

**OBI PHARMA, INC. AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND**

**REPORT OF INDEPENDENT ACCOUNTANTS**

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For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of OBI PHARMA, INC.

### **Opinion**

We have audited the accompanying consolidated balance sheets of OBI PHARMA INC. and its subsidiaries (the “Group”) as at December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### **Basis for opinion**

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

### **Key audit matters**

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

**Key audit matter – Existence of working capital**Description

Please refer to Notes 4(6) and 4(8) of the consolidated financial statements for accounting policies applied to working capital, and Notes 6(1) and 6(3) of the consolidated financial statements for details of account items. As of December 31, 2016, cash and cash equivalents and investments in debt instruments (including current and non-current assets) without active market amounted to NT\$1,414,078 thousand and NT\$4,471,180 thousand, respectively.

As of December 31, 2016, total amount of cash and cash equivalents and investments in debt instruments (including current and non-current assets) without active market accounted for 93% of OBI Group's total assets. Thus, we consider the existence of working capital a key audit matter.

How our audit addressed the matter

Our procedure in relation to above key audit matter included:

1. Inspecting the bank statements, bankbooks, and online banking information to ensure the deposits belong to OBI Group.
2. Sending bank confirmation letters to determine existence and obligations of cash and cash equivalents.
3. Verifying accuracy of bank accounts information.
4. Reviewing and testing the mathematical accuracy of bank reconciliation statements, agreeing the balance with the balance per cash book, identifying any unusual or significant items and ensuring that these are properly disposed of.
5. Inspecting the general ledger of temporary debit (credit) and other receivables (payables) to ensure there is no lending or borrowing.
6. Selecting samples of material cash transactions and checking whether the transactions were incurred for operational needs.

**Key audit matter – impairment assessment of intangible asset**

Please refer to Note 4(14) of the consolidated financial statements for accounting policies on impairment assessment of non-financial assets, Note 5(1) of the consolidated financial statements for critical judgements in applying the Group's accounting policies on impairment intangible assets, and Note 6(5) of the consolidated financial statements for details of account items.

As of December 31, 2016, the carrying value of intangible asset of OBI Group amounted to NT\$46,462



thousand. The intangible asset pertains to the intellectual property acquired from another company for research and development of new drugs. Since the drug is still under development, no cash inflow can be generated. As of the balance sheet date, the Group considers external and internal information in determining whether the intangible asset is impaired. Since the impairment assessment performed by management involves critical judgement, we consider impairment assessment of intangible asset a key audit matter.

#### How our audit addressed the matter

Our procedures in relation to management's impairment assessment included:

1. Reviewing the information used by the Group management for impairment assessment of intangible asset including plan and progress for each development project, etc., conducting discussion with management and director of research and development department regarding the information used for impairment assessment of intangible asset, and assessing whether:
  - (1) The intellectual property and technology acquired from another company are still competitive.
  - (2) There is any delay in the progress of the major research and development plan.
  - (3) The specifications and quality of the research and development results comply with the local standards and regulations.
  - (4) The total market value of the Company is higher than the net assets as of the balance sheet date.
2. For those intangible assets that may be impaired, obtaining the valuation model prepared by OBI Group, comparing the future cash flows quoted in the model with the operation plan approved by the OBI board to ensure consistency, comparing the discount rate, market risk rate, and return rate employed with interest rate and return rate of similar industries and evaluating the reasonableness of the risk factor.

#### **Key audit matter – Valuation of employee share-based payment**

##### Description

Please refer to Note 4(18) of the consolidated financial statements for accounting policies applied to employee share-based payment, and Note 6(8) of the consolidated financial statements for details of account items.

The compensation cost of employee share-based payment recognised for 2016 amounted to NT\$308,952 thousand, which accounted for 28% of the Group's net loss for 2016. The accrual of these transactions require the use of valuation model, thus, we consider the valuation of employee share-based payment a key audit matter.

#### How our audit addressed the matter

Our procedures in relation to management's valuation of employee share-based payment included:

1. Obtaining actuarial valuation regarding employee share-based payment from external experts, and performing the following procedures regarding critical assumptions and estimates used in the actuarial valuation from external experts:
  - (1) Checking whether the Group made reasonable estimates based on inputs such as expected dividend rate, price volatility, and risk-free interest rate as of the option grant date.
  - (2) Recalculating accrued expense based on the fair value of share option.
2. Assessing the reasonableness of the valuation of the employee share-based payment by external experts.

#### **Other matter – Parent company only financial reports**

We have audited and expressed an unmodified opinion on the parent company only financial statements of OBI PHARMA INC. as at and for the years ended December 31, 2016 and 2015.

#### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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





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### **Auditor's responsibilities for the audit of the consolidated financial statements**

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



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6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

  
Audrey Tseng

  
Chang, Ming-Hui

for and on behalf of PricewaterhouseCoopers, Taiwan

March 9, 2017

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

**OBI PHARMA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**YEARS ENDED DECEMBER 31**  
(Expressed in thousands of New Taiwan dollars)

Assets			Notes		December 31, 2016		December 31, 2015	
					AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$	1,414,078	22	\$	2,300,548	31
1147	Investments in debt instruments	6(3)						
	without active market - current			2,359,611	37		-	-
1200	Other receivables			40,789	1		15,130	-
1410	Prepayments			65,072	1		42,599	1
11XX	Total current assets			3,879,550	61		2,358,277	32
Non-current assets								
1523	Available-for-sale financial assets	6(2)						
	- non-current			27,181	-		22,500	-
1546	Investments in debt instruments	6(3)						
	without active markets - non-current			2,111,569	33		4,762,163	65
1600	Property, plant and equipment	6(4) and 7		226,648	4		74,934	1
1780	Intangible assets	6(5)		46,462	1		56,983	1
1900	Other non-current assets	8		36,667	1		36,139	1
15XX	Total non-current assets			2,448,527	39		4,952,719	68
1XXX	Total assets		\$	6,328,077	100	\$	7,310,996	100

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**OBI PHARMA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**YEARS ENDED DECEMBER 31**  
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2016		December 31, 2015	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2200	Other payables		\$ 84,531	2	\$ 53,515	1
2220	Other payables to related parties	7	185	-	6,470	-
2230	Current income tax liabilities		606	-	1,483	-
2310	Advance receipts		-	-	64,580	1
2320	Long-term liabilities, current portion	6(6)	10,140	-	-	-
2399	Other current liabilities		1,995	-	956	-
21XX	Total current liabilities		97,457	2	127,004	2
2540	Long-term borrowings	6(6)	69,860	1	-	-
2XXX	Total liabilities		167,317	3	127,004	2
Equity attributable to owners of parent						
Share capital		6(9)				
3110	Share capital - common stock		1,716,119	27	1,707,200	23
3200	Capital surplus	6(8)(10)	8,743,211	138	8,277,385	113
Retained earnings		6(11)				
3350	Accumulated deficit		( 3,913,277)	( 62)	( 2,803,149)	( 38)
3400	Other equity interest		1,428	-	2,556	-
3500	Treasury shares	6(9)	( 386,721)	( 6)	-	-
3XXX	Total equity		6,160,760	97	7,183,992	98
Significant Contingent Liabilities and Unrecognized Contract Commitments						
Significant Events after the Balance Sheet Date		11				
3X2X	Total liabilities and equity		\$ 6,328,077	100	\$ 7,310,996	100

The accompanying notes are an integral part of these consolidated financial statements.

