

**TaiMed Biologics Inc. and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2016 and 2015 and  
Independent Auditors' Report**

## **DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standards 10 “Consolidated Financial Statements”. Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

TAIMED BIOLOGICS INC.

By

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March 6, 2017

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders  
TaiMed Biologics Inc.

### Opinion

We have audited the accompanying consolidated financial statements of TaiMed Biologics Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the 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 of 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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The description of the key audit matters of the consolidated financial statements for the year ended December 31, 2016 are as follows:

#### Evaluation of Impairment Loss of Intangible Assets

As of December 31, 2016, the consolidated balance, in New Taiwan dollars (NT\$), of intangible assets was NT\$336,569 thousand and accounted for 7% of the Group's total assets. Intangible assets are the core technologies of new drug development which might influence the operation of the Group. Management performs an impairment review according to IAS 36 "Impairment of Assets." Through evaluating and judging the expected economic benefits and recoverable amounts of the relevant intangible assets, management determines whether there is any indication of impairment. Since the balance is subject to material evaluation and judgment, the impairment of intangible assets is considered to be a key audit matter.

By conducting tests of controls, considering the business environment, and reviewing the Group's research process, we obtained an understanding of the Group's asset impairment evaluation processes and of the design and implementation of the related controls. We also performed corresponding audit procedures in which we:

1. Obtain the valuation model of the impairment test of intangible assets and evaluate the reasonableness of the assumptions and parameters, i.e. the discount rate, used in the model.
2. Evaluate management's sensitivity analysis for key assumptions and parameters.

For a description of the estimates and judgments related to intangible assets, see Note 5 of the accompanying consolidated financial statements. For other related disclosures, see Note 11.

#### **Other Matter**

We have also audited the parent company only financial statements of TaiMed Biologics as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

#### **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 International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and 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 statements 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 for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yung-Hsiang Chao and Chin-Tsung Cheng.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 6, 2017

#### Notice to Readers

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

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

# TAIMED BIOLOGICS INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 1,988,122	41	\$ 1,858,004	38
Other receivables (Note 4)	5,662	-	13,812	-
Other financial assets - current (Notes 4, 8 and 24)	2,432,006	51	2,697,021	55
Other current assets (Note 12)	<u>7,296</u>	-	<u>6,921</u>	-
Total current assets	<u>4,433,086</u>	<u>92</u>	<u>4,575,758</u>	<u>93</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets measured at cost - non-current (Notes 4 and 7)	10,000	-	-	-
Property, plant and equipment (Notes 4 and 10)	19,266	1	15,995	-
Intangible assets (Notes 4, 5 and 11)	336,569	7	333,344	7
Other non-current assets (Note 12)	<u>2,855</u>	-	<u>1,340</u>	-
Total non-current assets	<u>368,690</u>	<u>8</u>	<u>350,679</u>	<u>7</u>
<b>TOTAL</b>	<u>\$ 4,801,776</u>	<u>100</u>	<u>\$ 4,926,437</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Other payables (Notes 4 and 13)	\$ 56,109	1	\$ 26,153	1
Other current liabilities (Notes 4 and 14)	<u>4,065</u>	-	<u>479</u>	-
Total current liabilities	<u>60,174</u>	<u>1</u>	<u>26,632</u>	<u>1</u>
<b>NON-CURRENT LIABILITIES</b>				
Unearned revenue - non-current (Notes 4 and 14)	<u>27,814</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>87,988</u>	<u>2</u>	<u>26,632</u>	<u>1</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Ordinary shares	2,499,418	52	2,472,930	50
Capital surplus	4,575,743	95	4,505,176	91
Accumulated deficits	(2,356,302)	(49)	(2,074,340)	(42)
Other equity				
Exchange differences on translating foreign operations	<u>(5,071)</u>	-	<u>(3,961)</u>	-
Total equity	<u>4,713,788</u>	<u>98</u>	<u>4,899,805</u>	<u>99</u>
<b>TOTAL</b>	<u>\$ 4,801,776</u>	<u>100</u>	<u>\$ 4,926,437</u>	<u>100</u>

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

## TAIMED BIOLOGICS INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 14)	\$ 2,076	100	\$ -	-
OPERATING COSTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>2,076</u>	<u>100</u>	<u>-</u>	<u>-</u>
OPERATING EXPENSES (Note 17)				
General and administrative expenses	(38,365)	(1,848)	(48,680)	-
Research and development expenses	<u>(276,609)</u>	<u>(13,324)</u>	<u>(442,462)</u>	<u>-</u>
Total operating expenses	<u>(314,974)</u>	<u>(15,172)</u>	<u>(491,142)</u>	<u>-</u>
LOSS FROM OPERATIONS	<u>(312,898)</u>	<u>(15,072)</u>	<u>(491,142)</u>	<u>-</u>
NON-OPERATING INCOME AND EXPENSES (Note 4)				
Other income (Note 17)	29,762	1,434	18,548	-
Other gains and losses (Note 17)	<u>1,174</u>	<u>56</u>	<u>914</u>	<u>-</u>
Total non-operating income and expenses	<u>30,936</u>	<u>1,490</u>	<u>19,462</u>	<u>-</u>
LOSS BEFORE INCOME TAX	(281,962)	(13,582)	(471,680)	-
INCOME TAX EXPENSE (Notes 4, 5 and 18)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET LOSS FOR THE YEAR	<u>(281,962)</u>	<u>(13,582)</u>	<u>(471,680)</u>	<u>-</u>
OTHER COMPREHENSIVE INCOME				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Notes 4 and 16)	<u>(1,110)</u>	<u>(53)</u>	<u>3,659</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	<u>\$ (283,072)</u>	<u>(13,635)</u>	<u>\$ (468,021)</u>	<u>-</u>
LOSS PER SHARE (Note 19)	<u>\$ (1.14)</u>		<u>\$ (2.16)</u>	

