable.

B. The management of credit risk is established with a Company perspective. According to the Company's credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Office of the General Manager. The utilization of credit limits is regularly monitored.

C. The Company adopts the above assumption provided by the IFRS 9 that if a contract payment is overdue for more than 90 days in accordance with the agreed payment terms, it is considered a breach of contract.

D. The Company adopts the following assumption provided by the IFRS 9 as a basis for determining whether there is a significant increase in the credit risk of financial instruments after the original recognition:

If the contract payment is overdue for more than 30 days in accordance with the agreed payment terms, the credit risk of the financial asset is significantly increased since the original recognition.

E. The Company categorizes the accounts receivable from customers based on their nature. The provision matrix and the loss ratio method are adopted as the basis for estimating the expected credit loss.

F. The Company may write off the amount of financial assets that cannot be reasonably expected to be recovered after recourse. However, the Company will still continue the recourse to protect the rights of the claims. For the year ended December 31, 2018, the Company has no creditor's rights that have been written off but are involved in recourse.

G. The Company has included the global economic indicators and signals and estimated the loss allowance for notes receivable and accounts (including the interested parties) based on the loss rates built according to historic and current data. The provision matrix and loss rate as of December 31, 2018 are show as follows:

December 31, 2018	Expected rate of loss	Total book value		Allowance for losses	
Not overdue	0.03%~0.3%	$	124,298	$	128
Overdue within 30 days	0.37%~3.69%		6,203		158
Overdue 30 days	0.38%~3.76%		135		8
Overdue 60 days	0.79%~7.92%		-		-
Overdue 90 days	10%~100%		-		-
		$	130,636	$	294

H. The Company adopts a simplified method in which the loss allowance for the accounts receivable is shown below:

	2018
	Notes receivable and accounts (including interested parties)
January 1_IAS 39	$ -
Applicable new criteria	378
January 1_IFRS 9	378
Impairment loss reversal	(84)
December 31	$ 294

The amount recognized above is based on other credit enhancements held, so the unrecognized loss allowance as of December 31, 2018 is $302. Among the reversed loss in 2018, $84 is the impairment loss reversed by payables derived from customer contracts.

I. Please see Note 12 (4) for the information on credit risk in 2017.

(3) Liquidity risk

A. Cash flow forecasting is performed by the operating entities of the Company and aggregated by the Company's Finance Department. It monitors rolling forecasts of liquidity requirements to ensure the Company has sufficient cash to meet operational needs and maintain sufficient unencumbered loan commitments at all times. Such forecasting takes into consideration the Company's debt financing plans, covenant compliance, and compliance with internal balance sheet ratio targets.

B. The Company's unutilized borrowings are shown as follows:

	December 31, 2018	December 31, 2017
Maturing in one year or less	$ 1,010,000	$ 853,576
Mature beyond one year	320,000	320,000
	$ 1,330,000	$ 1,173,576

C. The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial liabilities:

December 31, 2018	Within 1 year	1 to 2 years	2 to 5 years
Shot-term borrowings	$ 150,000	$ -	$ -
Short-term bills payable	79,956	-	-
Payable notes	1,192	-	-
Accounts payable	60,595	-	-
Other payable	109,299	-	-
Deposits received	522	-	-
Long-term borrowings	7,263	573,007	-

Non-derivative financial liabilities:

December 31, 2017	Within 1 year	1 to 2 years	2 to 5 years
Shot-term borrowings	$ 242,376	$ -	$ -
Short-term bills payable	249,902	-	-
Payable notes	345	-	-
Accounts payable	55,201	-	-
Other payable	110,159	-	-
Deposits received	576	-	-
Long-term borrowings (including current portion)	137,462	7,263	573,012

(III) Fair value information

1. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: The quotation (unadjusted) of the same assets or liabilities that can be acquired by the company in an active market on the measurement date A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in publicly traded or OTC stocks is included.

Level 2: It refers to the directly or indirectly observable input value of asset or liability, except for those quotations included in Level 1.

Level 3: The unobservable inputs of assets or liabilities.

2. Please refer to Note 6 (8) for the fair value of investment property carried at cost.

3. Financial instrument not measured at fair value:

Include the book value of cash and cash equivalents, notes receivable, accounts receivable (including the interested parties), other receivable, short-term borrowings, short-term notes payable, Notes payable, accounts payable and other accounts payable as reasonable approximation of fair value.

4. The related information for financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities is as follows:

(1) The Company classifies them based on the nature of assets and liabilities, and the information is as follows:

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets				
Repeatable fair value				
Financial assets at fair value through profit and loss				
Equity securities	$ -	$ -	$ 29,978	$ 29,978

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Repeatable fair value				
Available-for-sale financial assets				
Equity securities	$ 93,775	$ -	$ -	$ 93,775

(2) The methods and assumptions adopted by the Company to measure fair value are as follows:

A. The Company uses market price as the fair value (Level 1), which is classified as follows according to the characteristics of the instruments:

	Publicly listed companies' stocks or OTC stocks
Market quote	Closing price

B. In addition to the abovementioned financial instruments in active markets, the fair value of other financial instruments is obtained by valuation or reference to quotation from counterparties.

C. When assessing non-standardized and less complex financial instruments, the Company adopts valuation techniques widely used by other market participants. The parameters used in the valuation models for this type of financial instruments are usually observable market information.

D. The valuation of financial derivatives is based on the valuation models widely accepted by market participants, such as the discounting method. Forward exchange contracts are usually evaluated based on the current forward exchange rate.

E. The output of valuation models are estimates, and the valuation techniques may not reflect all factors affecting the financial instruments and non-financial instruments held by the Company. Therefore, the estimates of valuation models will be adjusted according to additional parameters, such as model risk or liquidity risk. Based on the management policies of the Company's valuation model at fair value and the related control procedures, the management believes that to fairly present the fair value of financial and non-financial instruments in the consolidated balance sheet, adjusting valuation may be appropriate and necessary. Price information and parameters used in valuation are carefully assessed and they are appropriately adjusted according to the current market conditions.

5. There were no transfers between Level 1 and 2 in 2018 and 2017.

6. The following table shows the changes in Level 3 in 2018:

	2018
	Equity instruments
January 1	$ 30,000
Income recognized in profit or loss (Note)	(22)
December 31	$ 29,978

Note: Other gains and losses listed.

7. There were no transfers in and/or out of Level 3 in 2018 and 2017.

8. With respect to the valuation of fair value classified as Level 3, the Finance Department is responsible for the independent verification of fair value of financial instruments. Based on independent information, the valuation results can be closer to the market conditions. The independence and reliability of information and the consistency with other sources, as well as other necessary adjustments to the fair value, can ensure that the results are reasonable.
In addition, the Finance Department develops valuation policies and procedures for fair value of financial instruments and ensure that they comply with the requirements of the International Financial Reporting Standards.