**OBI PHARMA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31**

(Expressed in thousands of New Taiwan dollars, except for loss per share amount)

	Items	Notes	Year ended December 31			
			2016		2015	
			AMOUNT	%	AMOUNT	%
4000	<b>Operating revenue</b>	6(5)(12)	\$ 92,422	100	\$ -	-
5000	<b>Operating costs</b>		-	-	-	-
5900	<b>Gross profit</b>		92,422	100	-	-
	<b>Operating expenses</b>	6(4)(5)(7)(8)(16) (17)(20) and 7				
6200	Administrative expenses		( 345,412)	( 373)	( 415,061)	-
6300	Research and development expenses		( 859,480)	( 930)	( 648,157)	-
6000	<b>Total operating expenses</b>		( 1,204,892)	( 1303)	( 1,063,218)	-
6900	<b>Operating loss</b>		( 1,112,470)	( 1203)	( 1,063,218)	-
	<b>Non-operating income and expenses</b>					
7010	Other income	6(3)(13)	84,480	91	55,096	-
7020	Other gains (losses)	6(14)	( 79,421)	( 86)	68,309	-
7050	Finance costs	6(15)	( 213)	-	-	-
7000	<b>Total non-operating income and expenses</b>		4,846	5	123,405	-
7900	<b>Loss before tax</b>		( 1,107,624)	( 1198)	( 939,813)	-
7950	Tax expense	6(18)	( 2,504)	( 3)	( 1,524)	-
8200	<b>Loss for the year</b>		( \$ 1,110,128)	( 1201)	( \$ 941,337)	-
	<b>Other comprehensive (loss) income, net</b>					
	<b>Components of other comprehensive (loss) income that will be reclassified to profit or loss</b>					
8361	Financial statements translation differences of foreign operations		( \$ 1,128)	( 1)	\$ 1,709	-
8300	<b>Other comprehensive (loss) income for the year, net</b>		( \$ 1,128)	( 1)	\$ 1,709	-
8500	<b>Total comprehensive loss for the year</b>		( \$ 1,111,256)	( 1202)	( \$ 939,628)	-
	<b>Loss Per Share (in dollars)</b>	6(19)				
9750	<b>Basic and diluted loss per share</b>		( \$ 6.51)	( \$ 5.66)		

The accompanying notes are an integral part of these consolidated financial statements.

**OBI PHARMA, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31**  
(Expressed in thousands of New Taiwan dollars)

Equity attributable to owners of the parent								
Capital Reserves								
Notes	Share capital - common stock	Total capital surplus, additional paid-in capital	Employee stock warrants	Others	Accumulated deficit	Financial statements translation differences of foreign operations	Treasury stocks	Total equity
<u>2015</u>								
Balance at January 1, 2015	\$ 1,499,936	\$ 1,613,276	\$ 188,719	\$ 2,895	(\$ 1,861,812)	\$ 847	\$ -	\$ 1,443,861
Net loss for the year	-	-	-	-	( 941,337)	-	-	( 941,337)
Other comprehensive income for the year	-	-	-	-	-	1,709	-	1,709
Issuance of common stock	6(9) 200,000	6,000,000	-	-	-	-	-	6,200,000
Share-based payment transactions	6(8)(9)(10) (17) 7,264	107,255	278,288	86,952	-	-	-	479,759
Balance at December 31, 2015	<u>\$ 1,707,200</u>	<u>\$ 7,720,531</u>	<u>\$ 467,007</u>	<u>\$ 89,847</u>	<u>(\$ 2,803,149)</u>	<u>\$ 2,556</u>	<u>\$ -</u>	<u>\$ 7,183,992</u>
<u>2016</u>								
Balance at January 1, 2016	\$ 1,707,200	\$ 7,720,531	\$ 467,007	\$ 89,847	(\$ 2,803,149)	\$ 2,556	\$ -	\$ 7,183,992
Net loss for the year	-	-	-	-	( 1,110,128)	-	-	( 1,110,128)
Other comprehensive loss for the year	-	-	-	-	-	( 1,128)	-	( 1,128)
Repurchase of treasury shares	6(9) -	-	-	-	-	-	( 386,721)	( 386,721)
Share-based payment transactions	6(8)(9)(10) (17) 8,919	241,518	224,308	-	-	-	-	474,745
Balance at December 31, 2016	<u>\$ 1,716,119</u>	<u>\$ 7,962,049</u>	<u>\$ 691,315</u>	<u>\$ 89,847</u>	<u>(\$ 3,913,277)</u>	<u>\$ 1,428</u>	<u>(\$ 386,721)</u>	<u>\$ 6,160,760</u>

The accompanying notes are an integral part of these consolidated financial statements.



OBI PHARMA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31  
(Expressed in thousands of New Taiwan dollars)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Loss before tax		(\$ 1,107,624 )	(\$ 939,813 )
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(4)(16)	34,440	22,482
Amortization	6(5)(16)	10,988	10,948
Interest income	6(13)	( 61,636 )	( 45,383 )
Gain on disposal of property, plant and equipment	6(14)	( 2 )	-
Compensation cost for share-based payment transactions	6(8)(10)(17)	308,952	472,495
Changes in operating assets and liabilities			
Changes in operating assets			
Other receivables		( 2,545 )	( 1,975 )
Prepayments		( 22,473 )	( 5,619 )
Other current assets		-	750
Changes in operating liabilities			
Other payables		33,086	7,808
Other payables to related parties		( 6,285 )	6,470
Advance receipts		( 64,580 )	64,580
Other current liabilities		1,039	169
Cash outflow generated from operations		( 876,640 )	( 407,088 )
Interest received		38,522	34,884
Income tax paid		( 1,978 )	-
Net cash flows used in operating activities		( 840,096 )	( 372,204 )
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Acquisition of available-for-sale financial assets	6(2)	( 4,681 )	-
Acquisition of investments in debt instruments without active markets		( 1,751,020 )	( 4,362,163 )
Proceeds from disposal of investments in debt instruments without active markets		2,042,003	-
Acquisition of property, plant and equipment	6(4)(21)	( 183,245 )	( 47,971 )
Gain on disposal of property, plant and equipment		2	-
Acquisition of intangible assets	6(5)(21)	( 107 )	( 186 )
Increase in refundable deposits		( 489 )	( 21,424 )
Decrease in refundable deposits		1,676	604
Increase in other non-current assets		( 8,537 )	( 2,008 )
Net cash flows from (used in) investing activities		95,602	( 4,433,148 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Proceeds from long-term borrowings ( including current portion)		80,000	-
Proceeds from cash capital increase	6(9)	-	6,200,000
Exercise of employee stock options	6(8)(9)	165,793	7,264
Repurchase of treasury shares	6(9)	( 386,721 )	-
Net cash flows (used in) from financing activities		( 140,928 )	6,207,264
Effects due to changes in exchange rate		( 1,048 )	1,677
Net (decrease) increase in cash and cash equivalents		( 886,470 )	1,403,589
Cash and cash equivalents at beginning of year		2,300,548	896,959
Cash and cash equivalents at end of year		<u>\$ 1,414,078</u>	<u>\$ 2,300,548</u>

The accompanying notes are an integral part of these consolidated financial statements.

OBI PHARMA, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2016 AND 2015

(Expressed in thousands of New Taiwan dollars,  
except as otherwise indicated)

1. HISTORY AND ORGANIZATION

OBI PHARMA, INC. (the “Company”) was established on April 29, 2002 upon approval by the Ministry of Economic Affairs. The Company conducted the initial public offering in May 2012, and traded its shares on the Emerging Stock Market of the Taipei Exchange (formerly named GreTai Securities Market) since March 23, 2015. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in new drugs research.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 9, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRSs”) as endorsed by the Financial Supervisory Commission (“FSC”)

None.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments as endorsed by the FSC effective from 2017:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

The above standards and interpretations have no significant impact to the Group's financial condition and operating results based on the Group's assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRS as endorsed by the FSC effective from 2017:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018



New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating results based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

#### A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost.

Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).

#### B. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction Contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in

accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

Step 2: Identify separate performance obligations in the contract(s)

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognise revenue when the performance obligation is satisfied

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

#### C. Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from Contracts with Customers'

The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new Standard.

