

OBI PHARMA, INC.
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 2019 AND 2018

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

We have audited the accompanying parent company only balance sheets of OBI PHARMA, INC. (the “Company”) as at December 31, 2019 and 2018, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2019 and 2018, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements for the year 2019. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Company’s parent company only financial statements of the current period are stated as follows:

Key audit matter – Impairment assessment of intangible assets and investments accounted for using equity method

Description

Refer to Note 4(15) for accounting policies on impairment assessment of non-financial assets, Note 5 for critical judgements adopted in accounting policies on impairment assessment of intangible assets, and Note 6(6) for account details of intangible assets.

As of December 31, 2019, the balance of the Company's intangible assets amounted to NT\$87,967 thousand. The intangible assets consist of related technologies acquired from other companies for new drug development as well as patents, patented technologies and goodwill arising from equity investments in AP Biosciences, Inc. Since the drug is still under development, no cash inflow can be generated. As of the balance sheet date, the Company determines whether the patents and patented technologies are impaired based on external and internal information. The Company would then consider to recognise an impairment loss by comparing the recoverable amount if there is an indication that they are impaired. The goodwill is directly assessed for impairment test. Since the impairment assessment performed by management involves critical judgement and has significant effect on value-in-use valuation, we consider impairment assessment of intangible assets and investments accounted for using equity method a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Reviewed the information used by the Company management for impairment assessment of intangible assets including plan and progress for each development project, etc., conducted discussion with management and director of research and development department regarding the information used for impairment assessment of intangible assets, and assessed whether:
 - (1) The features, marketing advantages and market tendency of the main products including research and development technology are still competitive.
 - (2) The progress of the major research and development plan has no significant delay.
 - (3) The total market value of the company is higher than the net assets as of the balance sheet date.

2. Performed the following procedures based on the obtained valuation report on goodwill impairment on the reinvestments accounted for using equity method prepared by external experts:
 - (1) Assessed whether the valuation methods adopted are reasonable for the industry, environment and the valued assets of the Company;
 - (2) Evaluated the reasonableness of main assumptions used in estimating the value-in-use, including R&D timeline, R&D success rate, market share of products after the receipt of drug permit license and royalty rate.
 - (3) Examined model parameters and calculations.
 - (4) Compared the discount rate used and assumptions on the capital cost of cash-generating units.
 - (5) Verified whether the value-in-use exceeds the book value of equity in AP Biosciences, Inc.

Key audit matter – Valuation of employee share-based payment

Description

Refer to Note 4(19) for accounting policies applied to employee share-based payment and Note 6(9) for details of account items.

The compensation cost of employee share-based payment recognized for 2019 amounted to NT\$111,096 thousand, which accounted for 8% of the Company's net loss for 2019. The accrual of transactions require the use of valuation model; thus, we consider the valuation of employee share-based payment a key audit matter.

How our audit addressed the matter

We performed the following audit procedures on the above key audit matter:

1. Obtained actuarial valuation report regarding employee share-based payment from external experts, and performed the following procedures regarding critical assumptions and estimates used in the actuarial valuation from external experts:
 - (1) Checked whether the Company made reasonable estimates based on inputs such as expected dividend rate, expected option life, price volatility, and risk-free interest rate as of the option grant date.
 - (2) Recalculating accrued expenses for 2019 based on fair value of share option.

2. Assessed the reasonableness of recognition in accordance with the valuation report of the employee share-based payment.

Responsibilities of management and those charged with governance for the parent company only financial statements

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

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

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

Auditor’s responsibilities for the audit of the parent company only financial statements

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

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

Lin, Yu-Kuan

David Teng

For and on behalf of PricewaterhouseCoopers, Taiwan

March 13, 2020

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

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

OBI PHARMA, INC.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Assets	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 4,424,629	81	\$ 3,551,174	79
1170	Accounts receivable, net		854	-	872	-
1200	Other receivables		37,403	1	37,018	1
1410	Prepayments		114,450	2	88,991	2
11XX	Current Assets		<u>4,577,336</u>	<u>84</u>	<u>3,678,055</u>	<u>82</u>
Non-current assets						
1517	Non-current financial assets at fair value through other comprehensive income	6(2)	8,318	-	7,454	-
1550	Investments accounted for under equity method	6(3)	335,886	6	385,990	9
1600	Property, plant and equipment	6(4) and 7	241,259	5	234,296	5
1755	Right-of-use assets	6(5)	118,612	2	-	-
1780	Intangible assets	6(5)(6)	87,967	2	105,950	2
1900	Other non-current assets	7 and 8	57,750	1	98,472	2
15XX	Non-current assets		<u>849,792</u>	<u>16</u>	<u>832,162</u>	<u>18</u>
1XXX	Total assets		<u>\$ 5,427,128</u>	<u>100</u>	<u>\$ 4,510,217</u>	<u>100</u>