9. The quantitative and sensitivity analysis of significant and unobservable input of valuation models used for measuring Level 3 fair value is shown as follows:

	Fair value as of December 31, 2018	Valuation technique	Significant unobservable input value	Relationship between input value and fair value
Shares of venture capital	$ 29,978	Net asset value method	Not applicable	Not applicable

10. The Company conducts careful assessment before determining the valuation model and parameters to be used, and the use of different valuation models or parameters may lead to different valuation results.

(IV) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017.

1. Summary of significant accounting policies adopted in 2017:

(1) Financial assets and liabilities at fair value through profit and loss

A. Financial assets at fair value through profit or loss refer to those classified as being held for trading or upon initial recognition designated as at fair value through profit or loss. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling or repurchase in the short-term. Derivatives are classified as financial assets and liabilities held for trading besides being designated as hedging instruments by hedge accounting. The Company designates its financial assets and liabilities at fair value through profit or loss at initial recognition when they meet any one of the following conditions:

(A) Mixed (hybrid) contracts, or

(B) Can eliminate or significantly reduce inconsistent measurement or recognition, or

(C) Investments that managed on a fair value basis and the performance is assessed based on written risk management or investment strategies.

B. On a regular way purchase or sale basis, the Company's financial assets and liabilities at fair value through profit or loss are recognized and derecognized using settlement date accounting.

C. Financial assets and liabilities at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. Subsequent appraisal is at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(2) Available-for-sale financial assets

A. Financial assets available for sale refer to the non-derivative financial assets available for sale or not classified in any other categories.

B. On a regular way purchase or sale basis, the Company's financial assets available for sale are recognized and derecognized using trade date accounting.

C. The Group measures financial assets available for sale at fair value in initial recognition, and the related transaction costs are recognized in profit and loss. These financial assets are subsequently remeasured and stated at fair value, and the changes in fair value are recognized in other comprehensive income. With respect to equity investments that do not have a quoted price in an active market or derivatives that are linked to, and must be settled by delivery of, such unquoted equity instruments, when the fair value cannot be reliably measured, the Company recognizes them as "Financial assets carried at cost".

(3) Loans and receivables

Accounts and notes receivable are original loans and receivables that are due from customers in the normal course of business for the sale of good or services. Loans and receivables are measured at fair value on initial recognition and subsequently at the amortized cost using the effective interest rate less provision for impairment. Short-term non-interest bearing accounts receivable are measured subsequently at the original invoice amount as the effect of discount is insignificant.

(4) Impairment of financial assets

A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:

(A) Significant financial difficulty of the issuer or debtor.

(B) A breach of contract, such as a default or delinquency in interest or principal payments.

(C) The Company gives concessions that the debtor could not have had due to economic or legal reasons related to the financial difficulties of the debtor.

(D) The debtor is likely to enter bankruptcy or other financial restructuring.

(E) Experience the disappearance of active market for such financial asset due to financial difficulties.

(F) Observable data indicate that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group.

(G) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.

(H) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Company assesses that there has been objective evidence of impairment loss of financial assets, the amount of impairment loss is determined as follows according to the category of financial assets:

(A) Financial assets measured at amortized cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortized cost that would have been at the date of reversal had the impairment loss not been recognized previously. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(B) Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's current market return rate, and is recognized in profit or loss. Such impairment losses may not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(C) Financial assets available for sale

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from "other comprehensive income" to "profit or loss". If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss in the current period. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

2. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, based on IAS39, to January 1, 2018, based on IFRS 9, were as follows:

		Available for sale - Equity					Effect
	Measured at fair values through profit and/or loss	Measured at fair value through other comprehensive income - Equity	Carried at cost	Notes receivable and accounts (including interested parties)	Investments accounted for by the equity method	Total	Retained earnings
IAS 39	$ -	$ 93,775	$ 30,000	$ 241,377	$ 61,542	$ 426,694	$ -
Transfer-in measured at fair value through profit or loss	30,000	-	(30,000)	-	-	-	-
Fair value adjustment	339	-	-	-	-	339	339
Impairment loss adjustment	-	-	-	(378)	(18)	(396)	(396)
IFRS 9	$ 30,339	$ 93,775	$ -	$ 240,999	$ 61,524	$ 426,637	($ 57)

(1) Equity instruments classified as "Financial assets available for sale" according to IAS 39 amount to $93,775. As the Company holds the instruments not for the purpose of held-for-trading, it chooses to classify them as "Financial assets at fair value through other comprehensive income" when first adopting the IFRS 9.

(2) Equity instruments classified as "Financial assets carried at cost" according to IAS 39 amount to $30,000. They are classified as "Financial assets (equity instruments) measured at fair value through profit or loss" according to IFRS 9 and increased to $30,339, with the "Retained earnings" of $339 being added.

(3) According to IFRS 9 on recognition of impairment loss, "Notes receivable" of $7, "Accounts receivable" of $371, "Investments accounted for by the equity method" of $18 and "Retained earnings" of $396 are subtracted.

3. The adjustment of impairment allowance from the incurred loss model based on IAS 39 as of December 31, 2017 to the expected loss model based on IFRS 9 as of January 1, 2018 is shown as follows:

	Loss allowance - Notes and accounts receivable (including interested parties)
IAS 39	$ -
Impairment loss adjustment	378
IFRS 9	$ 378

4. Statement of major accounting items for the year ended December 31, 2017:

(1) Available-for-sale financial assets

Item	December 31, 2017
Non-current items:	
Publicly listed companies' stocks	
China Chemical & Pharmaceutical Co., Ltd.	$ 103,425
Valuation adjustment on financial assets available for sale.	(9,650)
	$ 93,775

A. The Company recognized an amount of $2,263 in the other comprehensive income due to changes in fair value in 2017.

B. The Company has no financial assets available for sales pledged to others.

(2) Financial assets carried at cost

Item	December 31, 2017
Non-current items:	
China Development Biomedical Venture Capital (limited company)	$ 30,000
Accumulated impairment	-
	$ 30,000

A. The Company holds unlisted stocks (nor listed in the OTC) and equity investments which are classified as financial assets available for sale. However, the investments are not publicly traded in active markets and the industry information of the similar companies or the financial information of the invested companies cannot be obtained, so their value cannot be reasonably measured and are therefore classified as “Financial assets carried at cost”.

B. The Company has no financial assets carried at cost pledged to others.

5. Credit risk information as of December 31, 2017:

(1) Credit risk refers to the risk of financial loss of the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company’s credit policy, each local entity in the Company is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Office of the General Manager. The utilization of credit limits is regularly monitored. The main credit risk comes from accounts receivable that have not yet been received.

(2) As of December 31, 2017, no credit limits were exceeded during the reporting period, and management does not expect any significant losses from non-performance by these counterparties.

(3) Information regarding the Company’s notes and accounts receivable (including the interested parties) which are not past due and not impaired, according to the Group’s credit standards, are shown as follows:

	December 31, 2017
Group A	$ 16,531
Group B	96,087
Group C	81,243
	$ 193,861

Note: Criteria of credit rating for customers (selected in order of 1, 2 and 3)

Group A: 1. No overdue payment in the past.
2. D&B rating1-3;
3. The paid-in capital is greater than or equal to $30,000.