#### D. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

#### E. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### (1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports 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”).

(2) Basis of preparation

- A. Except for the available-for-sale financial assets measured at fair value, these consolidated financial statements have been prepared under the historical cost convention:
- B. The preparation of financial statements in compliance with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:
  - (a) All subsidiaries are included in the Group’s 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. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
  - (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
  - (c) When the Group loses control of a subsidiary, the Group remeasures 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.



B. Subsidiaries included in the consolidated financial statements and movements for the year are as follows:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)		Remark
			December 31, 2016	December 31, 2015	
The Company	OBI Pharma Limited	Investing and trading	100.00	100.00	-
The Company	OBI Pharma USA, Inc.	Biotechnology development	100.00	100.00	-
OBI Pharma Limited	OBI Pharma (Shanghai) Limited	Biotechnology development	100.00	100.00	-

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

#### (4) Foreign currency translation

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 and the Group's presentation currency.

##### A. Foreign currency transactions and balances

- Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.
- Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.
- Non-monetary assets and liabilities denominated in foreign currencies 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 profit or loss. Non-monetary assets and liabilities denominated in foreign currencies 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 currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within "other gains and losses".

## B. Translation of foreign operations

The operating results and financial position of all the group entities 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.

## (5) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realized within twelve months from the balance sheet date;
- (d) 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 months after the balance sheet date.

Otherwise, they are classified as non-current assets.

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

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve 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.

Otherwise, they are classified as non-current liabilities.

## (6) 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.

(7) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.
- C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(8) Loans and receivables - investments in debt instruments without active market

Bond investments without active market held by the Group are those time deposits with a short maturity period but do not qualify as cash equivalents, and they are measured at initial investment amount as the effect of discounting is immaterial.

(9) Impairment of financial assets - available-for-sale 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 criteria that the Group 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) Observable data indicating 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;
  - (c) 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; or
  - (d) 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 and an impairment loss has occurred, 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". Impairment loss of an

investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognized as a separate 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 financial period in which they are incurred.
- C. 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.
- D. 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 the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings and structures	50 years
Lab equipment	3~5 years
Office equipment	3~5 years
Leasehold improvements	3~5 years

(12) Leased assets/leases (lessee)

An operating lease is a lease that the lessor assumes substantially all the risks and rewards incidental to ownership of the leased asset. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(13) Intangible assets

A. Patent:

- (a) Patents acquired in intellectual property right as equity are recognized at fair value at the acquisition date, and amortized on a straight-line basis over their estimated useful lives of 17

years.

- (b) Patents acquired in cash are stated at cost and amortized on a straight-line basis over their estimated useful lives of 5 to 10 years.

#### B. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

#### (14) Impairment of non-financial assets

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. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

#### (15) Borrowings

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

#### (16) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

#### (17) Employee benefits

##### A. Short-term employee benefits

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

##### B. Pensions - Defined contribution plans

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

##### C. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive



obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' compensation and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the meeting of Board of Directors subsequently, the differences should be recognized based on the accounting for changes in estimates.

(18) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

(19) Income tax

- A. 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.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the shareholders resolve to retain the earnings.
- C. 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 balance sheet. 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 tax is provided on temporary differences arising on investments in subsidiaries 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 by 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.
- D. 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.

- E. Current income tax assets and liabilities 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. 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.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from research and development expenditures, to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(20) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(21) Revenue recognition

Revenue is recognised when the license agreements meet all of the following criteria for revenue recognition:

- A. Royalties are fixed or cannot be refunded.
- B. Contracts are irrevocable.
- C. Franchisee has the latitude in dealing with related license.

Franchisor has no other obligation after giving the license.

If license agreements do not meet the above conditions, royalties are recognised as revenue using a reasonable and systematic method. The recognition should not be a one-time recognition.

(22) Government grants

Government grants are recognized at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes expenses for the related costs for which the grants are intended to compensate.

(23) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and 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; and the related information is addressed below:

(1) Critical judgements in applying the Group's accounting policies

A. Financial assets-impairment of equity investments:

The Group follows the guidance of IAS 39 to determine whether a financial asset-equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

B. Impairment on intangible assets (excluding goodwill)

In accordance with IAS 36, the Group determines whether an intangible asset (excluding goodwill) may be impaired requiring significant judgements. The Group assesses whether there is any indication for impairment based on internal and external information, including the plan and progress of research and development project and the prospect of such technology.

(2) Critical accounting estimates and assumptions

Financial assets-fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies' recent fund raising activities, fair value assessment of other companies of the same type technical development status, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash on hand	\$ 100	\$ 60
Checking accounts and demand deposits	379,359	126,170
Time deposits	<u>1,034,619</u>	<u>2,174,318</u>
	<u>\$ 1,414,078</u>	<u>\$ 2,300,548</u>

A. The Group associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. The Group has no cash and cash equivalents pledged to others.

### (2) Available-for-sale financial assets

<u>Items</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Non-current item:		
Unlisted stocks	<u>\$ 27,181</u>	<u>\$ 22,500</u>

A. In January 2016, the Group paid \$4,681 for participating proportionately to its share ownership in the Agnitio Science & Technology Inc.'s capital increase for 234 thousand shares. After the capital increase, the Group held 1,734 thousand shares in Agnitio Science & Technology Inc. and the shareholding ratio was 4.19%.

B. The Group has no available-for-sale financial assets pledged to others.

### (3) Investments in debt instruments without active markets

<u>Items</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current item		
Time deposits	\$ 2,359,611	\$ -
Non-current item:		
Time deposits	<u>2,111,569</u>	<u>4,762,163</u>
	<u>\$ 4,471,180</u>	<u>\$ 4,762,163</u>

A. The Group recognized interest income of \$48,430 and \$23,310 for time deposits with maturity over 1 year in profit or loss for the years ended December 31, 2016 and 2015, respectively.

B. The Group has no investments in debt instruments without active markets pledged to others.

(4) Property, plant and equipment

	<u>Land</u>	<u>Buildings and structures</u>	<u>Lab equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2016</u>						
Cost	\$ -	\$ -	\$ 84,045	\$ 9,787	\$ 25,581	\$ 119,413
Accumulated depreciation	-	-	( 29,141)	( 6,220)	( 9,118)	( 44,479)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,904</u>	<u>\$ 3,567</u>	<u>\$ 16,463</u>	<u>\$ 74,934</u>
<u>2016</u>						
At January 1	\$ -	\$ -	\$ 54,904	\$ 3,567	\$ 16,463	\$ 74,934
Additions	87,514	14,996	70,627	5,285	910	179,332
Other non-current assets transfer in	-	-	3,819	1,796	1,218	6,833
Depreciation	-	( 75)	( 26,109)	( 3,000)	( 5,256)	( 34,440)
Net exchange differences	-	-	( 5)	( 4)	( 2)	( 11)
At December 31	<u>\$ 87,514</u>	<u>\$ 14,921</u>	<u>\$ 103,236</u>	<u>\$ 7,644</u>	<u>\$ 13,333</u>	<u>\$ 226,648</u>
<u>At December 31, 2016</u>						
Cost	\$ 87,514	\$ 14,996	\$ 158,484	\$ 16,138	\$ 27,706	\$ 304,838
Accumulated depreciation	-	( 75)	( 55,248)	( 8,494)	( 14,373)	( 78,190)
	<u>\$ 87,514</u>	<u>\$ 14,921</u>	<u>\$ 103,236</u>	<u>\$ 7,644</u>	<u>\$ 13,333</u>	<u>\$ 226,648</u>