(Continued)

OBI PHARMA, INC.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Liabilities and Equity		Notes	December 31, 2019		December 31, 2018	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2200	Other payables		\$ 111,090	2	\$ 79,865	2
2220	Other payables - related parties	7	34,623	1	20,292	1
2280	Current lease liabilities		36,965	1	-	-
2320	Long-term liabilities, current portion	6(7)	9,711	-	9,853	-
2399	Other current liabilities, others		1,217	-	1,128	-
21XX	Current Liabilities		<u>193,606</u>	<u>4</u>	<u>111,138</u>	<u>3</u>
Non-current liabilities						
2540	Long-term borrowings	6(7)	43,289	1	52,147	1
2580	Non-current lease liabilities		85,387	1	-	-
25XX	Non-current liabilities		<u>128,676</u>	<u>2</u>	<u>52,147</u>	<u>1</u>
2XXX	Total Liabilities		<u>322,282</u>	<u>6</u>	<u>163,285</u>	<u>4</u>
Equity						
Share capital		6(10)				
3110	Share capital - common stock		1,881,287	35	1,739,907	39
3200	Capital surplus	6(8)(10)	11,504,987	211	9,530,118	211
Retained earnings		6(12)				
3350	Accumulated deficit		(8,259,036)	(152)	(6,514,955)	(145)
3400	Other equity interest		(22,392)	-	(21,417)	-
3500	Treasury stocks	6(10)	-	-	(386,721)	(9)
3XXX	Total equity		<u>5,104,846</u>	<u>94</u>	<u>4,346,932</u>	<u>96</u>
Significant Contingent Liabilities and		6(6) and 9				
Unrecognised Contract Commitments						
Significant Events after the Balance		11				
Sheet Date						
3X2X	Total liabilities and equity		<u>\$ 5,427,128</u>	<u>100</u>	<u>\$ 4,510,217</u>	<u>100</u>

The accompanying notes are an integral part of these parent company only financial statements.

OBI PHARMA, INC.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

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

Items	Notes	Year ended December 31			
		2019		2018	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(13)	\$ 872	-	\$ 5,162	1
5000 Operating costs		-	-	-	-
5900 Net operating margin		<u>872</u>	-	<u>5,162</u>	<u>1</u>
Operating expenses	6(8)(9)(17)(18)(21) and 7				
6200 General and administrative expenses		(188,194)	(13)	(210,496)	(17)
6300 Research and development expenses		(1,134,337)	(81)	(1,095,333)	(90)
6000 Total operating expenses		<u>(1,322,531)</u>	<u>(94)</u>	<u>(1,305,829)</u>	<u>(107)</u>
6900 Operating loss		<u>(1,321,659)</u>	<u>(94)</u>	<u>(1,300,667)</u>	<u>(106)</u>
Non-operating income and expenses					
7010 Other income	6(14)	94,790	7	89,474	7
7020 Other gains and losses	6(15)	(83,963)	(6)	81,802	7
7050 Finance costs	6(16)	(2,566)	-	(1,058)	-
7070 Share of loss of associates and joint ventures accounted for using equity method, net	6(3)	(93,628)	(7)	(91,793)	(8)
7000 Total non-operating income and expenses		<u>(85,367)</u>	<u>(6)</u>	<u>78,425</u>	<u>6</u>
8200 Loss for the year		<u>(\$ 1,407,026)</u>	<u>(100)</u>	<u>(\$ 1,222,242)</u>	<u>(100)</u>
Other comprehensive income					
8316 Unrealised valuation gains and loss from equity investment instruments measured at fair value through other comprehensive income	6(2)	\$ 864	-	(\$ 2,706)	-
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Financial statements translation differences of foreign operations		(1,839)	-	520	-
8300 Other comprehensive loss for the year, net		<u>(\$ 975)</u>	<u>-</u>	<u>(\$ 2,186)</u>	<u>-</u>
8500 Total comprehensive loss for the year		<u>(\$ 1,408,001)</u>	<u>(100)</u>	<u>(\$ 1,224,428)</u>	<u>(100)</u>
Basic loss per share	6(20)				
9750 Total basic loss per share		<u>(\$ 7.76)</u>		<u>(\$ 7.06)</u>	

The accompanying notes are an integral part of these parent company only financial statements.