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



**TAIMED BIOLOGICS INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015  
(In Thousands of New Taiwan Dollars)**

	<u>Share Capital (Note 16)</u>		<u>Capital Surplus (Notes 4, 16 and 20)</u>		<u>Accumulated Deficits (Notes 16 and 18)</u>	<u>Exchange Differences on Translating Foreign Operations (Notes 4 and 16)</u>	<u>Total Equity</u>
	<u>Shares (In Thousand)</u>	<u>Amount</u>	<u>Share Premium</u>	<u>Employee Share Options</u>			
BALANCE AT JANUARY 1, 2015	216,577	\$ 2,165,770	\$ 1,208,335	\$ 66,522	\$ (1,602,660)	\$ (7,620)	\$ 1,830,347
Net loss for the year ended December 31, 2015	-	-	-	-	(471,680)	-	(471,680)
Other comprehensive loss for the year ended December 31, 2015, net of income tax	-	-	-	-	-	3,659	3,659
Issuance of ordinary shares for cash - NT\$115 per share, November 20, 2015	30,000	300,000	3,150,000	30,251	-	-	3,480,251
Share-based payments - vested employee share options	-	-	-	28,663	-	-	28,663
Share-based payments - exercised employee share options	<u>716</u>	<u>7,160</u>	<u>61,786</u>	<u>(40,381)</u>	<u>-</u>	<u>-</u>	<u>28,565</u>
BALANCE AT DECEMBER 31, 2015	247,293	2,472,930	4,420,121	85,055	(2,074,340)	(3,961)	4,899,805
Net loss for the year ended December 31, 2016	-	-	-	-	(281,962)	-	(281,962)
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(1,110)	(1,110)
Share-based payments - vested employee share options	-	-	-	37,049	-	-	37,049
Share-based payments - exercised employee share options	<u>2,649</u>	<u>26,488</u>	<u>69,186</u>	<u>(35,668)</u>	<u>-</u>	<u>-</u>	<u>60,006</u>
BALANCE AT DECEMBER 31, 2016	<u>249,942</u>	<u>\$ 2,499,418</u>	<u>\$ 4,489,307</u>	<u>\$ 86,436</u>	<u>\$ (2,356,302)</u>	<u>\$ (5,071)</u>	<u>\$ 4,713,788</u>

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

# TAIMED BIOLOGICS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before income tax	\$ (281,962)	\$ (471,680)
Adjustments for:		
Depreciation expenses	3,487	3,432
Interest income	(27,822)	(12,681)
Compensation cost of employee share options	37,049	58,914
Net loss on foreign currency exchange	140	-
Changes in operating assets and liabilities		
Other receivables	7,861	(11,440)
Other current assets	(375)	(1,718)
Other payables	29,816	(23,807)
Unearned revenue	27,814	-
Other current liabilities	<u>3,586</u>	<u>90</u>
Cash used in operations	(200,406)	(458,890)
Interest received	<u>28,111</u>	<u>12,625</u>
Net cash used in operating activities	<u>(172,295)</u>	<u>(446,265)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets measured at cost	(10,000)	-
Payments for property, plant and equipment	(6,758)	(3,213)
Increase in refundable deposits	(1,650)	(75)
Payments for intangible assets	(3,225)	-
Increase in other financial assets	-	(1,582,100)
Decrease in other financial assets	<u>265,000</u>	<u>-</u>
Net cash generated from (used in) investing activities	<u>243,367</u>	<u>(1,585,388)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares	-	3,450,000
Exercise of employee share options	<u>60,006</u>	<u>28,565</u>
Net cash generated from financing activities	<u>60,006</u>	<u>3,478,565</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(960)</u>	<u>3,629</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	130,118	1,450,541
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,858,004</u>	<u>407,463</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 1,988,122</u>	<u>\$ 1,858,004</u>

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

# TAIMED BIOLOGICS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

TaiMed Biologics Inc. (the “Company”) was incorporated on September 5, 2007 as a venture of the government of the Republic of China (“ROC”), acting through the Development Fund of the Executive Yuan and in conjunction with certain other investors injecting initial capital amounts.

The Company is a biotechnology company committed to have the expertise and capability in developing, manufacturing and commercializing new drugs for the treatment and prevention of infectious diseases. Since its inception, the Company has devoted substantial efforts toward developing new drugs, collecting capital, recruiting and training of employees, etc.

The Company’s shares were traded on the Emerging Stock Market of the Taipei Exchange (“TPEX”) from June 2010 to July 2015. Subsequently, in July 2015, the Company was approved to trade and has traded its shares on the Over-The-Counter Stock Market of the TPEX since November 2015.

The consolidated financial statements are presented in the Company’s functional currency, the New Taiwan dollar.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company’s board of directors on March 6, 2017.

### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the “IFRSs”) issued by the IASB and endorsed by the FSC for application starting from 2017.

<b>New, Amended or Revised Standards and Interpretations (the “New IFRSs”)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”	January 1, 2016
Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”	January 1, 2016

(Continued)

<b>New, Amended or Revised Standards and Interpretations (the “New IFRSs”)</b>	<b>Effective Date Announced by IASB (Note 1)</b>
IFRS 14 “Regulatory Deferral Accounts”	January 1, 2016
Amendment to IAS 1 “Disclosure Initiative”	January 1, 2016
Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortization”	January 1, 2016
Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”	January 1, 2016
Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”	July 1, 2014
Amendment to IAS 27 “Equity Method in Separate Financial Statements”	January 1, 2016
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group’s accounting policies, except for the following:

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group’s respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

## 1) IFRS 9 “Financial Instruments”

### Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

### Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

## Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

### 2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

### 3) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

##### b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost.

##### c. Classification of current and non-current assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within twelve months after the reporting period; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as non-current.

##### d. Basis of consolidation

See Note 9 and Table 2 for the detailed information of subsidiaries, including the percentage of ownership and main business.

##### e. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries operations in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income.



f. Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at the weighted-average cost on the balance sheet date.

g. Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation.

Property, plant and equipment in the course of construction are carried at cost. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

h. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset in untapped status not yet available for use is not subject to amortization. The Group tests intangible assets for impairment under IAS 36, Impairment of Assets.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

i. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

j. Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

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

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

ii. Loans and receivables

Loans and receivables (including other receivables, cash and cash equivalent and other financial assets-current) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

At the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as other receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of other receivables, where the carrying amount is reduced through the use of an allowance account. When other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible other receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

## 2) Equity instruments

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

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## 3) Financial liabilities

### a) Subsequent measurement

All financial liabilities are measured at amortized cost using the effective interest method.