	Land	Buildings and structures	Lab equipment	Office equipment	Leasehold improvements	Total
<u>At January 1, 2015</u>						
Cost	\$ -	\$ -	\$ 49,295	\$ 6,354	\$ 15,601	\$ 71,250
Accumulated depreciation	-	-	( 13,447)	( 4,496)	( 8,073)	( 26,016)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,848</u>	<u>\$ 1,858</u>	<u>\$ 7,528</u>	<u>\$ 45,234</u>
<u>2015</u>						
At January 1	\$ -	\$ -	\$ 35,848	\$ 1,858	\$ 7,528	\$ 45,234
Additions	-	-	32,736	3,686	13,738	50,160
Other non-current assets transfer in	-	-	2,001	-	-	2,001
Depreciation	-	-	( 15,689)	( 1,988)	( 4,805)	( 22,482)
Net exchange differences	-	-	8	11	2	21
At December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,904</u>	<u>\$ 3,567</u>	<u>\$ 16,463</u>	<u>\$ 74,934</u>
<u>At December 31, 2015</u>						
Cost	\$ -	\$ -	\$ 84,045	\$ 9,787	\$ 25,581	\$ 119,413
Accumulated depreciation	-	-	( 29,141)	( 6,220)	( 9,118)	( 44,479)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,904</u>	<u>\$ 3,567</u>	<u>\$ 16,463</u>	<u>\$ 74,934</u>

Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(5) Intangible assets

	Patent					
	OBI-822 Therapeutically metastatic breast cancer vaccines	OBI-858 Product development project of botulinum	OBI-833 Next- generation cancer vaccine	OBI-868 Reagent for cancer screening	Software	Total
<u>At January 1, 2016</u>						
Cost	\$ 87,577	\$ 42,858	\$ 1,500	\$ 1,500	\$ 5,110	\$ 138,545
Accumulated amortisation	( 61,819)	( 16,429)	( 438)	( 875)	( 2,001)	( 81,562)
	<u>\$ 25,758</u>	<u>\$ 26,429</u>	<u>\$ 1,062</u>	<u>\$ 625</u>	<u>\$ 3,109</u>	<u>\$ 56,983</u>
<u>2016</u>						
At January 1	\$ 25,758	\$ 26,429	\$ 1,062	\$ 625	\$ 3,109	\$ 56,983
Additions	-	-	-	-	467	467
Amortisation (Note)	( 5,152)	( 4,286)	( 149)	( 300)	( 1,101)	( 10,988)
At December 31	<u>\$ 20,606</u>	<u>\$ 22,143</u>	<u>\$ 913</u>	<u>\$ 325</u>	<u>\$ 2,475</u>	<u>\$ 46,462</u>
<u>At December 31, 2016</u>						
Cost	\$ 87,577	\$ 42,858	\$ 1,500	\$ 1,500	\$ 5,577	\$ 139,012
Accumulated amortisation	( 66,971)	( 20,715)	( 587)	( 1,175)	( 3,102)	( 92,550)
	<u>\$ 20,606</u>	<u>\$ 22,143</u>	<u>\$ 913</u>	<u>\$ 325</u>	<u>\$ 2,475</u>	<u>\$ 46,462</u>

	Patent					
	OBI-822 Therapeutically metastatic breast cancer vaccines	OBI-858 Product development project of botulinum	OBI-833 Next- generation cancer vaccine	OBI-868 Reagent for cancer screening	Software	Total
<u>At January 1, 2015</u>						
Cost	\$ 87,577	\$ 42,858	\$ 1,500	\$ 1,500	\$ 4,924	\$ 138,359
Accumulated amortisation	( 56,667)	( 12,144)	( 288)	( 575)	( 940)	( 70,614)
	<u>\$ 30,910</u>	<u>\$ 30,714</u>	<u>\$ 1,212</u>	<u>\$ 925</u>	<u>\$ 3,984</u>	<u>\$ 67,745</u>
<u>2015</u>						
At January 1	\$ 30,910	\$ 30,714	\$ 1,212	\$ 925	\$ 3,984	\$ 67,745
Additions	-	-	-	-	186	186
Amortisation (Note)	( 5,152)	( 4,285)	( 150)	( 300)	( 1,061)	( 10,948)
At December 31	<u>\$ 25,758</u>	<u>\$ 26,429</u>	<u>\$ 1,062</u>	<u>\$ 625</u>	<u>\$ 3,109</u>	<u>\$ 56,983</u>
<u>At December 31, 2015</u>						
Cost	\$ 87,577	\$ 42,858	\$ 1,500	\$ 1,500	\$ 5,110	\$ 138,545
Accumulated amortisation	( 61,819)	( 16,429)	( 438)	( 875)	( 2,001)	( 81,562)
	<u>\$ 25,758</u>	<u>\$ 26,429</u>	<u>\$ 1,062</u>	<u>\$ 625</u>	<u>\$ 3,109</u>	<u>\$ 56,983</u>

Note: Except for the amortisation of computer software which was recognised as “Operating expenses - management expenses”, amortisation of other intangible assets is recognised as “Operating expenses – research and development expenses”.

A. The Company purchased patents named “OPT-822”, therapeutically metastatic breast cancer vaccines, and “OPT-80”, Macrolide, from Optimer Pharmaceuticals, Inc. (the name “Optimer” is no longer used since January 2013 and the name was changed to “OBI-822/821” after the organization changed in October 2012) on December 29, 2003. The main contract information is as follows:

- The patent amounting to USD 6 million (approximately NTD 204 million) based on the appraisal report, was acquired as intellectual property right through equity of 20,400 thousand shares.
- The Company signed an authorized sale contract for Antibiotics-Fidaxomicin with OPT on June 6, 2011. The contract states that the Company must pay royalty fees to OPT based on 17% or 22% of sales under the revenue achievements. The payment period of the royalty fee is the duration of patent right or ten years starting from the initial sales, whichever is later.
- The Company signed a patent transfer contract for Macrolide with Optimer Pharmaceuticals, Inc. on October 30, 2009. The price was \$109,126 and the Company recognized a gain on disposal of assets amounting to \$26,660 by deducting the costs of \$116,423 and accumulated amortisation of \$33,957.
- The Company needs to pay the annual fee and achieved milestones. As of December 31, 2016, the remaining unpaid amount for achieved milestones amounted to US\$13,250 thousand. The

amount of payment was determined based on whether the milestones in the agreement are achieved or not. Furthermore, the Company must pay royalty fees based on a certain percentage of the sales of patented products annually.

- B. In order to improve mass production and manufacturing process of OBI-822 for expanding global market, the Company has signed an exclusive patent license for chemosynthesis of carbohydrates with Academia Sinica on April 23, 2014, and the contract period is from April 23, 2014 to the expiration of protection duration of the last patented product. The Company must pay patent licensing fees and royalty fees in accordance with the contract. Except for royalty fees, the Company assesses whether to pay patent licensing fees based on 4 achieved milestones. The total contract amount was approximately \$60,000. Further, pursuant to the supplements and amendments agreement on February 18, 2016, the patent licensing fees reduced to \$57,320. As of December 31, 2016, the Company paid royalty fees of \$20,000 in 2014 and paid patent licensing fees of \$27,320 for the nine months ended September 30, 2016. These fees were recognised as research and development expenses.
- C. The Company purchased a patent named “product development project of botulinum” from Amaran Biotechnology Inc. on March 2, 2012, which amounted to \$42,858 based on external experts’ valuation.
- D. The Company acquired patents named “next-generation cancer vaccine” and “reagent for cancer screening”. The contract states that the Company must pay royalty fees based on the achieved milestones. In 2013, the Company paid royalty fees of \$1,500 separately for both projects. Furthermore, the Company must pay royalty fees based on a certain percentage of the sales of patented products annually.
- E. On October 2, 2015, the Company signed an agreement to transfer exclusive rights of DIFICID (generic name: Fidaxomicin) to Optimer Pharmaceuticals, LLC. (Optimer). The agreement is available until the expiration date of patents which is estimated to be November 27, 2128. The Company will transfer the relevant rights of DIFICID to Optimer Company based on the mutual agreement. Optimer Company should pay the Company: (i) upfront payment of USD3 million; (ii) accumulated net sales amount and milestone payment for new indications: not higher than USD 3.25 million and USD1 million per new indication; (iii) royalty fees for sales: certain percentage of net sales amount. Optimer Company’s associate in Taiwan, Merck Sharp & Dohme (I.A.) LLC. - Taiwan Branch (MSD), is responsible for the operation of DIFICID in Taiwan. As of December 31, 2016, the Company has received 3 million based on the agreement and transferred the relevant rights of DIFICID to MSD. The authorized sale contract described above in A.(b) will be terminated once the upfront payment for the agreement to transfer exclusive rights of DIFICID to Optimer Pharmaceutical, LLC. has been fully collected.
- F. The Group has no intangible assets pledged to others.