OBI PHARMA, INC.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	Capital Surplus				Accumulated deficit	Other equity interest			Treasury stocks	Total equity
		Share capital - common stock	Additional paid-in capital	Employee stock warrants	Others		Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets		
2018											
Balance at January 1, 2018		\$ 1,721,657	\$ 8,011,171	\$ 936,363	\$ 89,847	(\$ 5,292,713)	(\$ 2,210)	\$ -	(\$ 17,021)	(\$ 386,721)	\$ 5,060,373
Effect of modified retrospective application and restatement		-	-	-	-	-	-	(17,021)	17,021	-	-
Balance after restatement on January 1, 2018		<u>1,721,657</u>	<u>8,011,171</u>	<u>936,363</u>	<u>89,847</u>	<u>(5,292,713)</u>	<u>(2,210)</u>	<u>(17,021)</u>	<u>-</u>	<u>(386,721)</u>	<u>5,060,373</u>
Net loss for the year		-	-	-	-	(1,222,242)	-	-	-	-	(1,222,242)
Other comprehensive loss for the year		-	-	-	-	-	520	(2,706)	-	-	(2,186)
Total comprehensive loss for the year		-	-	-	-	(1,222,242)	520	(2,706)	-	-	(1,224,428)
Shares issued pursuant to acquisitions	6(10)	16,750	273,025	-	-	-	-	-	-	-	289,775
Employee stock options exercised	6(11)	1,500	-	-	-	-	-	-	-	-	1,500
Share-based payment transactions	6(9)(10)(11)(18)	-	576	163,312	55,824	-	-	-	-	-	219,712
Balance at December 31, 2018		<u>\$ 1,739,907</u>	<u>\$ 8,284,772</u>	<u>\$ 1,099,675</u>	<u>\$ 145,671</u>	<u>(\$ 6,514,955)</u>	<u>(\$ 1,690)</u>	<u>(\$ 19,727)</u>	<u>\$ -</u>	<u>(\$ 386,721)</u>	<u>\$ 4,346,932</u>
2019											
Balance at January 1, 2019		\$ 1,739,907	\$ 8,284,772	\$ 1,099,675	\$ 145,671	(\$ 6,514,955)	(\$ 1,690)	(\$ 19,727)	\$ -	(\$ 386,721)	\$ 4,346,932
Net loss for the year		-	-	-	-	(1,407,026)	-	-	-	-	(1,407,026)
Other comprehensive loss for the year		-	-	-	-	-	(1,839)	864	-	-	(975)
Total comprehensive loss for the year		-	-	-	-	(1,407,026)	(1,839)	864	-	-	(1,408,001)
Capital increase by cash		150,000	1,875,000	-	-	-	-	-	-	-	2,025,000
Treasury stock retired	6(10)	(8,620)	(41,046)	-	-	(337,055)	-	-	-	386,721	-
Share-based payment transactions	6(9)(10)(11)(18)	-	8,351	59,730	72,834	-	-	-	-	-	140,915
Balance at December 31, 2019		<u>\$ 1,881,287</u>	<u>\$ 10,127,077</u>	<u>\$ 1,159,405</u>	<u>\$ 218,505</u>	<u>(\$ 8,259,036)</u>	<u>(\$ 3,529)</u>	<u>(\$ 18,863)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,104,846</u>

The accompanying notes are an integral part of these parent company only financial statements.

OBI PHARMA, INC.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in thousands of New Taiwan dollars)

	Notes	Year ended December 31	
		2019	2018
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Loss before tax		(\$ 1,407,026)	(\$ 1,222,242)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(4)(17)	99,648	56,547
Amortisation	6(6)(17)	21,290	21,889
Interest expense	6(16)	2,566	1,058
Interest income	6(14)	(90,387)	(88,803)
Compensation cost for share-based payment	6(9)(18)	111,096	163,888
Share of profit of subsidiaries, associates and joint ventures accounted for under equity method	6(3)	93,628	91,793
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable		18	(769)
Other receivables		(1,091)	(1,997)
Prepayments		(25,459)	(14,686)
Changes in operating liabilities			
Other payables		31,503	33,026
Other payables-related parties		14,331	206
Other current liabilities		89	68
Cash outflow generated from operations		(1,149,794)	(960,022)
Interest paid		(914)	(1,058)
Interest received		91,093	114,210
Net cash flows used in operating activities		(1,059,615)	(846,870)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of investments accounted for under equity method	6(3)	(15,545)	(75,051)
Acquisition of property, plant and equipment	6(22)	(27,738)	(18,507)
Proceeds from disposal of investments in debt		-	2,022,658
Acquisition of intangible assets	6(22)	(3,307)	(573)
Increase in other non-current assets		(8,958)	(34,279)
(Increase) decrease in refundable deposits		(1,506)	1,326
Net cash flows (used in) from investing activities		(57,054)	1,895,574
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Repayment of lease principal	6(5)	(25,876)	-
Repayment of long-term debt	6(23)	(9,000)	(9,000)
Proceeds from cash capital increase	6(10)	2,025,000	-
Proceeds from exercise of employee stock options	6(9)(10)	-	1,500
Net cash flows from (used in) financing activities		1,990,124	(7,500)
Net increase in cash and cash equivalents		873,455	1,041,204
Cash and cash equivalents at beginning of year		3,551,174	2,509,970
Cash and cash equivalents at end of year		\$ 4,424,629	\$ 3,551,174

The accompanying notes are an integral part of these parent company only financial statements.