### b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

## k. Revenue recognition

Revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement and provided that it is possible that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. For account receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and the transactions are frequent, the fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

The upfront payments and development milestone payments are recognized according to the degree of performance over the estimated performance period stipulated in the agreement on a straight-line basis; the commercial milestone payments are recognized as revenue when the commercial milestones are achieved and the revenue is not expected to be reversed.

Revenue from the sale of medicines is recognized when all the following conditions are satisfied:

- 1) The Group has transferred to the buyer the significant risks and rewards of ownership of the medicines;
- 2) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the medicines sold;
- 3) The amount of revenue can be measured reliably;
- 4) It is possible that the economic benefits associated with the transaction will flow to the Group; and
- 5) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Subsidies obtained from sponsors are recognized as subsidy revenue, according to the progress of the completion of the project plan.

l. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attached to them and that the grant will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

m. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

n. Share-based payment arrangements

1) Equity-settled share-based payment arrangements and employee share options granted to employee

The fair value at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vesting immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

2) Equity-settled share-based payment arrangement granted to technology transfer companies and consultants

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of patent received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

o. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

## 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward, research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

## 3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the information that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Externally-acquired new drug research and development technology

Acquired research and development plans in untapped status not yet available for use is not subject to amortization. At the end of each year, the Group compares the carrying amounts with the recoverable amount of those intangible assets to determine whether there is any indication that those assets have suffered an impairment loss under IAS 36, Impairment of Assets. There was no indication of impairment as of December 31, 2016.

b. Income taxes

As of December 31, 2016 and 2015, the carrying amount of deferred tax assets in relation to unused tax losses was \$433,887 thousand and \$380,602 thousand, respectively. No deferred tax asset has been recognized on tax losses due to the unpredictability of future profit streams.

**6. CASH AND CASH EQUIVALENTS**

	<u>December 31</u>	
	2016	2015
Cash on hand	\$ 100	\$ 100
Checking accounts and demand deposits	1,182,022	893,904
Cash equivalents		
Time deposits with original maturity of less than 3 months	<u>806,000</u>	<u>964,000</u>
	<u>\$ 1,988,122</u>	<u>\$ 1,858,004</u>

The market interest rates of the time deposits with original maturity of less than 3 months at the end of the reporting period were as follows:

	<u>December 31</u>	
	2016	2015
Time deposits	0.13%-0.63%	0.17%-0.87%

**7. FINANCIAL ASSETS MEASURED AT COST**

	<u>December 31</u>	
	2016	2015
<u>Non-current</u>		
Domestic unlisted ordinary shares	<u>\$ 10,000</u>	<u>\$ -</u>
Classified according to financial asset measurement categories		
Available-for-sale financial assets	<u>\$ 10,000</u>	<u>\$ -</u>

Management believed that the above unlisted equity investments held by the Group had fair values which could not be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

## 8. OTHER FINANCIAL ASSETS - CURRENT

	<u>December 31</u>	
	2016	2015
Other financial assets - current		
Time deposits with original maturity more than 3 months	\$ 2,422,200	\$ 2,672,200
Pledge deposits (Note 24)	<u>9,806</u>	<u>24,821</u>
	<u>\$ 2,432,006</u>	<u>\$ 2,697,021</u>

The market interest rates of the time deposits with original maturity of more than 3 months were 0.15%-1.035% and 0.37%-1.285% per annum as of December 31, 2016 and 2015, respectively.

## 9. SUBSIDIARIES

Subsidiaries included in the consolidated financial statements.

Investor	Investee	Main Business	<u>% of Ownership</u>		Remark
			<u>December 31</u>		
			2016	2015	
The Company	TaiMed Biologics USA Corp.	Research and development	100	100	a, c
	TaiMed Biologics HK Limited	Investment	100	100	b, c
	TMB HK Services Limited	Investment	100	100	b, c

Remark:

- a. TaiMed Biologics USA Corp. (TMB USA) was incorporated in October 2007 in the United States. It is engaged mainly in supporting clinical trials of new drug in the United States of America.
- b. TaiMed Biologics HK Limited and TMB HK Services Limited were both incorporated in September 2012 in the Hong Kong. They are engaged mainly in reinvesting and supporting clinical trials of new drugs in mainland China.
- c. Except for TaiMed Biologics HK Limited and TMB HK Services Limited, investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on the financial statements that have been audited. Management believes the financial statements of TaiMed Biologics HK Limited and TMB HK Services Limited that have not been audited do not have material impact on the investments and share of profit or loss and other comprehensive income accounted for by equity method.

## 10. PROPERTY, PLANT AND EQUIPMENT

	Instrument Equipment	Furniture and Office Equipment	Leasehold Improvements	Property in Construction	Total
<u>Cost</u>					
Balance at January 1, 2015	\$ 15,784	\$ 2,671	\$ 4,364	\$ -	\$ 22,819
Additions	2,561	523	129	-	3,213
Effect of foreign currency exchange differences	<u>-</u>	<u>51</u>	<u>-</u>	<u>-</u>	<u>51</u>
Balance at December 31, 2015	<u>\$ 18,345</u>	<u>\$ 3,245</u>	<u>\$ 4,493</u>	<u>\$ -</u>	<u>\$ 26,083</u>

(Continued)