(6) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate range	Collateral	December 31, 2016
Long-term bank borrowings				
Secured borrowings	Borrowing period is from October 5, 2016 to October 5, 2022; interest is repayable monthly (Note 1)	1.60%	Note 3	\$ 70,000
Unsecured borrowings	Borrowing period is from October 5, 2016 to October 5, 2016; interest is repayable monthly (Note 2)	1.60%	Note 3	<u>10,000</u>
				80,000
Less: current portion				( <u>10,140</u> )
				<u>\$ 69,860</u>

Note 1: The Group negotiated borrowing contract with the bank whereby the principal will be repayable quarterly starting from January 2017.

Note 2: The Group negotiated borrowing contract with the bank whereby the principal will be repayable quarterly starting from January 2017.

Note 3: Please refer to Note 8 for details.

As of December 31, 2015, the Group has no borrowings.

(7) Pension

A. The Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company were \$6,726 and \$6,166 for the years ended December 31, 2016 and 2015, respectively.

B. For the pension plan by local government regulations, OBI Pharma USA, Inc. and OBI Pharma (Shanghai) Limited, recognised pension costs of \$2,958 and \$2,522 for the years ended December 31, 2016 and 2015, respectively.

(8) Share-based payment

A. The options were granted to qualified employees of the Company by issuing new shares when exercised. The options are valid for 10 years. The major contents were as follows:

Type of agreement	Grant date	No. of units	Subscription share per unit	Vesting conditions	Weighted-average remaining contract period (years)
Employee stock option plan	2010.03.08	2,360,000	1	One year after grant, employees can exercise options monthly at a certain percentage	3.19
"	2010.05.21	100,000	1	"	3.39
"	2010.09.10	60,000	1	"	3.69
"	2010.12.15	144,000	1	"	3.96
"	2011.01.01	588,000	1	"	4.00
"	2011.03.30	80,000	1	"	4.25
"	2011.06.10	124,000	1	"	9.44
"	2011.09.30	260,000	1	"	4.75
"	2011.12.16	2,450,000	1	"	4.96
"	2012.01.01	1,560,000	1	"	5.00
"	2012.03.09	270,000	1	"	5.19
"	2013.11.27	1,821,000	1	Two years after grant, employees can exercise options monthly at a certain percentage	6.91
"	2014.02.21	1,744,000	1	"	7.14
"	2014.03.26	575,000	1	"	7.23
"	2015.05.06	2,861,000	1	"	8.35
"	2015.08.04	75,000	1	"	8.60
"	2015.11.06	353,000	1	"	8.85
"	2015.12.15	13,000	1	"	8.96
"	2016.03.25	1,377,000	1	"	9.23
Cash capital increase reserved for employee preemption	2013.07.26	839,514	1	Vested immediately	-
"	2015.03.16	3,000,000	1	"	-

The above share-based payment arrangements are equity-settled.



B. Details of the share-based payment arrangements are as follows:

	Years ended December 31,			
	2016		2015	
	No. of units	Weighted-average exercise price (in dollars)	No. of units	Weighted-average exercise price (in dollars)
Options outstanding at beginning of the year	8,910,542	\$ 224.40	6,507,252	\$ 138.81
Options granted	1,377,000	420.00	3,302,000	343.80
Options exercised	( 891,920)	185.88	( 726,376)	10.00
Options forfeited or expired	( 567,834)	345.42	( 172,334)	220.70
Options outstanding at end of the year	<u>8,827,788</u>	212.65	<u>8,910,542</u>	224.40
Options exercisable at end of the year	<u>3,752,870</u>		<u>2,765,542</u>	
Options authorized but not granted at end of the year	<u>1,385,000</u>		<u>2,762,000</u>	
Options expired	<u>-</u>		<u>-</u>	

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2016 and 2015 was \$447.00 and \$351.42 (in dollars), respectively.

D. As of December 31, 2016 and 2015, the range of exercise prices of stock options outstanding were both \$10~\$727 (in dollars).

E. The fair value of stock options is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of agreement	Grant date	Exercise price per share (in dollars)	Expected volatility (Note)	Expected option life	Expected dividend yield	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock option plan	2010.03.08	\$ 10.0	44.23%	10 years	0%	1.42%	\$ 3.16
"	2010.05.21	10.0	44.23%	10 years	0%	1.42%	3.16
"	2010.09.10	10.0	44.23%	10 years	0%	1.42%	3.16
"	2010.12.15	10.0	44.23%	10 years	0%	1.42%	3.16
"	2011.01.01	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.03.30	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.06.10	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.09.30	10.0	40.94%	10 years	0%	1.29%	3.21
"	2011.12.16	10.0	40.94%	10 years	0%	1.29%	3.21
"	2012.01.01	10.0	40.83%	10 years	0%	1.22%	5.21
"	2012.03.09	10.0	40.83%	10 years	0%	1.22%	5.21
"	2013.11.27	247.4	49.72%	10 years	0%	1.44%	128.42
"	2014.02.21	214.4	47.62%	10 years	0%	1.34%	114.80
"	2014.03.26	227.6	46.54%	10 years	0%	1.38%	97.07
"	2015.05.06	334.0	44.46%	10 years	0%	1.33%	150.18

Type of agreement	Grant date	Exercise price per share (in dollars)	Expected volatility (Note)	Expected option life	Expected dividend yield	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock option plan	2015.08.04	283.0	43.90%	10 years	0%	1.21%	125.27
"	2015.11.06	422.0	44.11%	10 years	0%	1.01%	186.00
"	2015.12.15	727.0	45.44%	10 years	0%	0.99%	328.28
"	2016.03.25	420.0	47.70%	10 years	0%	0.72%	195.43
Cash capital increase reserved for employee preemption	2013.07.26	158.0	18.68%	0.125 years	0%	0.87%	14.02
"	2015.03.16	310.0	23.49%	0.005 years	0%	0.87%	63.51

Note: Expected price volatility rate was estimated by using the average price volatility of similar listed and OTC companies within appropriate period and the Company's historical transaction data since its shares traded on the Emerging Stock Market.

F. For the years ended December 31, 2016 and 2015, the Company recognized employee stock option plan compensation expense of \$308,952 and \$472,495, respectively.

G. On November 11, 2016, the Board of Directors has resolved for the Company to apply with the Financial Supervisory Commission for the issuance of employee stock warrants of 5,000,000 units, representing 5,000,000 shares for subscribed ordinary shares. The application has been approved to be effective on January 20, 2017 by the Financial Supervisory Commission.