Group B: 1. No overdue payment in the past one year.
2. D&B rating4-5;
3. The paid-in capital is less than $30,000.

Group C: Customer who are not in Group A or B.

(4) The aging analysis of the Company's financial assets that have been overdue but not yet in impairment:

	December 31, 2017
Up to 30 days	$ 47,218
31 to 90 days	298
	$ 47,516

The aforementioned aging analysis is based on the overdue days.

(5) Analysis of changes in financial assets that have suffered impairment:
As of December 31, 2017, the accounts receivable in impairment is $0.

(V) Effects on initial application of IFRS 15 and information on application of IAS 18 in 2017.

1. The significant accounting policies applied on revenue recognition in 2017 are set out below:

The Company manufactures and sells API-related products. Revenue refers to the fair value of the consideration or receivable for sales of goods to the Company's external customers during normal business activities, which is expressed in the net amount after deducting sales returns, volume discounts and other discounts. The revenue from products sales is recognized when the products are delivered to buyers, the amount of goods sold can be reliably measured and the future economic benefits are likely to flow into the Company. The delivery of products is considered occurs when the significant risks and rewards related to ownership have been transferred to customers, the Company does not continue to participate in the management and maintains effective control of goods, customers have accepted the goods according to the sales contracts or when there is objective evidence that all acceptance terms have been met.

2. The 2017 revenue recognized by using the abovementioned accounting policies is as follows:

	2017
Sales revenue	$ 1,141,506

3. The effect on and description of current balance sheets if the Company continues adopting the above accounting policies in 2018 are as follows:

According to IFRS 15, the recognition of contract liabilities associated with sales contracts of products used to be interpreted as the "Other current liabilities - others" on the balance sheet during the past reporting period, and the balance as of December 31, 2018 was NT$0.

XIII. Notes of disclosure

(I) Information about important transactions

1. Loans to others: None
2. Provision of endorsements and guarantees to others: None
3. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to Attached table 1.
4. Acquisition or sale of the same security with the accumulated cost reaching $300 million or 20% of the Company's paid-in capital or more: Please refer to Attached table 2.
5. Acquisition of real estate reaching $300 million or 20% of paid-in capital or more: None.
6. Disposal of real estate reaching $300 million or 20% of paid-in capital or more: Pease refer to Attached table 3.
7. Purchases or sales of goods from or to related parties reaching $100 million or 20% of paid-in capital or more: Please refer to Attached table 4.
8. Receivables from related parties reaching $100 million or 20% of paid-in capital or more: None.
9. Engaged in derivatives trading: Please see Note 4 (6), Note 4 (22), Note 6 (2) and Note 6 (21).
10. Significant inter-company transactions during the reporting periods: Please refer to Attached table 5.

(II) Information regarding investees

Names, locations and other information of investee companies (not including investees in China): Please refer to Attached table 6.

(III) Information regarding investment in the territory of mainland china

1. Basic information: Please see Attached table 7.
2. Significant transactions, either directly or indirectly through a third area, with investee companies in China: None.

XIV. Segment information

Based on IAS 8 and is also disclosed in the consolidated financial report.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

January 1 to December 31, 2018

Attached table 1

Unit: NTD thousand

(Except where otherwise stated)

				At ending				
Holding company	Type and name of marketable securities (Note 1)	Relationship with the securities issuer	Account titles in book	Quantity	Book value (Note 2)	Shareholding percentage	Fair value	Remarks
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	Common shares China Development Biomedical Venture Capital	None	Financial assets at fair value through profit and loss	3,000,000	$ 29,978	1.71%	$ 29,978	None

Note 1: Securities as stated in this table are the stocks, bonds, beneficiary certificates and the securities deriving from the above items within the scope of IFRS 9, “Financial Instruments”.
Note 2: Book value is determined based on fair value less accumulated impairment for marketable securities measured at fair value. For those not measured at fair value, the book value is determined based on the acquisition cost or amortized cost less accumulated impairment.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Acquisition or sale of the same security with the accumulated cost reaching $300 million or 20% of the Company's paid-in capital or more

January 1 to December 31, 2018

Attached table 2

Unit: NTD thousand
(Except where otherwise stated)

Marketable securities			Counterparties	Relation	At beginning		Buy (Note 3)		Sell (Note 3)				At ending	
Buyer and sellers	Name (Note 1)	Account titles in book	(Note 2)	(Note 2)	Quantity	Amount	Quantity	Amount	Quantity	Sale price	Cost in book	Capital gain/loss from disposition	Quantity	Amount
China Chemical & Pharmaceutical Co., Ltd.	Stock	Financial assets at fair value through other comprehensive profit or loss	China Chemical & Pharmaceutical Co., Ltd.	None	5,028,137	$ 93,775	9,581,000	$ 200,161	-	$ 293,936	$ 293,936	$ -	-	$ -
China Chemical & Pharmaceutical Co., Ltd.	Stock	Investments accounted for by the equity method	China Chemical & Pharmaceutical Co., Ltd.	The Company's main affiliates	-	-	14,609,137	263,828 (Note 6)	-	-	-	-	17,892,137	325,381
					-	-	3,283,000	60,764						
					-	-	-	789 (Note 7)						

Note 1: Marketable securities in the Table refer to stocks, bonds, beneficiary certificates and other related derivative securities of the abovementioned items.

Note 2: Investors using the equity method in the securities account must fill in the two fields, and the rest can be left blank.

Note 3: The accumulated purchase and sale amount should be calculated separately base on the market price to see if they reach $300 million or 20% of the paid-in capital.

Note 4: Paid-in capital refers to the amount of paid-in capital of the parent company. In the event the issuer's shares have no par value or a par value other than NT$10, the calculation of transaction amounts of 20% of paid-in capital will be substituted by the 10% of equity attributable to owners of the parent company.

Note 5: The original account is the non-current equity instrument at fair value through other comprehensive income, and as of November 14, 2018, it was reclassified as an investment using the equity method.

Note 6: Include the original investment cost of $303,586 and the valuation adjustment of $39,758.

Note 7: Include the share of affiliates recognized by the equity method, the exchange difference calculated from financial statements of overseas operating units, unrealized profit or loss of equity instruments at fair value through other comprehensive income and the re-measurement of defined benefit plan, for a total of $789.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Disposal of real estate reaching $300 million or 20% of paid-in capital or more

January 1 to December 31, 2018

Attached table 3

Unit: NTD thousand

(Except where otherwise stated)

Company disposing property	Asset title	Date of occurrence (Note 3)	Original acquisition date	Book value (Note 4)	Trade value	Payment status (Note 5)	Capital gain/loss from disposition	Counterparties	Relation	Purpose of disposition	Reference basis for price (Note 1)	Other stipulations of the transaction
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	Lands in Guanyin District of Taoyuan City	2018/5/8	101/05/10	$ 265,409	$ 480,000	$ 480,000	$ 214,591	Hung-Da Development	None	Improve the Company's liquidity and enrich the working capital.	The agreed amount of the two parties $ 432,405	None

Note 1: For the disposal of assets which require appraisal according to the regulations, please specify the appraisal results in the "Reference basis for price" field.