	Instrument Equipment	Furniture and Office Equipment	Leasehold Improvements	Property in Construction	Total
<u>Accumulated depreciation</u>					
Balance at January 1, 2015	\$ 3,377	\$ 2,431	\$ 797	\$ -	\$ 6,605
Depreciation expense	2,453	102	877	-	3,432
Effect of foreign currency exchange differences	-	51	-	-	51
Balance at December 31, 2015	<u>\$ 5,830</u>	<u>\$ 2,584</u>	<u>\$ 1,674</u>	<u>\$ -</u>	<u>\$ 10,088</u>
Carrying amounts at December 31, 2015	<u>\$ 12,515</u>	<u>\$ 661</u>	<u>\$ 2,819</u>	<u>\$ -</u>	<u>\$ 15,995</u>
<u>Cost</u>					
Balance at January 1, 2016	\$ 18,345	\$ 3,245	\$ 4,493	\$ -	\$ 26,083
Additions	2,697	111	150	3,800	6,758
Disposals	-	(548)	-	-	(548)
Effect of foreign currency exchange differences	-	(25)	-	-	(25)
Balance at December 31, 2016	<u>\$ 21,042</u>	<u>\$ 2,783</u>	<u>\$ 4,643</u>	<u>\$ 3,800</u>	<u>\$ 32,268</u>
<u>Accumulated depreciation</u>					
Balance at January 1, 2016	\$ 5,830	\$ 2,584	\$ 1,674	\$ -	\$ 10,088
Depreciation expense	2,376	167	944	-	3,487
Disposals	-	(548)	-	-	(548)
Effect of foreign currency exchange differences	-	(25)	-	-	(25)
Balance at December 31, 2016	<u>\$ 8,206</u>	<u>\$ 2,178</u>	<u>\$ 2,618</u>	<u>\$ -</u>	<u>\$ 13,002</u>
Carrying amounts at December 31, 2016	<u>\$ 12,836</u>	<u>\$ 605</u>	<u>\$ 2,025</u>	<u>\$ 3,800</u>	<u>\$ 19,266</u> (Concluded)

No impairment assessment was performed in 2016 and 2015 as there was no indication of impairment.

Depreciation expense is based on a straight-line basis over the estimated useful life of the asset:

Instrument equipment	6 years
Furniture and office equipment	5 years
Leasehold improvements	5 years

## 11. INTANGIBLE ASSETS

	TMB-355	TMB-607 (PI)	Total
<u>Cost</u>			
Balance at January 1, 2015	\$ 325,950	\$ 7,394	\$ 333,344
Additions	-	-	-
Balance at December 31, 2015	<u>\$ 325,950</u>	<u>\$ 7,394</u>	<u>\$ 333,344</u> (Continued)

	TMB-355	TMB-607 (PI)	Total
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2015	\$ -	\$ -	\$ -
Amortization expenses	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying amounts at December 31, 2015	<u>\$ 325,950</u>	<u>\$ 7,394</u>	<u>\$ 333,344</u>
<u>Cost</u>			
Balance at January 1, 2016	\$ 325,950	\$ 7,394	\$ 333,344
Additions	<u>-</u>	<u>3,225</u>	<u>3,225</u>
Balance at December 31, 2016	<u>\$ 325,950</u>	<u>\$ 10,619</u>	<u>\$ 336,569</u>
<u>Accumulated amortization and impairment</u>			
Balance at January 1, 2016	\$ -	\$ -	\$ -
Amortization expenses	<u>-</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carrying amounts at December 31, 2016	<u>\$ 325,950</u>	<u>\$ 10,619</u>	<u>\$ 336,569</u> (Concluded)

Intangible assets are the acquisition cost of the exclusive rights of new drugs (refer to Note 25). As of December 31, 2016, intangible assets were in untapped status not yet available for use.

At the end of each year, the Group compares carrying amount with the recoverable amount of those intangible assets to determine whether there is any indication of impairment. There was no indication of impairment as of December 31, 2016.

## 12. OTHER ASSETS

	<u>December 31</u>	
	2016	2015
<u>Current</u>		
Excess VAT paid	\$ 5,063	\$ 5,629
Prepayments	2,212	1,235
Temporary payments	<u>21</u>	<u>57</u>
	<u>\$ 7,296</u>	<u>\$ 6,921</u>
<u>Non-current</u>		
Refundable deposits	<u>\$ 2,855</u>	<u>\$ 1,340</u>

### 13. OTHER PAYABLES

	<u>December 31</u>	
	2016	2015
Clinical trial expenses	\$ 37,859	\$ 17,872
Personnel expenses	3,439	3,241
Professional fees	1,169	1,405
Consulting fees	395	730
Others	<u>13,247</u>	<u>2,905</u>
	<u>\$ 56,109</u>	<u>\$ 26,153</u>

### 14. UNEARNED REVENUE

	<u>December 31</u>	
	2016	2015
Initial payments - current (classified as other current liabilities)	\$ 2,490	\$ -
Initial payments - non-current	<u>27,814</u>	<u>-</u>
	<u>\$ 30,304</u>	<u>\$ -</u>

The Company signed an “Exclusive Distribution and Marketing Agreement for Ibalizumab (TMB-355)” with Theratechnologies Inc. on March 18, 2016, which announced a 12-year collaboration agreement to market and distribute Ibalizumab in the United States and in Canada. Theratechnologies Inc. paid US\$100 thousand in March 2016 according to the agreement.

The milestone payments of the agreement were as follows:

	<u>Milestone Date</u>	<u>Milestone Payment</u>
Upfront payment	Execution date	US\$1,000 thousand in cash
Marketing approval milestone payment	Marketing approval date	US\$3,000 thousand in Theratechnologies Inc.’s ordinary shares
Commercial launch milestone payment	First commercial sale date	US\$5,500 thousand in cash and US\$1,000 thousand in Theratechnologies Inc.’s ordinary shares
New route of administration milestone payment	First commercial sale date of new route of administration	US\$3,000 thousand in cash and additional payment in cash without exceeding US\$50,000 thousand
Sales milestone payment	Milestone date for each net sales achievement	From US\$7,000 thousand to US\$100,000 thousand in cash for each net sales achievement
Transfer price	Sales date of drug	52% of net sales price

### 15. RETIREMENT BENEFIT PLANS

#### Defined Contribution Plans

The Company of the Group adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiary in America Land are members of a state-managed retirement benefit plan operated by the government of America Land. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

## 16. EQUITY

### a. Ordinary shares

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Number of shares authorized (in thousands)	<u>260,000</u>	<u>260,000</u>
Shares authorized	<u>\$ 2,600,000</u>	<u>\$ 2,600,000</u>
Number of shares issued and fully paid (in thousands)	<u>249,942</u>	<u>247,293</u>
Shares issued	<u>\$ 2,499,418</u>	<u>\$ 2,472,930</u>

Ordinary shares change is mainly due to employees' exercise of their employee share options and issue for cash. Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right to dividends.

A total of 20,600 thousand shares of the Company's shares authorized were reserved for the issuance of employee share options.