#### (9) Share capital

As of December 31, 2016, the Company's authorized capital after the capital increase was \$3,000,000, consisting of 300 million shares of ordinary stock (including 24 million shares reserved for employee stock options), and the outstanding capital was \$1,716,119 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

	2016	2015
At January 1	170,719,960	149,993,584
Employee stock options exercise	891,920	726,376
Cash capital increase	-	20,000,000
Shares retired	(862,000)	-
At December 31	170,749,880	170,719,960

#### A. Treasury stock

(a) Reason for share reacquisition and movements in the number of the Company's treasury shares are as follows:

Reason for reacquisition	Year ended December 31, 2016			
	Beginning shares	Additions	Disposal	Ending shares
To be reissued to employees	-	862 thousand shares	-	862 thousand shares

For the year ended December 31, 2015: None.

- (b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.
- (e) The price range of actual repurchased treasury shares was between \$431.88 ~ \$454.26 (in dollars). The average repurchased amount was \$448.63 (in dollars) and the actual repurchased amount was \$386,721.

(10) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2016		
	Share premium	Employee stock options	Others
At January 1	\$ 7,720,531	\$ 467,007	\$ 89,847
Employee stock options compensation cost	-	308,952	-
Employee stock options exercised	241,518	( 84,644)	-
At December 31	<u>\$ 7,962,049</u>	<u>\$ 691,315</u>	<u>\$ 89,847</u>

	2015		
	Share premium	Employee stock options	Others
At January 1	\$ 1,613,276	\$ 188,719	\$ 2,895
Cash capital increase	6,000,000	-	-
Employee stock options compensation cost	-	472,495	-
Employee stock options exercised	107,255	( 107,255)	-
Employee stock options expired	-	( 86,952)	86,952
At December 31	<u>\$ 7,720,531</u>	<u>\$ 467,007</u>	<u>\$ 89,847</u>

(11) Accumulated deficit

- A. According to the Articles of Incorporation of the Company, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration. A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the abovementioned employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation. The term shall be defined by the Board of Directors. The current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Cash dividends shall first be appropriated, and the remainder, if any, to be retained or to be appropriated shall be resolved by the stockholders at the stockholders' meeting.
- B. The Company is facing a capital intensive industrial environment, with the life cycle of the industry in the growth phase. The residual dividend policy is adopted taking into consideration the Company's operating expansion plans and investment demands. According to the balanced dividend policy adopted by the Board of Directors, stock dividends and cash dividends will be allocated in consideration of the actual net income and funds status and are subject to the approval by the Board of Directors and resolution by shareholders and cash dividends shall account for at least 10% of the total dividends distributed.
- C. Except for covering accumulated deficit, increasing capital or payment of cash, the legal reserve shall not be used for any other purpose. The amount capitalized or the cash payment shall not exceed 25% of the paid-in capital.
- D. As proposed by the Board of Directors on March 9, 2017, the Company's accumulated deficit for 2016 is as follows:

	2016
Accumulated deficit at beginning of the year	(\$ 2,803,149)
Net loss in 2016	( 1,110,128)
Accumulated deficit at end of the year	(\$ 3,913,277)

As of March 9, 2017, the deficit compensation for 2016 has not yet been resolved by the shareholders.

E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(16).

(12) Operating revenue

	Years ended December 31,	
	2016	2015
Licensing revenue	\$ 92,386	\$ -
Other revenue	36	-
	\$ 92,422	\$ -

Under the agreement between the Company and Optimer Pharmaceuticals, LLC. (Optimer), the Company transferred exclusive rights of DIFICID to Optimer on October 2, 2015. The transfer has been completed in the second quarter of 2016 and the Company has received and recognised USD 3 million as licensing revenue. For the information relating to the agreement for transferring exclusive rights of DIFICID, please refer to Note 6(5).

(13) Other income

	Years ended December 31,	
	2016	2015
Government grants	\$ -	\$ 8,652
Interest income	61,636	45,383
Others	22,844	1,061
	\$ 84,480	\$ 55,096

A. The Company obtained government grants for OBI-822 (former name: OPT-822/821), therapeutically metastatic breast cancer vaccines, in Phase II / III from Department of Industrial Technology of Ministry of Economic Affairs R.O.C. (MOEA) on December 25, 2012. The contract period is July 1, 2012 to June 30, 2016 and contract grant is \$75,128. The government grants contract ended on June 30, 2016, and the contract grant of \$75,128 has been fully collected. The Company recognized government grants of \$0 and \$8,652 based on the development progress for the years ended December 31, 2016 and 2015, respectively.

In accordance with the above plan signed under the Technology Development Program by Ministry of Economic Affairs, if OBI-822 (formerly OPT-822/821) will be successfully licensed to others, the Company promises to contribute 5% of the signing bonus and achieved milestones as feedback fund and the maximum amount for feedback fund is \$150,256.



B. In the second quarter of 2016, the Company received the legal attest letter from Securities and Futures Investors Protection Center whereby the Company was required to enforce disgorgement. The Company has enforced disgorgement and recognised disgorgement of profits amounting to \$22,773.

(14) Other gains and losses

	Years ended December 31,	
	2016	2015
Net currency exchange (loss) gain	(\$ 79,368)	\$ 68,319
Gain on disposal of property, plant and equipment	2	-
Other expenses	( 55)	( 10)
	<u>(\$ 79,421)</u>	<u>\$ 68,309</u>

(15) Finance costs

	Years ended December 31,	
	2016	2015
Interest expense:		
Bank borrowings	<u>\$ 213</u>	<u>\$ -</u>

(16) Expenses by nature

	Years ended December 31,	
	2016	2015
Employee benefit expenses	\$ 519,008	\$ 651,226
Clinical trials cost	85,323	85,385
Clinical material expenses	278,535	148,212
Royalty	28,939	800
Rental expenses	22,761	17,955
Consulting and service fees	147,058	68,082
Depreciation charges on property, plant and equipment	34,440	22,482
Amortization charges on intangible assets	10,988	10,948
Other expenses	77,840	58,128
	<u>\$ 1,204,892</u>	<u>\$ 1,063,218</u>

(17) Employee benefit expense

	Years ended December 31,	
	2016	2015
	Operating expense	Operating expense
Wages and salaries	\$ 183,148	\$ 155,387
Employee stock options	308,952	472,495
Labor and health insurance fees	10,004	8,234
Pension costs	9,684	8,688
Other personnel expenses	7,220	6,422
	<u>\$ 519,008</u>	<u>\$ 651,226</u>

- A. According to the Articles of Incorporation, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration. A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the abovementioned employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders during their meeting. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation. The term shall be defined by the Board of Directors.
- B. For the years ended December 31, 2016 and 2015, no employees' compensation and directors' and supervisors' remuneration was accrued. Information about employees' compensation and directors' and supervisors' remuneration of the Company as approved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(18) Income tax

- A. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2016	2015
Tax calculated based on loss before tax and statutory tax rate	(\$ 188,258)	(\$ 159,768)
Effects from items disallowed by tax regulation	-	178
Income tax withhold	2,504	1,524
Effects from unrecognized deferred tax assets	188,258	159,590
Tax expense	<u>\$ 2,504</u>	<u>\$ 1,524</u>

- B. The details of unused investment tax credits under the Act for the Development of Biotech and New Pharmaceuticals Industry are as follows:

December 31, 2016		
Qualifying items	Unused tax credits	Unrecognized deferred tax assets
Research and development	\$ 351,309	\$ 351,309

  

December 31, 2015		
Qualifying items	Unused tax credits	Unrecognized deferred tax assets
Research and development	\$ 331,082	\$ 331,082

The unused tax credits can offset the current income tax payable for the next five years with a range of not more than 50% of each year's income tax payable, but the last year and be fully offset.