OBI PHARMA, INC.
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

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

1. HISTORY AND ORGANISATION

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

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

These parent company only financial statements were authorised for issuance by the Board of Directors on March 13, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

New standards, interpretations and amendments endorsed by FSC effective from 2019 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for IFRS 16, ‘Leases’, the above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

A. IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a ‘right-of-use asset’ and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets).

- B. The Company has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying “IFRSs” effective in 2019 as endorsed by the FSC. Accordingly, the Company increased ‘right-of-use asset’ and ‘lease liability’ both by \$97,641 with respect to the lease contracts of lessees on January 1, 2019.
- C. The Company has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
- (a) Reassessment as to whether a contract is, or contains, a lease is not required, instead, the application of IFRS 16 depends on whether or not the contracts were previously identified as leases applying IAS 17 and IFRIC 4.
 - (b) The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - (c) The accounting for operating leases whose period will end before December 31, 2019 as short-term leases and accordingly, rent expense of \$914 was recognized for the year ended December 31, 2019.
 - (d) The exclusion of initial direct costs for the measurement of ‘right-of-use asset’.
- D. The Company calculated the present value of lease liabilities by using weighted average incremental borrowing interest rate of 1.60%.
- E. The Company recognised lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at December 31, 2018	\$	107,652
Less: Short-term leases	(3,719)
Less: Low-value assets	(<u>843)</u>
Total lease contracts amount recognised as lease liabilities by applying IFRS 16 on January 1, 2019		103,090
Incremental borrowing interest rate at the date of initial application		<u>1.60%</u>
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	\$	<u><u>97,641</u></u>

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

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, ‘Interest rate benchmark reform’	January 1, 2020

The above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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 International Accounting Standards Board
IFRS 17, ‘Insurance contracts’	January 1, 2021
Amendments to IAS 1, ‘Classification of liabilities as current or non-current’	January 1, 2022

The above standards and interpretations have no significant impact to the Company’s financial condition and financial performance based on the Company’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements were prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

(2) Basis of preparation

A. Except for the financial assets at fair value through other comprehensive income, these parent company only financial statements have been prepared under the historical cost convention.

B. The preparation of financial statements in conformity with International Financial Reporting

Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.

(3) Foreign currency translation

Items included in the financial statements of each of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The parent company only financial statements are presented in New Taiwan dollars, which is the Company’s functional and presentation currency.

A. Foreign currency transactions and balances

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

B. Translation of foreign operations

The operating results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- (b) Income and expenses for each statement of comprehensive income are translated at average

exchange rates of that period; and

(c) All resulting exchange differences are recognised in other comprehensive income.

(4) Classification of current and non-current items

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

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

Otherwise, they are classified as non-current assets.

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

- (a) Liabilities that are expected to be settled within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be settled within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Otherwise, they are classified as non-current liabilities.

(5) Cash equivalents

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

(6) Financial assets at fair value through other comprehensive income

A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Company has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.

B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive

income are recognised and derecognised using trade date accounting.

- C. At initial recognition, the Company measures the financial assets at fair value plus transaction costs, and subsequently measured it at fair value. The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and the amount of the dividend can be measured reliably.

(7) Accounts receivable

- A. Accounts and notes receivable entitle the Company a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Impairment of financial assets

For financial assets at amortised cost, at each reporting date, the Company recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Company recognises the impairment provision for lifetime ECLs.

(9) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(10) Investments accounted for using equity method / subsidiaries

- A. Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financials and operating policies. In general, it is presumed that the parent has the power to govern the financials and operating policies, if a parent holds, directly or indirectly, more than half of the voting power of an entity. Investments in subsidiaries are accounted for using equity method in these parent company only financial statements.
- B. Unrealised profit (loss) occurred from the transactions between the Company and subsidiaries have been offset. The accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.

- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognise losses proportionate to its ownership.
- D. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers," profit (loss) of the current period and other comprehensive income in the non-consolidated financial statements shall equal to the amount attributable to owners of the parent in the consolidated financial statements. Owners' equity in the non-consolidated financial statements shall equal to equity attributable to owners of the parent in the consolidated financial statements.

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

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

(12) Operating leases (lessee) - right-of-use assets / lease liabilities

Effective 2019

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Company. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.

- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are comprised of fixed payments, less any lease incentives receivable. The Company subsequently measures the lease liability at amortised cost using the interest method and recognises interest expense over the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.
- C. At the commencement date, the right-of-use asset is stated at cost comprising the following:
- (a) The amount of the initial measurement of lease liability;
 - (b) Any lease payments made at or before the commencement date; and
 - (c) Any initial direct costs incurred by the lessee.