The Company's board of directors resolved to issue 30,000 thousand ordinary shares, with a par value of NT\$10 and determined the consideration of NT\$115 per share in November 2015, which increased the share capital issued and fully paid by \$3,450,000 thousand. The above transaction was approved by the TPEX, and the subscription base date was determined by the board of directors as November 20, 2015. Issue of ordinary shares for cash was registered with the Ministry of Economic Affairs, ROC ("MOEA") in December 2015.

### b. Issuance of ordinary shares for technology

The Company issued ordinary shares in exchange for exclusive technology in developing new drugs and for management services:

Grant Date	Record Date	Entitled Holder	Acquisition of Exclusive Technology or Service	Number of Ordinary Shares Issued (In Thousands)	Amount of Ordinary Shares Issued (In Thousands)
2009.3.26	2009.5.31	Academia Sinica	Exclusive rights of Tamiphosphor	150	\$ 1,500
2009.3.26	2009.12.30	Genentech Inc.	Exclusive rights of TMB-355	15,260	152,600
2009.5.26	2009.8.31	David Ho (chief founder)	New drug R&D expertise and administrative service	10,000	100,000
2009.11.23	2009.12.30	James Chang (CEO)	New drug R&D expertise and administrative service	1,650	16,500

Issuances of ordinary shares above were approved by the authorities and were registered with the MOEA.

### c. Capital surplus

The capital surplus arising from shares issued in excess of par (including share premium from issuance of common shares) may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

The capital surplus from employee share options may not be used for any purpose.

d. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 2, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to 17.d. on employee benefits expense.

In principle, cash dividends are limited up to 50% of total dividends distributed. To ensure the Company has adequate cash for its present and future expansion plans, adjustment of this percentage may be approved by the shareholders depending on the cash flows, net income and the need for future expansion.

Appropriation of earnings to the legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

e. Others equity - exchange differences on translating foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ (3,961)	\$ (7,620)
Exchange differences arising on translating the foreign operations	<u>(1,110)</u>	<u>3,659</u>
Balance at December 31	<u>\$ (5,071)</u>	<u>\$ (3,961)</u>

## 17. LOSS BEFORE INCOME TAX

### a. Other income

	<u>For the Year Ended December 31</u>	
	2016	2015
Interest income	\$ 27,822	\$ 12,681
Subsidy revenue	1,930	5,864
Others	<u>10</u>	<u>3</u>
	<u>\$ 29,762</u>	<u>\$ 18,548</u>

### b. Other gains and losses

	<u>For the Year Ended December 31</u>	
	2016	2015
Net foreign exchange gains	<u>\$ 1,174</u>	<u>\$ 914</u>

### c. Depreciation

	<u>For the Year Ended December 31</u>	
	2016	2015
Operating expenses		
Property, plant and equipment	<u>\$ 3,487</u>	<u>\$ 3,432</u>

### d. Employee benefits expense

	<u>For the Year Ended December 31</u>	
	2016	2015
<u>Operating expenses</u>		
Other employee benefits		
Salary	\$ 75,310	\$ 70,352
Insurance	3,958	3,699
Other	<u>1,695</u>	<u>1,375</u>
	<u>80,963</u>	<u>75,426</u>
Defined contribution plans	5,094	4,735
Share-based payments	<u>37,049</u>	<u>58,914</u>
	<u>\$ 123,106</u>	<u>\$ 139,075</u>

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting on June 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 1% and no higher than 2%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors.

The Articles before the amendment stipulated to distribute bonus to employees and remuneration of directors and supervisors at the rates no less than 1% and no higher than 2%, respectively, of net income (net of the bonus and remuneration).

For the years ended December 31, 2016 and 2015, the bonus to employees and the remuneration of directors and supervisors were both zero since the Company had no distributable earnings in 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

e. Loss on foreign currency exchange

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Foreign exchange gains		
Foreign exchange losses	\$ 2,456	\$ 3,733
	<u>(1,282)</u>	<u>(2,819)</u>
	<u>\$ 1,174</u>	<u>\$ 914</u>

## 18. INCOME TAX

a. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Loss carryforwards		
Expire in 2017	\$ 77,786	\$ 77,786
Expire in 2018	310,095	310,095
Expire in 2019	214,239	214,239
Expire in 2020	282,347	282,347
Expire in 2021	176,702	176,702
Expire in 2022	188,124	188,124
Expire in 2023	282,559	282,559
Expire in 2024	327,099	327,099
Expire in 2025	532,309	471,068
Expire in 2026	<u>257,632</u>	<u>-</u>
	<u>\$ 2,648,892</u>	<u>\$ 2,330,019</u>
Investment credits		
Research and development	<u>\$ 371,623</u>	<u>\$ 323,523</u>
Temporary differences		
Clinical trial expenses	\$ 28,504	\$ 2,816
Foreign exchange	(1,286)	(564)
Amortization of intangible assets	(92,734)	(92,030)
Investment loss	<u>276,268</u>	<u>245,524</u>
	<u>\$ 210,752</u>	<u>\$ 155,746</u>

b. Integrated income tax

	<u>December 31</u>	
	2016	2015
Accumulated deficit generated on and after January 1, 1998	<u>\$ (2,356,302)</u>	<u>\$ (2,074,340)</u>

As of December 31, 2016 and 2015, there were no imputation credits which can be allocated to the shareholders. The Company had no distributable earnings in 2016 and 2015.

c. Income tax assessments

The tax returns through 2014, except 2013, have been assessed by the tax authorities.

19. NET LOSS PER SHARE

	<u>For the Year Ended December 31</u>	
	2016	2015
Basic net loss per share	<u>\$ (1.14)</u>	<u>\$ (2.16)</u>

The earnings and weighted average number of ordinary shares outstanding in the computation of net loss per share were as follows:

	<u>For the Year Ended December 31</u>	
	2016	2015
<u>Net loss for the year</u>		
Net loss used in the computation of net loss per share	<u>\$ (281,962)</u>	<u>\$ (471,680)</u>
Weighted average number of ordinary shares outstanding (in thousand shares)		

	<u>For the Year Ended December 31</u>	
	2016	2015
Weighted average number of ordinary shares in computation of net loss per share	<u>248,369</u>	<u>218,043</u>

Diluted net loss per share is the same as basic net loss per share in 2016 and 2015 because employee share options were anti-dilutive due to the net loss.