- C. Expiration dates of unused net operating loss carryforward and amounts of unrecognized deferred tax assets are as follows:

December 31, 2016				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognized deferred tax assets	Usable until year
2007	\$ 22,592	\$ 22,592	\$ 22,592	2017
2008	154,355	154,355	154,355	2018
2009	7,557	7,557	7,557	2019
2010	92,437	92,437	92,437	2020
2011	116,457	116,457	116,457	2021
2012	239,902	239,902	239,902	2022
2013	405,027	405,027	405,027	2023
2014	606,286	606,286	606,286	2024
2015	993,114	993,114	993,114	2025
2016	1,025,801	1,025,801	1,025,801	2026

  

December 31, 2015				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognized deferred tax assets	Usable until year
2006	\$ 19,409	\$ 19,409	\$ 19,409	2016
2007	22,592	22,592	22,592	2017
2008	154,355	154,355	154,355	2018
2009	7,557	7,557	7,557	2019
2010	92,437	92,437	92,437	2020
2011	116,457	116,457	116,457	2021

December 31, 2015				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognized deferred tax assets	Usable until year
2012	239,902	239,902	239,902	2022
2013	405,027	405,027	405,027	2023
2014	606,286	606,286	606,286	2024
2015	993,114	993,114	993,114	2025

D. The Tax Authority has examined the Company's income tax returns through 2014.

E. Accumulated deficit:

	December 31, 2016	December 31, 2015
Deficit generated in and after 1998	(\$ 3,913,277)	(\$ 2,803,149)

F. As of December 31, 2016 and 2015, the balance of the imputation credit account was \$0, and no earnings can be distributed due to the accumulated deficit.

(19) Loss per share

Year ended December 31, 2016			
	Amount after tax	Weighted-average number of ordinary shares outstanding (shares in thousands)	Loss per share (in dollars)
<u>Basic and diluted loss per share</u>			
Net loss	(\$ 1,110,128)	170,494	(\$ 6.51)

  

Year ended December 31, 2015			
	Amount after tax	Weighted-average number of ordinary shares outstanding (shares in thousands)	Loss per share (in dollars)
<u>Basic and diluted loss per share</u>			
Net loss	(\$ 941,337)	166,294	(\$ 5.66)

The potential ordinary shares have anti-dilutive effect due to net loss in 2016 and 2015, so the calculation of diluted loss per share is the same as the calculation of basic loss per share.

(20) Operating leases

The Group leases offices under non-cancellable operating lease agreements. As of December 31, 2016 and 2015, the Group recognized rental expenses of \$22,761 and \$17,955, respectively. Information about the future aggregate minimum lease payments under non-cancellable operating leases are disclosed in Note 9.

(21) Supplemental cash flow information

Investing activities with partial cash payments

	Years ended December 31,	
	2016	2015
Acquisition of property, plant and equipment	\$ 179,332	\$ 50,160
Add: opening balance of payable	5,288	3,099
Less: ending balance of payable	( 1,375)	( 5,288)
Cash paid during the year	<u>\$ 183,245</u>	<u>\$ 47,971</u>

	Years ended December 31,	
	2016	2015
Acquisition of intangible assets	\$ 467	\$ 186
Add: opening balance of payable	-	-
Less: ending balance of payable	( 360)	-
Cash paid during the year	<u>\$ 107</u>	<u>\$ 186</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

As of December 31, 2016, the Company does not have an ultimate parent company or controlling party.

(2) Significant related party transactions

A. Research and development expenses

	Years ended December 31,	
	2016	2015
Other related parties	<u>\$ 45,087</u>	<u>\$ 21,568</u>

(a) In January 2016, the Group signed the drugs purchase agreement for clinical trial of OBI-821 and OBI-822 with other related parties. The purchase amount was \$46,850 which was based on the mutual agreement.

(b) On August 25, 2015, the Group signed a service contract of OBI-821 with other related parties and the estimated payable is \$21,568.

B. Other payables

	December 31, 2016	December 31, 2015
Other related parties	<u>\$ 185</u>	<u>\$ 6,470</u>

C. Property transactions

On March 26, 2016, the Group signed the purchase agreement for production equipment with other related parties. The Group purchased the existing equipment from other related parties and

made it available for processing related products of OBI-821/822, Globo H and OBI-858. The initial acquisition cost of \$108,753 less the carrying amount (net of accumulated depreciation) was the purchase amount. As of December 31, 2016, ownership has been transferred and payment has been made amounting to \$47,053. The ownership of the remaining equipment has not yet been transferred. In 2015, experimental equipment amounting to \$3,878 was purchased from other related parties.

(3) Key management compensation

	Years ended December 31,	
	2016	2015
Salaries and other short-term employee benefits	\$ 94,071	\$ 82,386
Share-based payments	197,752	286,863
	<u>\$ 291,823</u>	<u>\$ 369,249</u>

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

Pledged asset	Book value		Purpose
	December 31, 2016	December 31, 2015	
Land	\$ 87,514	\$ -	Long-term borrowings (Note)
Buildings and structures	14,921	-	Long-term borrowings (Note)
Other non-current assets	32,956	34,131	Deposits for import duty, bank loan, clinical trial agreement and rental deposit, etc.
	<u>\$ 135,391</u>	<u>\$ 34,131</u>	

Note: The Group has entered into mortgage contract with E. SUN Bank in 2016. The contract requires a property set as the pledge and the credit line is \$100 million. Please refer to Note 6(6) for details.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

Except for the promised payments described in Notes 6(5) Intangible assets and 7(2) Related party transactions, the Group entered into operating lease contracts for its offices. Future lease payments under those leases as of December 31, 2016 were as follows:

Year	Amount
2017	\$ 22,979
2018	13,854
2019	13,792
2020	14,554
After 2021	70,978
	<u>\$ 136,157</u>

#### 10. SIGNIFICANT DISASTER LOSS

None.

#### 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

For the deficit compensation for 2016, please refer to Note 6 (11) for details.

#### 12. OTHERS

##### (1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern through maintaining an optimal capital structure to reduce the cost of capital, and to provide returns for shareholders after the Company turns around from loss to profit. In order to maintain or adjust the capital structure, the Group may increase capital by cash and sell assets to pay off or improve operating capital, adjust the amount of dividends paid to shareholders or capital reduction, etc. The Group monitors capital on the basis of the Debt/Equity ratio. The ratio is calculated by the "Net debt" divided by the "Total equity". The "Net debt" is the "Total liability" less cash and cash equivalents, and the "Total equity" is the same as the consolidated balance sheet.

During 2016, the Group's strategy, which was unchanged from 2015, was to maintain the gearing ratio within reasonable security range. The ratios are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Total liability	\$ 167,317	\$ 127,004
Less: cash and cash equivalents	<u>1,414,078</u>	<u>2,300,548</u>
Net debt	(\$ 1,246,761)	(\$ 2,173,544)
Total equity	<u>\$ 6,160,760</u>	<u>\$ 7,183,992</u>

##### (2) Financial instruments

###### A. Fair value information of financial instruments

The carrying values of the Group's financial instruments measured at non fair value (including cash and cash equivalents, other receivables, investments in debt instrument without active markets (including current and non-current) and other payables (including related parties) are reasonably approximate to the fair values. Long-term borrowings' (including current portion) interest rates are close to market interest rates. Therefore, the carrying value is reasonably calculated using the rational fair value basis. Please refer to Note 12(3) for the fair value information of financial instruments measured at fair value.