The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(13) Operating leases (lessee)

Prior to 2018

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

(14) Intangible assets

A. Patent and acquired special technology:

- (a) Patents acquired in intellectual property right as equity are recognised at fair value at the acquisition date, and amortised on a straight-line basis over their estimated useful lives of 17 years.
- (b) If acquired by cash, it is recorded at acquisition cost. The estimated useful life is 2 to 10 years, and it is amortised on a straight-line basis.

B. Computer software

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

(15) Impairment of non-financial assets

- A. The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amount of goodwill is evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(16) Borrowings

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

(17) Derecognition of financial liabilities

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

(18) Employee benefits

A. Short-term employee benefits

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

B. Pensions - Defined contribution plans

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

C. Employees' compensation and directors' and supervisors remuneration

Employees' compensation and directors' and supervisors remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(19) Employee share-based payment

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

(20) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the shareholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or

loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures, to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(21) Share capital

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

(22) Revenue recognition

- A. Materials sales revenue

The Company enters into agreements with clients to sell materials for the manufacturing of clinical trial drugs. The revenue is recognised when the performance obligations are satisfied and risks are transferred to clients.

B. Revenue from licensing intellectual property

Some contracts require a sales-based royalty in exchange for a license of intellectual property. The Company recognises revenue when the performance obligation has been satisfied and the subsequent sale occurs.

(23) Business combinations

- A. The Company uses the acquisition method to account for business combinations. The consideration transferred for an acquisition is measured as the fair value of the assets transferred, liabilities incurred or assumed and equity instruments issued at the acquisition date, plus the fair value of any assets and liabilities resulting from a contingent consideration arrangement. All acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For each business combination, the Company measures at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to the proportionate share of the entity's net assets in the event of liquidation at either fair value or the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other non-controlling interests should be measured at the acquisition-date fair value.
- B. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the identifiable assets acquired and the liabilities assumed is recorded as goodwill at the acquisition date. If the total of consideration transferred, non-controlling interest in the acquiree recognised and the fair value of previously held equity interest in the acquiree is less than the fair value of the identifiable assets acquired and the liabilities assumed, the difference is recognised directly in profit or loss on the acquisition date.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Critical judgements adopted in the accounting policies are as follows:

(1) Impairment assessment of intangible assets (excluding goodwill)

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

(2) Impairment assessment of goodwill

The impairment assessment of goodwill relies on the Company's subjective judgement, including identifying cash-generating units, allocating assets and liabilities as well as goodwill to related cash-generating units, and determining the recoverable amounts of related cash-generating units.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash on hand	\$ 100	\$ 100
Checking accounts and demand deposits	853,772	114,692
Time deposits	3,570,757	3,436,382
	<u>\$ 4,424,629</u>	<u>\$ 3,551,174</u>

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

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

(2) Financial assets at fair value through other comprehensive income

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-current item:		
Unlisted stocks	\$ 27,181	\$ 27,181
Valuation adjustment	(18,863)	(19,727)
	<u>\$ 8,318</u>	<u>\$ 7,454</u>

A. The Company has elected to classify equity investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$8,318 and \$7,454 as at December 31, 2019 and 2018, respectively.

B. Amounts recognised in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>Equity instruments at fair value through other comprehensive income</u>		
Fair value change recognised in other comprehensive income	<u>\$ 864</u>	<u>(\$ 2,706)</u>

C. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Company was \$8,318 and \$7,454, respectively.

D. Information relating to credit risk of financial assets at fair value through other comprehensive income is provided in Note 12(2).

(3) Investments accounted for using equity method

	<u>2019</u>	<u>2018</u>
At January 1	\$ 385,990	\$ 56,613
Addition of investments accounted for using equity method		
- Acquired by cash	15,545	75,051
- Acquired by issuance of new shares for a merger	-	289,775
Share of profit or loss of investments accounted for using equity method	(93,628)	(91,793)
Changes in capital surplus	29,818	55,824
Changes in other equity items	(1,839)	520
At December 31	<u>\$ 335,886</u>	<u>\$ 385,990</u>
	<u>December 31, 2019</u>	<u>December 31, 2018</u>
OBI Pharma Limited	\$ 15,040	\$ 7,829
OBI Pharma USA, Inc.	49,554	47,436
OBI Pharma Australia Pty Ltd.	8,790	12,675
AP Biosciences, Inc.	262,502	318,050
	<u>\$ 335,886</u>	<u>\$ 385,990</u>

Details of the subsidiaries are provided in Note 4(3) in the Company's consolidated financial statements for the year ended December 31, 2019.