## 20. SHARE-BASED PAYMENT ARRANGEMENTS

### Employee Share Options

Issuance Date	Number of Options (In Thousands)	Subscription Share Per Unit	Option Life	Options Granted Period	Exercisable Percentage
2009.12	3,035	1 share	7 years	Type A	Type A
				The expiry of 2 years	25%
				The expiry of 3 years	50%
				The expiry of 4 years	75%
				The expiry of 5 years	100%
				Type B	Type B
2011.12	1,500	1 share	10 years	Note 1	Note 1
2012.12	1,935	1 share	10 years	Note 1	Note 1
2014.01	1,642	1 share	10 years	Note 1	Note 1
2015.01	1,603	1 share	10 years	Note 1	Note 1
2016.01	1,064	1 share	10 years	Note 1	Note 1
2016.12	859	1 share	10 years	Note 1	Note 1

Note 1:

Options Granted Period	Exercisable Percentage
The expiry of two years	50%
The expiry of three years	75%
The expiry of four years	100%

For any subsequent changes in the Company's capital surplus, the exercise price and number of options are adjusted accordingly.

Information about employee share options granted in 2016 and 2015 was as follows:

	2016		2015	
	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)	Number of Options (In Thousands)	Weighted-average Exercise Price (NT\$)
Balance, beginning of year	7,104	\$ 63.28	6,217	\$ 41.02
Options granted	1,923	205.52	1,603	139.20
Options exercised	2,649	22.65	716	39.89
Options forfeited	<u>25</u>	237.00	-	-
Balance, end of year	<u>6,353</u>	122.59	<u>7,104</u>	63.28
Options exercisable, end of year	<u>2,073</u>	51.85	<u>3,457</u>	25.00

The exercise price and number of options were adjusted accordingly for the charges in the Company's capital surplus.

The weighted-average share prices at the date of exercise of share options for the years ended December 31, 2016 and 2015 were NT\$204.62 and NT\$168.63.

Information about outstanding options as of December 31, 2016 and 2015 was as follows:

	December 31			
	2016		2015	
	Range of Exercise Price (NT\$)	Weighted- average Remaining Contractual Life (Years)	Range of Exercise Price (NT\$)	Weighted- average Remaining Contractual Life (Years)
Granted in 2009	\$ -	-	\$ 10.0	11 months
Granted in 2011	33.3	5 years	33.3	6 years
Granted in 2012	45.6	6 years	45.6	7 years
Granted in 2014	75.6	7 years	75.6	8 years
Granted in 2015	139.2	8 years	139.2	9 years
Granted in 2016	237.0	9 years	-	-
Granted in 2016	166.5	10 years	-	-

Options granted during the years ended December 31, 2016 and 2015 were priced using the Black-Scholes pricing model and the inputs to the model were as follows:

	Grant-date Share Price (NT\$)	Exercise Price (NT\$)	Expected Volatility	Expected Life (Years)	Expected Dividend Yield	Risk-free Interest Rate
Granted in 2009	\$20.64	\$10.00	54%	5 years	-	1.00%
Granted in 2011	38.40	33.30	36%	5 years	-	0.62%
Granted in 2012	47.04	45.60	50%	7 years	-	1.02%
Granted in 2014	73.20	75.60	31.7%	7 years	-	1.40%
Granted in 2015	142.60	139.20	26%	2-4 years	-	0.92%
Granted in 2016	237.00	237.00	39%	2-4 years	-	0.6%
Granted in 2016	166.50	166.50	32%	2-4 years	-	0.54%

Compensation costs of employee share options above were \$37,049 thousand and \$28,663 thousand in 2016 and 2015.

On September 24, 2015, the Company's board of directors resolved to issue ordinary shares for cash. Under the Company's Articles of Incorporation, the Company reserved 15% of new shares for subscription by employees and determined the number of options and exercise price in November 2015.

Under IFRS 2 "Share-based Payment", the Company is required to apply fair value method to measure employee share options and to recognize compensation cost at grant date. Compensation costs of employee share options above were \$30,251 thousand in 2015.

## 21. CAPITAL MANAGEMENT

The Group needs funds to deal with new drugs development and sale. The Group manages its capital to ensure that entities in the Group will be able to meet the demand of capital expenditures, research and development expenses and others for the next 12 months.

The Group is not subject to any externally imposed capital requirements.

## 22. FINANCIAL INSTRUMENTS

### a. Fair values of financial instruments

Financial instruments held by the Group which were not carried at fair value are stated at amounts that approximate fair value; management believes the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

### b. Categories of financial instruments

	<u>December 31</u>	
	2016	2015
<u>Financial assets</u>		
Loans and receivables (1)	\$ 4,425,790	\$ 4,568,837
Available-for-sale financial assets (2)	10,000	-
<u>Financial liabilities</u>		
Amortized cost (3)	56,109	26,153

- 1) The balances included loans and receivables measured at amortized cost, cash and cash equivalents, other receivables and other financial assets.
- 2) The balances included the carrying amount of available-for-sale financial assets measured at cost.
- 3) The balances included financial liabilities measured at amortized cost, and other payables.

### c. Financial risk management objectives and policies

The Group's major financial instruments include receivables and payables. The Group aims to manage the market risks relating to the operations of the Group to achieve financial risk management objectives. These risks include market risk (including currency risk), interest rate risk, credit risk and liquidity risk. The Group seeks to minimize the effects of these risks by identifying, evaluating and hedging the uncertainties.

The Group's major financial activities are reviewed by the board of directors according to the policies and internal control programs. The Group complies with the whole financial operating procedures of financial risk management and division of responsibility in the period of executing financial plans.

#### 1) Foreign currency risk

The Group had foreign currency transactions, which exposed the Group to foreign currency risk. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) are set out in Note 27.

#### Sensitivity analysis

The Group was mainly exposed to the U.S. dollars.

The following table details the Group's sensitivity to a 5% increase and decrease in New Taiwan dollars against the foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit associated with New Taiwan dollars appreciate 5% against the relevant currency.

<b>U.S. Dollars Impact</b>	
<b>For the Year Ended December 31</b>	
2016	2015
\$ 1,538	\$ 804

This was mainly attributable to the exposure outstanding on U.S. dollars cash, receivables, payables and other financial assets which were not hedged at the end of the reporting period.

In management's opinion, sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period did not reflect the exposure during the period.