###### B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.

(b) Risk management is carried out by a central treasury department (Group treasury) under

policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- A. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- B. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.
- C. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- D. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; the subsidiaries' functional currencies: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:



December 31, 2016							
				Sensitivity Analysis			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
(Foreign currency: functional currency)							
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:NTD	\$ 88,600	32.25	\$2,857,350	1%	28,574	\$	-
RMB:NTD	40,497	4.617	186,975	1%	1,870		-
<u>Financial assets</u>							
<u>Non-monetary items</u>							
USD:NTD	1,458	32.25	47,019	-	-		-
RMB:NTD	494	0.143	2,279	-	-		-
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD:NTD	1,725	32.25	55,631	1%	556		-
GBP:NTD	275	39.61	10,893	1%	109		-
RMB:NTD	32	4.617	148	1%	1		-
December 31, 2015							
				Sensitivity Analysis			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income	
(Foreign currency: functional currency)							
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:NTD	\$ 42,296	32.83	\$1,388,366	1%	\$ 13,884	\$	-
RMB:NTD	40,464	5.00	202,118	1%	2,021		-
<u>Financial assets</u>							
<u>Monetary items</u>							
USD:NTD	1,607	32.83	52,758	-	-		-
RMB:NTD	1,522	0.152	7,610	-	-		-
<u>Financial liabilities</u>							
<u>Monetary items</u>							
USD:NTD	186	32.83	6,105	1%	61		-

E. The total exchange (loss) gain, including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2016 and 2015 amounted to (\$79,368) and \$68,319, respectively.

### Price risk

- A. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet as available-for-sale. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- B. The prices of the Group's investments in equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity would have increased/decreased by \$272 and \$225, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

#### (a) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the counterparties of financial instruments on the contract obligations. Credit risk arises from deposits in banks and financial institutions, as well as credit exposures to associated research agencies, including outstanding receivables and committed transactions. For banks and financial institutions, only those with the stable credit quality are accepted.
- ii During 2016 and 2015, management does not expect any significant losses from non-performance by these counterparties.

#### (b) Liquidity risk

- i. Cash flow forecasting is performed by Group treasury to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational and R&D needs. Such forecasting is in compliance with internal R&D project schedule targets.
- ii. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. As at December 31, 2016 and 2015, the Group's investments in debt instruments without active market (including current and non-current) amounted to \$4,471,180 and \$4,762,163, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. 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.

December 31, 2016					
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Non-derivative financial liabilities:					
Other payables	\$ 84,716	\$ -	\$ -	\$ -	\$ -
Long-term borrowings (current portion)	10,202	10,058	9,914	26,896	28,877

December 31, 2015					
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Non-derivative financial liabilities:					
Other payables (related parties)	\$ 59,985	\$ -	\$ -	\$ -	\$ -

- iv. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value information

- A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2) A.
- B. 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: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at 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.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in available-for-sale financial assets – non-current is included in Level 3.
- C. The related information of 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 at December 31, 2016 and 2015 is as follows:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	\$ -	\$ -	\$ 27,181	\$ 27,181

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	\$ -	\$ -	\$ 22,500	\$ 22,500

- D. Financial segment is in charge of valuation procedures for fair value measurements being categorized within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- E. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 27,181	Net asset value	Not applicable	-	Not applicable
	Fair value at December 31, 2015	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 22,500	Net asset value	Not applicable	-	Not applicable

- F. The Group has carefully assessed the valuation models and assumptions used to measure fair value; therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets and liabilities categorised within Level 3 if the inputs used to valuation models have changed:

			December 31, 2016			
			Recognised in profit or loss		Recognised in other comprehensive income	
	<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets						
Equity instrument	Net asset value	±1%	\$ -	\$ -	\$ 272	\$ 272

  

			December 31, 2015			
			Recognised in profit or loss		Recognised in other comprehensive income	
	<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets						
Equity instrument	Net asset value	±1%	\$ -	\$ -	\$ 225	\$ 225

- G. The following chart is the movement of Level 3 for the years ended December 31, 2016 and 2015:

			Equity securities	
			Years ended December 31,	
			2016	2015
Opening net book amount			\$ 22,500	\$ 22,500
Acquired in the period			4,681	-
Closing net book amount			\$ 27,181	\$ 22,500

- H. For the years ended December 31, 2016 and 2015, there was no transfer into or out from Level 3.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.

- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 2.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 3.

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 4.
- B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry, new drug research. The chief operating decision-maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Measurement of segment information

- A. The chief operating decision-maker evaluates the performance of the operating segments based on income before tax. The significant accounting policies and estimates of the operating segment and the accounting policies, estimates and assumptions described in Notes 4 and 5 of the consolidated financial statements are the same.
- B. The financial information reported to the chief operating decision-maker and the financial information of the consolidated statements of comprehensive income are the same.

(3) Geographical information

Geographical information for the years ended December 31, 2016 and 2015 is as follows:

	Years ended December 31,			
	2016		2015	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 92,422	\$ 308,412	\$ -	\$ 165,674
Others	-	1,365	-	2,382
	<u>\$ 92,422</u>	<u>\$ 309,777</u>	<u>\$ -</u>	<u>\$ 168,056</u>

The above non-current assets included property, plant and equipment, intangible assets and other non-current assets, which are categorized based on their location.

OBI Pharma, Inc. and Subsidiaries  
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)  
December 31, 2016

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

				As of December 31, 2016				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
OBI Pharma, Inc.	Stock - Agnitio Science & Technology Inc.	None	Available-for-sale financial assets - non-current	1,734,036	\$ 27,181	4.19%	\$ 27,181	None



OBI Pharma, Inc. and Subsidiaries  
Significant inter-company transactions during the reporting period  
Year ended December 31, 2016

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
1	OBI Pharma USA, Inc.	OBI Pharma, Inc.	2	Accounts receivable	\$ 25,166	(Note 4)	0.40
1	"	"	"	Service revenue	81,552	"	88.24

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

- (1) Parent company is '0'.
- (2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories :

- (1) Parent company to subsidiary.
- (2) Subsidiary to parent company.
- (3) Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The transaction terms are based on the mutual agreement.

Note 5: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.

OBI Pharma, Inc. and Subsidiaries  
Information on investees  
Year ended December 31, 2016

Table 3

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2016			Net profit (loss) of the investee for the year ended December 31, 2016	Investment income (loss) recognised by the Company for the year ended December 31, 2016	Footnote
				Balance as at December 31, 2016	Balance as at December 31, 2015	Number of shares	Ownership (%)	Book value			
OBI Pharma, Inc.	OBI Pharma Limited	Hong Kong	Investments and trading	\$ 19,350	\$ 19,350	600,000	100.00	\$ 2,307	(\$ 6,485)	(\$ 6,485)	Note 2
"	OBI Pharma USA, Inc.	USA	Research and development of biotechnology	87,107	87,107	2,701,000	100.00	44,712	1,878	1,878	"

Note 1: The accounts of the Company are maintained in New Taiwan dollars. Income statement accounts denominated in foreign currencies are translated into New Taiwan dollars at the weighted average exchange rates and balance sheet accounts at spot exchange rates prevailing at the balance sheet date.

Note 2: Inter-company transactions between companies within the Group are eliminated.

OBI Pharma, Inc. and Subsidiaries  
Information on investments in Mainland China  
Year ended December 31, 2016

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2016	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2016		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016	Net income of investee for the year ended December 31, 2016	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2016	Book value of investments in Mainland China as of December 31, 2016	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2016	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
OBI Pharma (Shanghai) Limited	Research and development of biotechnology	\$ 16,125	Note 1	\$ 16,125	-	-	\$ 16,125	(\$ 4,994)	100.00	(\$ 4,994)	\$ 2,279	-	
Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2016 (Note 2)	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA										
OBI Pharma (Shanghai) Limited	\$ 16,125	\$ 16,125	\$ 3,696,456										

Note 1: Reinvesting in the investee in Mainland China through OBI Pharma Limited.

Note 2: Pursuant to the Jing-Shen-II-Zi Letter No.10200125600, the investment amount was USD500 thousand.

Note 3: Abovementioned investment income (loss) was recognised based on the financial reports reviewed by the parent company's CPA.

Note 4: The accounts of the Company are maintained in New Taiwan dollars. Income statement accounts denominated in foreign currencies are translated into New Taiwan dollars at the weighted average exchange rates and balance sheet accounts at spot exchange rates prevailing at the balance sheet date.