Note 2: Paid-in capital refers to the amount of paid-in capital of the parent company. In the event the issuer's shares have no par value or a par value other than NT$10, the calculation of transaction amounts of 20% of paid-in capital will be substituted by the 10% of equity attributable to owners of the parent company.

Note 3: The event date refers to the transaction date, payment date, commission date, account transfer date, board resolution date, or other dates when the trade counterparty and trade amount is confirmed, whichever is sooner.

Note 4: The carrying amount includes land cost of $263,553 and the sales expense of $1,856.

Note 5: The total transaction price for the disposal of lands was $480,000, to be collected in three periods. The payments were received by July 10, 2018.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Purchase from or sale to related parties for an amount exceeding NT$100 million or 20% of paid-in capital

January 1 to December 31, 2018

Attached table 4

Unit: NTD thousand

(Except where otherwise stated)

			Transactions				Trading terms different from general trade and reasons		Notes and accounts receivable (payable)		
Purchase (sale) company	Name of counterparty	Relation	Purchase (sale)	Amount	Percentage of total purchase (sale)	The credit period	Unit price	The credit period	Balance	Percentage of total notes/accounts receivable (payable)	Remarks
Chunghwa Chemical Synthesis & Biotech Co., Ltd.	PHARMAPORTS, LLC	Subsidiaries	Sale	$ 472,362	47%	Collection period is 60 to 90 days after delivery.	The agreed amount of the two parties	-	$ 67,737	52%	None

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Significant inter-company transactions during the reporting periods

January 1 to December 31, 2018

Attached table 5

Unit: NTD thousand

(Except where otherwise stated)

Code (Note 1)	Trader's name	Counterparty	Relationship (Note 2)	Transactions: Item	Transactions: Amount	Transactions: Terms and conditions	Transactions: Percentage of consolidated total operating revenues or total assets (Note 3)
0	Chunghwa Chemical Synthesis & Biotech Co., Ltd.	PHARMAPORTS, LLC	1	Sales revenue	$ 472,362	Note 4	46%
0	Chunghwa Chemical Synthesis & Biotech Co., Ltd.	PHARMAPORTS, LLC	1	Accounts receivable	67,737	Note 4	2%

Note 1: The information about transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:

(1) Fill in "0" for parent company.

(2) Subsidiaries are numbered from number 1.

Note 2: The relationship with the traders is classified into three categories, which should be specified (the transaction conducted between the parent company and its subsidiaries or between two subsidiaries need not be disclosed in duplication). Such as: if the parent company has the transaction with the subsidiaries disclosed, the subsidiaries need not to have it disclosed in duplication. If one of the two subsidiaries has the transaction disclosed, the other subsidiary needs not to have it disclosed in duplication).

(1) Parent company vs. subsidiaries.

(2) Subsidiaries vs. parent company.

(3) Subsidiaries vs. subsidiaries.

Note 3: For computing the ratio of trade amount to total sales revenue or total assets, if it is for asset and liability account, the computation is based on the ratio of ending balance to total consolidated assets; however, if it is for income and expense account, the computation is based on the ratio of interim cumulative amount to total consolidated revenue.

Note 4: The payment period for sales to related parties is 60 to 90 days after shipment.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Names, locations and other information of investee companies (not including investees in China)

January 1 to December 31, 2018

Attached table 6

Unit: NTD thousand

(Except where otherwise stated)

Investor	Name of investee	Location	Principal business	Sum of initial investment: Current period-end	Sum of initial investment: The end of last year	Ending shareholding: Quantity	Ending shareholding: Ratio	Ending shareholding: Book value	Current period profit / loss of the investee	Recognized investment Income	Remarks
Chunghwa Chemical Synthesis & Biotech Co. Ltd.	PHARMAPORTS, LLC	U.S.	Trading of API drugs	$ 4,925	$ 4,925	-	98.00%	$ 12,070	$ 1,831	$ 1,794	Subsidiaries
Chunghwa Chemical Synthesis & Biotech Co. Ltd.	CCSB HOLDING CO., LTD.	Cayman Islands	Engaged in shareholding and reinvestment	17,940	17,940	600,000	100.00%	17,988	(2,415)	(2,415)	Subsidiaries
Chunghwa Chemical Synthesis & Biotech Co. Ltd.	China Chemical & Pharmaceutical Co., Ltd.	Taiwan	Manufacturing and sales of pharmaceuticals and health care products and import of the related medical equipment.	324,593	103,425	17,892,137	6.00%	325,381	25,548	1,402	Affiliate business

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Information on investments in China - Basic information

January 1 to December 31, 2018

Attached table 7

Unit: NTD thousand

(Except where otherwise stated)

Names of investees in China	Principal business	Paid-up Capital	Investment method (Note 1)	Accumulated amount of investment remitted from Taiwan at beginning	Amount of investment remitted or recovered in current period		Accumulated amount of investment remitted from Taiwan at ending	Current period profit / loss of the investee	The Company's directly or indirectly invested shareholding	Investment income (loss) recognized for the year (Note 2 (2) B)	Book value of investment at ending	The investment income received at the end of the current period	Remarks
					Outward remittance	Recover							
CCPC Suzhou	Trading of raw chemical materials and agency and consultation patents and technologies	$ 14,827	(2)	$ 14,827	$ -	$ -	$ 14,827	$ 344	100.00%	$ 344	$ 16,216	$ 23,069	None

Company name	Accumulated investment from Taiwan to Mainland China at ending	Amount of investment approved by Investment Commission of MOEA	Investment amount approved by the Investment Commission MOEAIC
CCPC Suzhou	$ 14,827	$ 14,827	$ 1,190,194

Note 1: There are three types of investments labeled by the respective number:

(1) Direct investment in Mainland China.

(2) Investment in China through an existing company established in a third region (please specify the company): Investment in China through CCSB Holding Co., Ltd.

(3) Other ways.

Note 2: Recognized as gains or losses on investment in current period:

(1) Please note if the investee is still under preparation and there was no investment gain or loss.

(2) The basis of recognition of investment income is classified into following three types, which should be marked out.

A. Financial statements audited by an international accounting firm which cooperates with China Accounting Firm.

B. Financial statements audited by the CPAs who audit the parent company in Taiwan.

C. Others: The investment gain or loss recognized in the financial report of the same period that have not been verified by the certified accountant.

Note 3: All amounts are expressed in New Taiwan dollars.

VI. How financial turnover difficulties faced by this company or its affiliates in the most recent fiscal year as of the printing date of this annual report have impacted the company's financial status: None.