## 2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure of counterparties to discharge an obligation could equal the amount of time deposits. The counterparties to the foregoing financial instruments are reputable financial institutions. Management does not expect the Group's exposure to default by those parties to be material.

## 3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash, cash equivalents and high-liquidity securities deemed adequate to ensure the Group's financial flexibility.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows.

### December 31, 2016

	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
	<u>Non-derivative financial liabilities</u>				
Non-interest bearing	<u>\$ 49,185</u>	<u>\$ 5,538</u>	<u>\$ 1,115</u>	<u>\$ 271</u>	<u>\$ -</u>

December 31, 2015

	<b>On Demand or Less than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>5+ Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	<u>\$ 19,560</u>	<u>\$ 4,353</u>	<u>\$ 1,698</u>	<u>\$ 542</u>	<u>\$ -</u>

4) Interest rate risk

The Group is exposed to interest rate risk due to demand deposits and time deposits at floating interest rates. The changes in market rates will change the effective interest rate of financial instruments and may result in fluctuations in future cash flows.

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Fair value interest rate risk		
Financial assets	\$ 3,068,200	\$ 3,465,200
Cash flow interest rate risk		
Financial assets	1,351,818	1,089,715

Sensitivity analysis

The sensitivity analyses below were determined based on the Group's exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate assets, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1 basis point higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would increase/decrease by \$135 thousand and \$109 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate cash in bank.

**23. TRANSACTIONS WITH RELATED PARTIES**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel were as follows:

	<u>For the Year Ended December 31</u>	
	<b>2016</b>	<b>2015</b>
Short-term employee benefits	\$ 24,843	\$ 22,793
Post-employment benefits	718	690
Share-based payments	<u>12,484</u>	<u>15,803</u>
	<u>\$ 38,045</u>	<u>\$ 39,286</u>

The remuneration of directors and key executives was determined by the remuneration committee having regard to the performance of individuals and market trends.

## 24. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The Group provided certain assets as collateral mainly for bank credit line.

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Pledge deposits (classified as other financial assets - current)	<u>\$ 9,806</u>	<u>\$ 24,821</u>

## 25. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. Significant contingent liabilities: None

b. Unrecognized commitments

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2016 and 2015 were as follows:

### 1) Acquisition of new drugs' exclusive rights and commitments

Items	Holders	Exclusive License Agreements	First License Fees	License Fees and Other Commitments Per Milestone
1	Genentech Inc. (America)	TMB-355 Ibalizumab (intravenous injection formulation)	US\$10,000 thousand	1) US\$5,000-US\$10,000 thousand per milestone 2) Sales royalty is based on a particular percentage of sales
2	Genentech Inc. (America)	TMB-355 Ibalizumab (subcutaneous injection treatment formulation)	Combined with Item 1	Combined with Item 1
3	Genentech Inc. (America)	TMB-355 Ibalizumab (subcutaneous injection prevention formulation)	Combined with Item 1	Combined with Item 1
4	Biogen Inc. (America)	Anti-CD4 monoclonal antibodies	-	1) US\$100-US\$3,000 thousand per milestone 2) Sales royalty is based on a particular percentage of sales
5	Rockefeller University (America)	LM-52	US\$50 thousand	1) Patent maintenance expenditure increases annually from \$20 thousand to \$80 thousand 2) US\$200-US\$2,000 thousand per milestone 3) Sales royalty is based on particular percentage of sales 4) Sublicensing royalty is based on a particular percentage of each milestone licensed amount
6	Ambriolia Biopharma Inc. (Canada)	Protease Inhibitor (PI)	US\$250 thousand	1) US\$100-US\$4,000 thousand per milestone 2) Sales royalty is based on particular percentage of sales 3) Sublicensing royalty is based on a particular percentage of each milestone licensed amount

#### Items 1-4 TMB-355 exclusive license agreement

In September 2007, the Company entered an Exclusive License Agreement for Anti-CD4 Antibody technique and its patent with Genentech, a corporation organized under the laws of the United States of America. Under the terms of the exclusive agreement, the Company obtained the exclusive rights to develop and commercialize TMB-355 and other anti-CD4 monoclonal antibodies in the treatment of human immunodeficiency virus (“HIV”) infection. Before signing the agreement with the Company, Genentech also signed an Exclusive License Agreement for Anti-CD4 monoclonal antibodies with Biogen Inc., a corporation organized under the laws of the United States of America. Consequently, the Company generally accepted the agreement and will pay royalty to Biogen Inc. The royalty is based on research progress. However, the patent authorized in the agreement has expired on April 15, 2015.

The Company made a one-time payment of US\$5,000 thousand in 2007 and granted Genentech the number of shares corresponding to US\$5,000 thousand (equivalent to NT\$152,600 thousand) in 2009 (refer to Note 16).

#### Item 5 LM-52

The Group signed “LM-52 License Agreement” with Rockefeller University in April 2012 which will be used in researching and developing TMB-355 Ibalizumab second generation (named as LM-52).

In December 2014, the Company signed a transfer agreement with TMB USA. The Company generally accepted the rights and obligations of TMB USA. The total amount of this contract is US\$370 thousand.

The Company cooperated with ADARC research institution for improve TMB-360 into TMB-365, and the Company will put emphasis on developing TMB-365.

#### Item 6 PI exclusive license agreement

On March 10, 2011, the Company signed an Exclusive License and Assignment Agreement with Ambrilia Biopharma Inc. (“Ambrilia”), a corporation organized under the laws of Canada. Under the terms of the exclusive agreement, the Company obtained the exclusive rights of certain protease inhibitors (PI) owned by Ambrilia. The Company is permitted to develop and commercialize certain novel products based on certain inhibitors covered by the Ambrilia technology, including PI, which will be used in researching and developing TMB-607.

### 2) Contract manufacturing organization (CMO)

#### TMB-365

In June 2014 and April 2015, the Company authorized EirGenix, Inc. to produce TMB-355 Ibalizumab second generation (TMB-360) and TMB-355 Ibalizumab second generation (TMB-365), which will be used for clinical trial. As of December 31, 2016, the Company had paid US\$798 thousand. Expected payment in the future is around US\$1,292 thousand.