(4) Property, plant and equipment

	<u>Land</u>	<u>Buildings and structures</u>	<u>Lab equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2019</u>						
Cost	\$ 87,514	\$ 26,818	\$ 248,875	\$ 19,664	\$ 36,788	\$ 419,659
Accumulated depreciation	-	(5,930)	(138,697)	(14,324)	(26,412)	(185,363)
	<u>\$ 87,514</u>	<u>\$ 20,888</u>	<u>\$ 110,178</u>	<u>\$ 5,340</u>	<u>\$ 10,376</u>	<u>\$ 234,296</u>
<u>2019</u>						
At January 1	\$ 87,514	\$ 20,888	\$ 110,178	\$ 5,340	\$ 10,376	\$ 234,296
Additions	-	-	22,566	1,701	3,193	27,460
Reclassifications (Note 1)	-	-	30,080	-	21,106	51,186
Depreciation	-	(4,241)	(52,489)	(3,813)	(11,140)	(71,683)
At December 31	<u>\$ 87,514</u>	<u>\$ 16,647</u>	<u>\$ 110,335</u>	<u>\$ 3,228</u>	<u>\$ 23,535</u>	<u>\$ 241,259</u>
<u>At December 31, 2019</u>						
Cost	\$ 87,514	\$ 26,818	\$ 301,487	\$ 20,887	\$ 61,087	\$ 497,793
Accumulated depreciation	-	(10,171)	(191,152)	(17,659)	(37,552)	(256,534)
	<u>\$ 87,514</u>	<u>\$ 16,647</u>	<u>\$ 110,335</u>	<u>\$ 3,228</u>	<u>\$ 23,535</u>	<u>\$ 241,259</u>
<u>At January 1, 2018</u>						
Cost	\$ 87,514	\$ 26,818	\$ 193,081	\$ 19,159	\$ 36,788	\$ 363,360
Accumulated depreciation	-	(1,689)	(96,621)	(10,663)	(19,946)	(128,919)
	<u>\$ 87,514</u>	<u>\$ 25,129</u>	<u>\$ 96,460</u>	<u>\$ 8,496</u>	<u>\$ 16,842</u>	<u>\$ 234,441</u>
<u>2018</u>						
At January 1	\$ 87,514	\$ 25,129	\$ 96,460	\$ 8,496	\$ 16,842	\$ 234,441
Additions	-	-	17,773	607	-	18,380
Reclassifications (Note 1)	-	-	38,022	-	-	38,022
Depreciation	-	(4,241)	(42,077)	(3,763)	(6,466)	(56,547)
At December 31	<u>\$ 87,514</u>	<u>\$ 20,888</u>	<u>\$ 110,178</u>	<u>\$ 5,340</u>	<u>\$ 10,376</u>	<u>\$ 234,296</u>
<u>At December 31, 2018</u>						
Cost	\$ 87,514	\$ 26,818	\$ 248,875	\$ 19,664	\$ 36,788	\$ 419,659
Accumulated depreciation	-	(5,930)	(138,697)	(14,324)	(26,412)	(185,363)
	<u>\$ 87,514</u>	<u>\$ 20,888</u>	<u>\$ 110,178</u>	<u>\$ 5,340</u>	<u>\$ 10,376</u>	<u>\$ 234,296</u>

Note 1: The reclassifications resulted from a transfer from prepayments for business facilities (shown as 'other non-current asset') to property, plant and equipment.

Note 2: Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(5) Leasing arrangements - lessee

Effective 2019

- A. The Company leases various assets including office space and business vehicles. Rental contracts are typically made for periods of 1 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.
- B. Short-term leases with a lease term of 12 months or less comprise offices. Low-value assets comprise photocopiers. For the year ended December 31, 2019, payments of lease commitments for short-term leases amounted to \$10,649.
- C. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>December 31, 2019</u>	<u>Year ended December 31, 2019</u>
	<u>Carrying amount</u>	<u>Depreciation charge</u>
Buildings	\$ 118,040	\$ 27,340
Transportation equipment (Business vehicles)	572	625
	<u>\$ 118,612</u>	<u>\$ 27,965</u>

- D. For the year ended December 31, 2019, the Group increased 'right-of-use asset' by \$48,936.
- E. Information on profit or loss in relation to lease contracts is as follows:

	<u>Year ended December 31, 2018</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 1,652
Expense on short-term lease contracts	10,649
Expense on leases of low-value assets	440

- F. For the year ended December 31, 2019, the Group's total cash outflow for leases arising from right-of-use assets was \$25,876.