Seven. Review of financial status, business performance, and risk management issues

I. Financial status:

Comparison of financial status

Unit: NTD thousand

Item \ Year	2018/12/31	2017/12/31	Difference		Remarks
			Increase (decrease)	Change in percentage (%)	
Current assets	613,794	1,027,116	(413,322)	(40.24)	Note 1
Available-for-sale financial assets - non-current	—	93,775	(93,775)	—	
Financial assets carried at cost – non-current	—	30,000	(30,000)	—	
Financial assets that are measured at fair value through profit or loss-non-current	29,978	—	29,978	—	
Investments accounted for by the equity method	325,381	—	325,381	—	
property , plant, and equipment	2,195,594	2,242,930	(47,336)	(2.11)	
Real property for investment- net	10,700	10,700	—	—	
Intangible assets	2,193	3,185	(992)	(31.15)	Note 2
Deferred income tax assets	20,511	14,787	5,724	38.71	Note 3
Other current non-assets	23,267	25,432	(2,165)	(8.51)	
Total assets	3,221,418	3,447,925	(226,507)	(6.57)	
Current liabilities	425,690	808,308	(382,618)	(47.34)	Note 4
Non-current liabilities	811,825	818,396	(6,571)	(0.80)	
Total liabilities	1,237,515	1,626,704	(389,189)	(23.93)	Note 5
Attributable to owners of the parent company	1,983,657	1,820,828	162,829	8.94	
Share capital	775,600	775,600	—	—	
Capital reserve	334,323	334,323	—	—	
Retained earnings	873,169	720,928	152,241	21.12	Note 6
Other equity	565	(10,023)	10,588	105.64	Note 7
Treasury stock	—	—	—	—	
non-controlling interests	246	393	(147)	(37.40)	Note 8
Total equity	1,983,903	1,821,221	162,682	8.93	

Description on changes exceeding 20%

Note 1: The decrease in current assets was mainly due to the sale of the company’s Taoyuan science-based industrial park and the collection of accounts receivable during the period.

Note 2: The decrease of intangible assets was mainly due to the transfer of software assets in the current period to various amortizations.

Note 3: The increase in deferred income tax assets is mainly due to the temporary difference in income tax during the period.

Note 4: The decrease in current liabilities was mainly due to the repayment of bank loans and short-term notes payable in the current period.

Note 5: The decrease in total liabilities is mainly due to the repayment of bank loans and short-term notes payable in the current period.

Note 6: The increase in retained earnings was mainly due to the increase in net profit for the period.

Note 7: The increase in equity adjustment was mainly due to unrealized loss on financial instrument in the same period last year. This not occurred in the current period.

Note 8: The decrease in non-controlling interest was mainly due to the decrease in profit of subsidiaries in the current period compared with the same period of last year.

II. Financial Performance:

(I) Comparative analysis of financial performance

Unit: NTD thousand

Item \ Year	2018	2017	Increase (decrease)	Change in percentage (%)	Remarks
Operating revenues	1,019,452	1,168,248	(148,796)	(12.74)	
Operating cost	667,942	760,382	(92,440)	(12.16)	
Operating gross profit	351,510	407,866	(56,356)	(13.82)	
Operating expenses	320,534	329,731	(9,197)	(2.79)	
Operating profit	30,976	78,135	(47,159)	(60.36)	Note 1
Non-operating revenues and expenses	209,270	31,402	177,868	566.42	Note 2
Earnings before tax	240,246	109,537	130,709	119.33	Note 2
Income tax expense	5,958	23,646	(17,688)	(74.80)	Note 3
Current period net profit	234,288	85,891	148,397	172.77	Note 2
Other comprehensive income for the period (net)	(32,585)	2,943	(35,528)	(1,207.20)	Note 4
Total comprehensive income for the period	201,703	88,834	112,869	127.06	Note 2
Net income attributable to owners of the parent company	234,251	85,766	148,485	173.13	Note 2
Net income attributable to non-controlling interests	37	125	(88)	(70.40)	Note 5
Total comprehensive income attributable to owners of the parent company	201,666	88,735	112,931	127.27	Note 2
Total comprehensive income attributable to non-controlling interests	37	99	(62)	(62.63)	Note 5

Description on changes exceeding 20%

Note 1: The decrease in operating profit was mainly due to the decrease in sales during the period.

Note 2: Non-operating income and expenses, net profit before tax, net profit for the period, net profit attributable to owners' equity of the parent company, total consolidated profit and loss attributable to the increase of owners of the parent company, mainly due to the disposal of the interests of the disposal of Taoyuan science-based Industrial Park Land in the current period.

Note 3: The decrease in income tax expenses was mainly due to the decrease in operating net profit and tax exemption for land disposal during the period.

Note 4: The decrease in other comprehensive profit and loss (net) in the current period was mainly due to the increased investment of China Chemical Pharmaceutical Co., Ltd. in the current period, and the evaluation method was adjusted to the equity method investment.

Note 5: Net profit attributable to non-controlling interests, total consolidated profit or loss is attributable to the decrease in non-controlling interests: mainly due to the decrease in profit for subsidiaries in the period compared to the same period of last year.

(II) Expected sales and its basis: Please refer to "Report to Shareholders."

III. Cash flow:

(I) Cash flow analysis of the most recent year:

Item Year	2018	2017	Percentage increase / decrease (%)
Cash flow ratio (%)	55.12	19.71	179.65
Cash flow adequacy ratio (%)	44.11	37.45	17.78
Cash flow reinvestment ratio (%)	4.60	3.01	52.82

Analysis of percentage increase / decrease:

1. Increase in cash flow ratio: due to the increase in net cash inflows from operating activities during the period and repayment of bank borrowings.
2. Increase in cash flow ratio and cash reinvestment ratio: the increase in net cash inflows from operating activities during the period.

(II) Plans to improve liquidity: Not applicable.

(III) Liquidity analysis for the next year

Unit: NTD thousand

Opening cash balance	Cash flow from operating activities for the year	Cash outflow for the year	Cash surplus (deficit)	Financing of cash deficits	
				Investment plan	Financial plan
106,367	1,377,691	1,346,245	137,813	—	—

1. Cash flow analysis for the coming year:
   (1) In terms of business activities, we will continue to develop the US market, actively collect accounts receivables and reduce inventory to generate net cash flow.
   (2) Investment activities mainly come from investment in the capital expenditure of China Chemical Pharmaceutical Co., Ltd.’s stock and equipment.
   (3) Financing activities mainly include the payment of cash dividends, employee compensation, directors’ compensation and bank loans.
2. Responsive measures and liquidity analysis on cash flow deficits: Not applicable.