### 3) Operating lease arrangements

Operating leases relate to leases of office and building with lease terms between 2 and 5 years. The Group paid rentals on a monthly basis.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Not later than 1 year	\$ 5,491	\$ 5,263
Later than 1 year and not later than 5 years	<u>5,149</u>	<u>10,653</u>
	<u>\$ 10,640</u>	<u>\$ 15,916</u>

## 26. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

The Company's CEO, authorized by the board of directors, signed an amendment of the "Exclusive Distribution and Marketing Agreement for Ibalizumab (TMB-355)" with Theratechnologies Inc. on March 6, 2017. According to the amendment, the original commercial rights to Ibalizumab (TMB-355) were extended to the European Union, Israel, Norway, Russia and Switzerland and other 30 countries.

The amendment of milestone payments of the agreement were as follows:

	<u>Milestone Date</u>	<u>Milestone Payment</u>
Upfront payment	Execution date of amendment	US\$3,000 thousand through the issuance of 906,077 ordinary shares of Theratechnologies Inc.
Marketing approval milestone payment	Marketing approval date	If further clinical trial is deemed necessary by the European Medicines Agency (EMA), Theratechnologies Inc. is required to pay 50% of the cost of the clinical trial and all associated development activities required.
Commercial launch milestone payment	First commercial sale date	US\$10,000 thousand in cash (US\$5,000 thousand, one year after launch; and other US\$5,000, one year after reaching European sales of US\$5,000 thousand over four consecutive quarters)
Sales milestone payment	Milestone date for each net sales achievement	From US\$10,000 thousand to US\$50,000 thousand in cash for each net sales achievement
Transfer price	Sale date of drug	From 52% to 57% of net sales price

## 27. EXCHANGE RATE OF FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed.



The significant assets and liabilities denominated in foreign currencies were as follows:

December 31, 2016

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 317	32.25 (USD:NTD)	<u>\$ 10,211</u>
<u>Financial liabilities</u>			
Monetary items			
USD	1,271	32.25 (USD:NTD)	\$ 40,976
GBP	1	39.61 (GBP:NTD)	<u>59</u>
			<u>\$ 41,035</u>

December 31, 2015

	Foreign Currencies	Exchange Rate	Carrying Amount
<u>Financial assets</u>			
Monetary items			
USD	\$ 14	32.825 (USD:NTD)	<u>\$ 474</u>
<u>Financial liabilities</u>			
Monetary items			
USD	502	32.825 (USD:NTD)	<u>\$ 16,545</u>

The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

	For the Year Ended December 31			
	2016		2015	
	Foreign Currencies	Exchange Rate	Exchange Rate	Net Foreign Exchange Gain (Loss)
		Net Foreign Exchange Gain (Loss)		Net Foreign Exchange Gain (Loss)
USD	32.263 (USD:NTD)	<u>\$ 1,174</u>	31.739 (USD:NTD)	<u>\$ 914</u>

## 28. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

- 1) Financing provided to others: None
- 2) Endorsements/guarantees provided: None
- 3) Marketable securities held: Table 1

- 4) Marketable securities acquired and disposed at costs or prices at least NT\$300 million or 20% of the paid-in capital: None
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital: None
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital: None
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: None
- 9) Trading in derivative instruments: None
- 10) Intercompany relationships and significant intercompany transactions: Table 2
- 11) Information on investees: Table 3

b. Information on investments in mainland China

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: None
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: None

## 29. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group engages in developing and commercializing new drug, which constitute a single business. The measurement basis of the information provided to the chief operating decision maker is the same as the financial statement, so the consolidated statement for the years ended December 31, 2016 and 2015 can be compared with reportable segment revenue and operation outcome for that period. Additionally, the measured amounts of operating segment assets were not regularly reviewed by the Group's chief operating decision maker, so the reportable amount is zero.

## TAIMED BIOLOGICS INC. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2016

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Name of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares	Carrying Amount	Percentage of Ownership	Fair Value	
TaiMed Biologics Inc.	TFBS Bioscience, Inc.	-	Financial assets measured at cost	1,000	\$ 10,000	7.84	\$ -	A

Note A: The fair value cannot be reliably measured. Therefore, it was measured at cost at the end of reporting period.

**TAIMED BIOLOGICS INC. AND SUBSIDIARIES**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(In Thousands of New Taiwan Dollars)**

No.	Investee Company	Counterparty	Relationship (Note A)	Transactions Details			
				Financial Statement Account	Amount (Note C)	Payment Terms	% to Total Sales or Assets
0	TaiMed Biologics Inc.	TaiMed Biologics USA Corp.	1	Services expense	\$ 64,452	Note B	-

Note A: No. 1 represents the transactions from parent company to subsidiary.  
No. 2 represents the transactions from subsidiary to parent company.  
No. 3 represents the transactions between subsidiaries.

Note B: Prices and terms are determined in accordance with mutual agreements.

Note C: All the transactions above have been eliminated from the consolidation.

## TAIMED BIOLOGICS INC. AND SUBSIDIARIES

INFORMATION ON INVESTEEES  
 FOR THE YEAR ENDED DECEMBER 31, 2016  
 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount (Note B)		As of December 31, 2016			Net Income (Gross) of the Investee (Note A)	Share of Profits (Loss) (Note A)	Highest Shares Units Held During the Year	Note
				December 31, 2016	December 31, 2015	Shares	%	Carrying Value				
TaiMed Biologics Inc.	TaiMed Biologics USA Corp.	18201 Von Karman Avenue Suite 470, Irvine, CA 92612, USA	Research and development	\$ 295,044	\$ 295,044	9,100,000	100	\$ 62,058	\$ (30,745)	\$ (30,745)	9,100,000	Subsidiary
	TaiMed Biologics HK Limited	2/F, Jonsim Place, No. 228 Queen's Road East, Wanchai, Hong Kong	Investment	3	3	100	100	3			100	Subsidiary
	TMB HK Services Limited	2/F, Jonsim Place, No. 228 Queen's Road East, Wanchai, Hong Kong	Investment	-	-	1	100	-			1	Subsidiary

Note A: TaiMed Biologics USA Corp. was based on audited financial statements as of December 31, 2016; others were based on unaudited financial statements as of December 31, 2016.

Note B: The investment amounts were based on historical exchange rates.