(6) Intangible assets

	Patent				Software	Total
	OBI-822	OBI-858	OBI-833	OBI-3424		
	Therapeutically metastatic vaccines	Product development project of botulinum	Next-generation cancer vaccine	AKR1C3 enzyme prodrug	ThioBridge linker technology	
<u>At January 1, 2019</u>						
Cost	\$ 87,577	\$ 42,858	\$ 1,500	\$ 90,693	\$ 1,945	\$ 233,657
Accumulated amortisation	(77,275)	(29,287)	(887)	(12,092)	(1,216)	(127,707)
	<u>\$ 10,302</u>	<u>\$ 13,571</u>	<u>\$ 613</u>	<u>\$ 78,601</u>	<u>\$ 729</u>	<u>\$ 105,950</u>
<u>2019</u>						
At January 1	\$ 10,302	\$ 13,571	\$ 613	\$ 78,601	\$ 729	\$ 105,950
Additions	-	-	-	-	-	3,307
Amortisation	(5,151)	(4,285)	(151)	(9,070)	(729)	(21,290)
At December 31	<u>\$ 5,151</u>	<u>\$ 9,286</u>	<u>\$ 462</u>	<u>\$ 69,531</u>	<u>\$ -</u>	<u>\$ 87,967</u>
<u>At December 31, 2019</u>						
Cost	\$ 87,577	\$ 42,858	\$ 1,500	\$ 90,693	\$ 1,945	\$ 236,964
Accumulated amortisation	(82,426)	(33,572)	(1,038)	(21,162)	(1,945)	(148,997)
	<u>\$ 5,151</u>	<u>\$ 9,286</u>	<u>\$ 462</u>	<u>\$ 69,531</u>	<u>\$ -</u>	<u>\$ 87,967</u>

	Patent						Software	Total
	OBI-822 Therapeutically metastatic vaccines	OBI-858 Product development project of botulinum	OBI-833 Next-generation cancer vaccine	OBI-868 Reagent for cancer screening	OBI-3424 AKR1C3 enzyme prodrug	ThioBridge linker technology		
<u>At January 1, 2018</u>								
Cost	\$ 87,577	\$ 42,858	\$ 1,500	\$ 1,500	\$ 90,693	\$ 1,945	\$ 8,511	\$ 234,584
Accumulated amortisation	(72,123)	(25,001)	(737)	(1,475)	(3,023)	(243)	(4,716)	(107,318)
	<u>\$ 15,454</u>	<u>\$ 17,857</u>	<u>\$ 763</u>	<u>\$ 25</u>	<u>\$ 87,670</u>	<u>\$ 1,702</u>	<u>\$ 3,795</u>	<u>\$ 127,266</u>
<u>2018</u>								
At January 1	\$ 15,454	\$ 17,857	\$ 763	\$ 25	\$ 87,670	\$ 1,702	\$ 3,795	\$ 127,266
Additions	-	-	-	-	-	-	573	573
Amortisation	(5,152)	(4,286)	(150)	(25)	(9,069)	(973)	(2,234)	(21,889)
At December 31	<u>\$ 10,302</u>	<u>\$ 13,571</u>	<u>\$ 613</u>	<u>\$ -</u>	<u>\$ 78,601</u>	<u>\$ 729</u>	<u>\$ 2,134</u>	<u>\$ 105,950</u>
<u>At December 31, 2018</u>								
Cost	\$ 87,577	\$ 42,858	\$ 1,500	\$ 1,500	\$ 90,693	\$ 1,945	\$ 9,084	\$ 235,157
Accumulated amortisation	(77,275)	(29,287)	(887)	(1,500)	(12,092)	(1,216)	(6,950)	(129,207)
	<u>\$ 10,302</u>	<u>\$ 13,571</u>	<u>\$ 613</u>	<u>\$ -</u>	<u>\$ 78,601</u>	<u>\$ 729</u>	<u>\$ 2,134</u>	<u>\$ 105,950</u>

A. Details of amortisation on intangible assets are as follows:

	Years ended December 31,	
	2019	2018
Administrative expenses	\$ 1,851	\$ 1,942
Research and development expenses	19,439	19,947
	<u>\$ 21,290</u>	<u>\$ 21,889</u>

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

- (a) The patent amounting to USD 6 million (approximately NTD 204,000) based on the appraisal report, was acquired as intellectual property right through equity of 20,400 thousand shares.
- (b) The Company signed an authorised sale contract for Antibiotics-Fidaxomicin with OPT. The contract states that the Company must pay royalty fees to OPT based on 17% or 22% of sales under the revenue achievements. The payment period of the royalty fee is the duration of patent right or ten years starting from the initial sales, whichever is later.
- (c) On October 2, 2015, the Company entered into a contract with Optimer Pharmaceuticals, LLC. (hereafter referred to as “Optimer”), agreeing to transfer all the rights of DIFICID™ (Fidaxomicin) in terms of marketing approval and filing a trademark application pursuant to Taiwan legislations. The contract will expire on November 27, 2028 when the patent term lapses. The contract provides that the Company is obliged to transfer all related rights to Optimer. In return, Optimer is obliged to pay the Company (a) US\$3 million of contract value; (b) a maximum of US\$3.25 million of accumulated net sales revenue and additional US\$1 million of milestone payment for each new indication; (c) sales royalty calculated based on a certain percentage of net sales revenue. As for all business activities related to DIFICID™, it is handed over to Optimer’s associate in Taiwan, Merck Sharp & Dohme (I.A.) LLC. - Taiwan Branch (hereafter referred to as “MSD”). In addition, the authorised sale contract mentioned in Note 6(6)B.(b) has been terminated when the contract value of this transfer contract was settled based on mutual agreement. For the years ended December 31, 2019 and 2018, the Company recognised the aforementioned royalty income of \$872 and \$1,176, respectively.
- (d) The Company needs to pay the annual fee and achieved milestones. As of December 31, 2019, the remaining unpaid amount for achieved milestones amounted to US\$10 million. The amount of payment was determined based on whether the milestones in the agreement are achieved or not. Furthermore, the Company must pay royalty fees based on a certain percentage of the sales of patented products annually.