IV. Material capital expenditures in the latest year and impacts on business performance: None.

V. The major causes for profits or losses incurred by investments during the latest year; rectifications and investment plans for the next year:

Unit: NTD thousand

Item \ Description	Sum of initial investment	Policies	Investment gains (losses)	Major causes for profits or losses	Corrective plans	Investments planned for the next year
China Chemical & Pharmaceutical Co., Ltd.	324,593	The company will do strategic investment, effective use of company funds, improve the company's capital gains	1,402	CCPC is a downstream medicine preparation plant, and its business operations in recent years is quite stable, being profitable every year.	None	None
Siang Ta Pharmaceutical Co., Ltd.	-	-	-	The operation had been suspended in 2000. It was dissolved on August 9, 2016 by the resolution of the shareholders' meeting and the dissolution was settled on December 15, 2017. The settlement letter was obtained from the court on January 23, 2018.	-	-
PHARMAPORTS,LLC	4,925	Contacting office for the US FDA regulations and the US regional marketing office	1,794	In good operating status	None	None
CCSB HOLDING CO.,LTD	17,940	Holding and reinvestment (Note 1)	(2,415)	In the current period, income tax expenses are generated due to the distribution of net income.	None	None
CCPC Suzhou	14,827	Re-investment (Note 2)	344	Re-measurement based on functional currency; the exchange of benefits generated in the current period.	None	None
China Development Biomedical Venture Capital (limited company)	30,000	Earning capital	(Note 3)	In the early stage of operation and has not yet demonstrated its performance.	Has not yet shown return on investment.	None

Note 1: Reinvestment in CCPC Suzhou.
Note 2: Our investment in Suzhou PengXu PharmaTech Co., Ltd., has been disposed in 2017.
Note 3: Valuation adjustment for Fair value through profit or loss financial assets so there is no need to recognize investment gains and losses.

VI. Risk matter items that occurred in the most recent fiscal year as of the printing date of this annual report should analyzed and evaluated:

(I) Impact of changes in interest rates and currency exchange and inflation on the Company's profit and loss and the response measures to be taken in the future:

Item	2017 (NTD thousand; %)	2018 (NTD thousand; %)
Net interest income and expense	(8,124)	(10,623)
Net exchange gains and losses	(13,674)	2,996
Net interest income and expense as a percentage of net operating income	(0.70)	(1.04)
Net exchange gains and losses as a percentage of net operating income	(1.17)	0.29
Net interest income and expense as a percentage of pre-tax net income	(7.42)	(4.42)
Net exchange gains and losses as a percentage of pre-tax net income	(12.48)	1.25

1. Changes in interest rates: Our interest rate risks mainly come from bank borrowings for operations and investment activities. The net interest expenses for 2017 and 2018 were NTD 8,124thousand and NTD 10,623 thousand, respectively. We always pay attention to the changes in the overall financial environment and assess the impact of interest rate changes on our interest expenses.

2. Changes in exchange rates: 90% of our revenue is collected in US dollars. Therefore, significant changes in exchange rate can be detrimental to our financial conditions. The losses in exchange for 2017 and 2018 were NTD(13,674) thousand and 2,996 thousand, respectively. To reduce the adverse effect of exchange rate on our operations, we take the short-term loans and forward exchange in US dollars to hedge foreign exchange risk and reduce the impact of risk on our profit and loss.
3. Inflation: In recent years, the shortage of raw materials and energy have caused price increase. The overall economy and industry are still showing steady growth, so the inflation is still within a manageable range. We also maintain good working relationships with suppliers and customers and constantly pay attention to the fluctuation of the market price of raw materials, so inflation has no significant impact on our profit and loss. We will continue to pay attention to inflation. If it causes the cost of material purchases, we will adjust the sales price and the inventory of raw materials and finished goods accordingly.

(II) Policies on high risk and highly leveraged investments, loans to others, endorsements / guarantees, and the trading of derivative instruments; describe the main causes of profit or loss and responsive measures in the future:

1. We take a safe and steady approach in our operations and are not engaged in high-risk and highly leveraged investment activities.
2. As of the most recent years and the date of publication of the annual report, we have not engaged in lending or endorsing as a guarantor. We also have already established "Procedures for Loans to Other Parties" and "Procedures for Endorsing as a Guarantor" as references for future operation to ensure our best interests. We are engaged in forward exchange to hedge the risks from foreign exchange. Our assets in US dollars mainly come from accounts receivable due to export sales. The handling of derivatives is in accordance with "Procedures for Derivatives Transactions.”

(III) Future research and development plans, and the projected expenses:

We adhere to the principles of having in-house research and development capabilities. Our long-term commitment in developing R&D talent and conducting specialized research projects is the source of our technology. We also maintain close working relationships with upstream suppliers for technical collaboration. In recent years, we also try to recruit outside R&D talent. In the coming year, we will continue devote ourselves to research and development. Having high-quality R&D personnel, mastering key technologies and meeting customer demand are the key factors to successful research and development. We will continue to accumulate our experience and constantly improve product performance to gain competitive advantages in the market.

(IV) The effect of major changes in policies and legal practices, whether domestic or foreign, to the company’s financial and business performance, and the responsive actions:

We handle our operations in accordance with the domestic and foreign laws. We also constantly pay attention to changes in policies and laws. We also have quality assurance department and bioscience, synthesis and analysis institutes which provide response measures. We have not yet experienced major impacts on our financial performance from policy or laws changes at home or abroad as of the most recent year and the date of the publication of annual report.

(V) Effects of technological and industrial changes to the company's financial and business performance, and the responsive actions:

1. Our main products are APIs. We survey and analyze the applications of chemical synthesis and biotechnology and the changes of technologies and at the same time develop value-added and high-margin products to maintain our profit. We have not yet experience major impacts on our financial condition due to technology or industry

changes as of the most recent year and the date of the publication of annual report.

2. Analysis of the assessment of Information Security Risk:

The Company has established a computerized information system, management procedures to implement internal control and information security policies.

Ensure its appropriateness and effectiveness through annual internal inspections and external assessments of its safety regulations and procedures. The company will explain the details in the following sub-items:

(1) Information Security Policy

A. Regularly implement information security education and training, promote information security policies and related implementation regulations, promote employee awareness of information security and strengthen their awareness of related responsibilities.

B. Implement an internal audit system for information security to ensure the implementation of information security management.

C. Protect the company’s business activities, avoid unauthorized modifications, ensure its correct integrity, protect the company’s data, systems, equipment and network communications security, and prevent external invasion and destruction.

D. Protect the company’s business activities, avoid unauthorized access, system information account access rights and system changes, all must be controlled by rights.

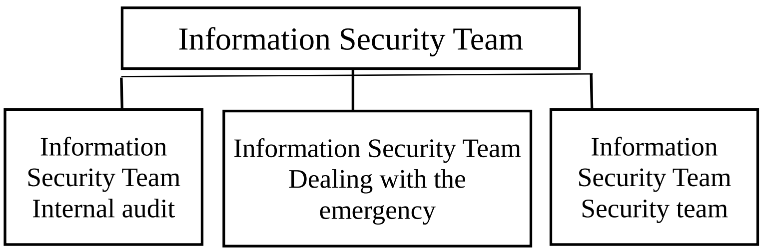
E. Protect the integrity of the company’s data and implement the destruction procedures. The computer storage media that have been scrapped should be destroyed to avoid accidental exposure.

F. The company will monitor the security status and activity records of the information system to effectively grasp and deal with information security incidents.

G. The execution of the company’s business activities must comply with the requirements of relevant laws or regulations.

At present, the company’s information security maintenance measures are complete, and the consideration of security insurance is still an emerging insurance, and it involves supporting the grading of security and claims, so it is still evaluating the stage of future applicability.

(2) Security Network Architecture



The company set up an information security team under the Information Technology Department and the organization chart is as the above picture. The internal audit and external audit are carried out regularly by the auditing office and the accounting firm every year. In April 2018, the auditing office performed the internal audit of the safety inspection and control operations, and issued an internal audit report, which was reported to the audit committee and the board of directors. The external audit of the “Information System Environmental Auditing” was carried out by PWC Certified Public Accountant Firm. The server host used by the system is located in the internal virtual network. The internal host is protected by a firewall. The external network is isolated and cannot be directly accessed. It has adopted multiple network security defense systems. The firewall and intrusion detection at the front end of the network. Test system and anti-virus are used as the basis for enterprise security protection. It can also strengthen the detection of malicious programs for traffic, web pages and emails. Through the correlation analysis of different security mechanisms, it can play the role of defense in depth and immediately block the latest malware, harmful website links, defense against external network attacks, mail content security control system is responsible for filtering the contents of incoming and outgoing links, and can further block files with zero-day malware, APT attack tools, and vulnerabilities. Attack files... threats such as threatening emails, spam emails, etc. The internal host and endpoints of the company are deployed by the central control unit to provide anti-virus software, which can update the virus code and instantly identify malicious behaviors. It can instantly intercept virus Trojan worms, ransomware, malicious files in folders, etc. The risk of damage from the hacker attack could be effectively reduced.

(3) System account and permission management

The computerized system of the company should have sufficient authority to prevent unauthorized intrusion or unauthorized changes to the data. The content includes information security rights, information access rights and information access control. The company will determine the degree of security control, according to the importance of the computerized system. The scope of business and the rights and responsibilities are set by the user's account and authority. The access to the data must be applied and approved by the competent authority. Retired personnel (including those who remain in office) should immediately lock, stop or remove accounts and permissions in accordance with the procedures to prevent unauthorized use.

(4) Data access records should be audited and kept properly.

In order to ensure the integrity of the data, the computerized system should be able to record the transaction history, that is, any data change/deletion, who should perform it, record the track record of the system file access, and historical data such as incoming and outgoing mail, archive and save. Computers of the company that have completed the retirement process perform hard disk disassembly and destruction to comply with the regulatory system and the security policy.

(5) Information system continues to operate

The company ensures its data, systems, equipment and network communications security, establishes data/backup methods and backup operating standards, the system and documents are taken daily, weekly and quarterly local backup, daily, weekly, quarterly backup. The data is transmitted to a different machine or stored in a different place as a remote location, and the machine is backed up. The simulation tests and emergency response of the computer room are strengthened to ensure the normal operation and data preservation of the information system, and the system data recovery test drill is performed regularly every year. With the proper operation and data preservation of the maintenance information system, the risk of data loss caused by unwarranted natural disasters and artificiality disaster disasters can be reduced. The IT Disaster Recovery (ITDR) drill test was conducted in June of the 2018.

The company will check its safety regulations and procedures through internal inspection and external evaluation. The Information Technology Department can implement the company's prescribed procedures in accordance with the operation procedures to ensure the integrity and safety of the company's data. The risk assessment results are still good. The company's recent and final year reports are printed. During the day, no major cyberattacks or incidents were discovered, which have or may have a material adverse effect on the company's business and operations, and have not been involved in any legal affairs or regulatory investigations related to this, and technology has changed the company's information security and no significant adverse effects and no significant operational risks.

(VI) Impacts of changes in corporate image to the company's crisis management, and the responsive measures:

We have not yet experienced image crisis as of the most recent year and the date of the publication of annual report.

(VII) The expected benefits from mergers and acquisitions, the potential risks associated, and the responsive measures:

We have not planned any acquisitions as of the most recent year and the date of the publication of annual report, thus the condition does not apply.

(VIII) The expected benefits from plant expansion, the potential risks associated, and the responsive measures:

We have not expected from plant expansion as of the most recent year and the date of the publication of annual report, thus the condition does not apply.

(IX) Risks of concentrated purchases or sales, and responsive measures to such risks:

We are a specialized API drugmakers. API is a main component of drugs that offers curative effect and directly affects the health and life safety of drug users. To ensure the effectiveness and safety of drugs, all drugmakers along the industry supply chain (API makers and preparation plants) are demanding for raw material quality. Healthcare agencies in every country also have requirements for the main intermediates used by API drugmakers. To ensure product quality and comply with the requirements of FDA and cGMP, we conduct numerous testing and experiments with the newly sourced materials and only use them after the stability of trial passes requirements. Once they are being used in production, they will not be replaced easily to maintain quality, stability, reliability and safety.

Concentration of purchases may result in a risk of material shortage. The shortage of materials may be attributed to the supplier's product distribution problem, insufficient factory capacity, production accidents, or failure to pass the official agency check procedures, resulting in a shortage of materials. The company has established a qualified supplier auditing mechanism to certify more than two alternative qualified suppliers. In the event of an out of stock emergency, the supplier will be increased by the alternative qualified supplier.

In 2017 and 2018, the company's major suppliers accounted for more than 30% of the total purchases. Since the main raw material supply source is stable and passed the FDA inspection, the price is also superior to other suppliers, and the company built with the analysis and inspection mechanism of qualified raw materials suppliers, it is possible to gradually develop the suppliers that comply with the US FDA's drug certification regulations. In addition to keeping track of the raw material costs, it can also effectively reduce the risk of incoming goods. In 2017 and 2018, the company's main clients are foreign pharmaceutical manufacturers that have cooperated with us for a long time. They are all global top-ranking university pharmaceutical companies that meet the requirements of the US FDA and European and Japanese pharmaceutical authorities. In addition to the company's key technologies, the company continues to carry out manufacturing process optimization, capacity enhancement and cost improvement measures to ensure product competitive advantages, plus the excellent official inspection records accumulated over the years, so deeply trusted by customers, the materials sold by the company to foreign pharmaceutical plants are not easily replaced. We maintain good working relationships with our existing clients and actively explore new clients and there is no risk of customer concentration.

(X) The risks and impacts of significant shareholding transfers by directors, or major shareholders with more than 10% ownership interest, and the responsive measures to such risks:

As of the most recent financial year and the date of publication of the annual report, there is no transfer of equity for the board of directors or major shareholders who have more than 10% of the common shares. We also elected new board members at the general shareholders meeting on May 31, 2016. The re-election was passed by the board and the shareholders' meeting and had no impact on the operating rights of the Company.

(XI) The effects, risks and responsive measures associated with changes in management:

As of the most recent financial year and the date of publication of the annual report, there has not been any transfer of equity. Major decisions on operations are provided by professional managers and executives after rigorous industry and market assessment and approved by the board of directors before being implemented. The Company has already established a robust organizational structure and empowered each department. Operational strategies are carried out by following the mechanism of internal management system and coordination and communications between different department. Changes in transfer of equity should have minimal impact on our operations.

(XII) Litigation and non-contentious cases:

1. For any material litigations, non-litigious or administrative disputes (whether concluded or pending for judgment) in the latest years up till the publishing date of this annual report that may produce material impacts to shareholders' equity or securities prices, information regarding the underlying facts, amounts, starting date, parties involved and the current progress must be disclosed: None.
2. As of the most recent financial year and the date of publication of the annual report, the Company's directors, general manager and actual owners, major shareholders who control more than 10% of shares and subsidiary companies have no determined or pending litigations, non-litigations or administrative disputes which may present significant impacts on the Company's shareholders' equity or stock price.

(XIII) Other significant risks and responsive measures: Noe.

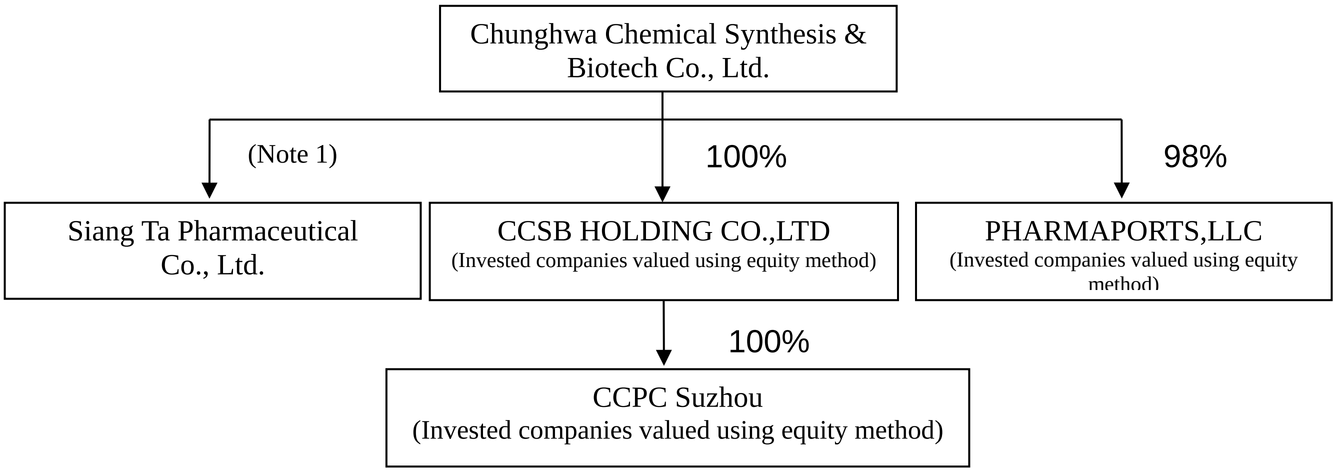
VII. Other Material Issues: none.

Eight. Special remarks

I. Affiliated companies:

(I) Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises:

1. Related Enterprise Chart:



2. Basic information of affiliated enterprises:

Name of enterprise	Date of foundation	Address	Paid-up Capital (Unit: thousand dollars)	Main business activities or products
Siang Ta Pharmaceutical Co., Ltd. (Note 1)	-	-	-	-
PHARMAPORTS,LLC	1999.06.01	1E. Uwchlan Avenue, Suite 116, Exton, PA19341, USA	USD225	Trading of API drugs
CCSB HOLDING CO.,LTD	2013.05.15	Floor 4, Willow House, Cricket Square, P.O. Box 2582, Grand Cayman KY1-1103, Cayman Islands	USD600	Engaged in shareholding and reinvestment
CCPC Suzhou	2013.09.17	Suite 1710, Century Financial Tower, No. 1 Suhua Road, Suzhou Industrial Park	USD500	Trading of raw chemical materials and agency and consultation patents and technologies

3. Controlling company and affiliate companies sharing the same shareholders: Not found.

4. Business sectors covered by other affiliates:

(1) Main areas of business

Name of enterprise	Main business
Siang Ta Pharmaceutical Co., Ltd. (Note 1)	-
PHARMAPORTS,LLC	Sales of API drugs
CCSB HOLDING CO.,LTD	Engaged in shareholding and reinvestment
CCPC Suzhou	Trading of raw chemical materials and agency and consultation patents and technologies

(2) Business transactions between various affiliates:

Our company and affiliates are all engaged in the manufacturing and sales of API drugs. We have no particularly favorable targets for purchases or sales. Our affiliates would follow the terms and conditions we have for other regular customers.

5. Information on directors, supervisors, and president of affiliated enterprises:

December 31, 2018 Unit: shares

Name of enterprise	Title	Name or the representative person	Shares held	
			Quantity	Shareholding percentage (%)
Siang Ta Pharmaceutical Co., Ltd. (Note 1)	—	—	—	—
PHARMAPORTS,LLC	Chairman	Chunghwa Chemical Synthesis & Biotech Co., Ltd. Representative: Chung-Hsin Huang	–	98.00
CCSB HOLDING CO.,LTD	Director	Chunghwa Chemical Synthesis & Biotech Co., Ltd.	600,000	100.00
CCPC Suzhou	Executive director	Chung-Hsin Huang	—	—
	Supervisors	Shu-Yi You(Note)	—	—

Note：Changed to Lin Shiou-Fen since March 8, 2019.

6. Overview of the business operations of each affiliate

Unit: thousand dollars

(NTD for all amounts without specified currency)

Name of enterprise	Share capital	Total assets	Total liabilities	Net value	Operating revenues	Operating profits (losses)	Current period profit (after tax)	Earnings per share ($) (After tax)
Siang Ta Pharmaceutical Co., Ltd. (Note 1)	—	—	—	—	—	—	—	—
PHARMAPORTS,LLC	6,912 (USD225)	94,938	82,623	12,315	497,182	2,532	1,831	—
CCSB HOLDING CO.,LTD	18,432 (USD600)	17,990	0	17,990	0	(113)	(2,415)	(4.03)
CCPC Suzhou	15,360 (USD500)	16,256	40	16,216	383	(31)	344	—

Note 1:Hsiang-Da was dissolved on August 9, 2016 by the resolution of the shareholders' meeting and the dissolution was settled on December 15, 2017. The settlement letter was obtained from the court on January 23, 2018.

(II) Consolidated operating report of subsidiaries, consolidated financial statement of subsidiaries and affiliation report:

Declaration

In 2018 (from January 1, 2018 to December 31, 2018), the companies that should be included in the consolidated financial reports of affiliated companies based on the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" and the companies that should be included in the consolidated financial reports of subsidiaries based on the "Consolidated and separate financial statements" of Section 10 of International Financial Reporting Standards were the same. The related information that should be disclosed in the consolidated financial statements of affiliated companies are also already disclosed in the consolidated financial reports for subsidiaries, so that the consolidated financial statements of affiliated companies would not be published separately.

Declared by:

Company name: Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Representative: Wang, Hsun-Sheng

March 26, 2019

II. Private placement of securities during the latest year up till the publication date of this annual report: None.

III. The disposal of the Company’s shares by its subsidiaries during the latest financial year, up to the publication date of this annual report: None.

IV. Other necessary supplementary information: None.

Nine. Occurrences of events defined under Article 36-3-2 of the Securities Exchange Act in the latest year up till the publishing date of this annual report that significantly impacted shareholders' equity or security prices: None.

Chunghwa Chemical Synthesis & Biotech Co., Ltd.

Chairperson, Wang, Hsun-Sheng