- C. In order to improve mass production and manufacturing process of OBI-822 for expanding global market, the Company has signed an exclusive patent license for the Globo H series' chemosynthesis of carbohydrates with Academia Sinica on April 23, 2014, and the contract period is from April 23, 2014 to the expiration of protection duration of the last patented product. The Company must pay upfront patent licensing fees and royalty fees in accordance with the contract. Except for royalty fees, the Company assesses whether to pay periodical patent licensing fees based on 4 achieved milestones. The total contract amount was approximately \$60,000. Further, pursuant to the supplements and amendments agreement on February 18, 2016, the patent licensing fees was reduced to \$57,320. As of December 31, 2019, the Company paid royalty fees of \$20,000 in 2014, milestone patent licensing fees of \$27,320 in 2016 and \$10,000 in 2017. These fees were recognised as research and development expenses.
- D. The Company purchased a patent named "product development project of botulinum" (OBI-858) from Amaran Biotechnology Inc. on March 2, 2012, which amounted to \$42,858 based on external experts' valuation.
- E. The Company acquired patents named "next-generation cancer vaccine" (OBI-833) and "reagent for cancer screening" (OBI-868). The contract states that the Company must pay royalty fees based on the achieved milestones. In 2013, the Company paid royalty fees of \$1,500 separately for both projects. Furthermore, the Company must pay royalty fees based on a certain percentage of the sales of patented products annually.
- F. On May 31, 2017, the Company entered into an agreement with Threshold Pharmaceuticals, Inc. to acquire the global IP right (excluding Mainland China, Hong Kong, Macao, Taiwan, Japan, South Korea, Singapore, Malaysia, Thailand, Turkey and India) and patent regarding the innovative micromolecule drug TH-3424, which was then renamed OBI-3424.
- G. On July 11, 2017, the Company entered into a licensing agreement with PolyTherics Limited (Abzena) to introduce the ThioBridge™ linker technology required for the antibody drug conjugate (ADC). Under the terms of the agreement, the Company is obliged to pay a small amount of upfront payment to Abzena to acquire the worldwide exclusive right to use the ThioBridge™ technology for the development and commercialisation of ADCs targeting of carbohydrates in the Globo series. In the following years, milestone payments amounting up to GBP 128 million will be due whenever the specified milestones are reached. In addition, the Company is also required to pay royalties based on a certain percentage of sales of the products which incorporate the ThioBridge™ technology.
- H. The Company has no intangible assets pledged to others.

(7) Long-term borrowings

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	December 31, 2019	December 31, 2018
Long-term bank borrowings					
Secured borrowings	Borrowing period is from October 5, 2016 to October 5, 2026; interest is payable monthly (Note 1)	1.60%	Note 2	\$ 49,000	\$ 56,000
Unsecured borrowings	Borrowing period is from October 5, 2016 to October 5, 2021; interest is payable monthly (Note 1)	1.60%	None		
				4,000	6,000
				53,000	62,000
Less: Current portion				(9,711)	(9,853)
				<u>\$ 43,289</u>	<u>\$ 52,147</u>

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

Note 2: Please refer to Note 8 for details.

(8) Pension

The Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plans of the Company for the years ended December 31, 2019 and 2018 were \$7,122 and \$6,746, respectively.

(9) Share-based payment

A. The options were granted to qualified employees of the Company, the subsidiaries which the Company holds over 50% equity interest, and the branches by issuing new shares when exercised. The options are valid for 10 years. The major contents were as follows:

Type of agreement	Grant date	No. of units	Subscription share per unit	Vesting conditions	Weighted-average remaining contract period (years)
Employee stock option plan	2010.03.08	2,360,000	1	One year after grant, employees can exercise options monthly at a certain percentage	0.19
"	2010.05.21	100,000	1	"	0.39
"	2010.09.10	60,000	1	"	0.69
"	2010.12.15	144,000	1	"	0.96
"	2011.01.01	588,000	1	"	1.00
"	2011.03.30	80,000	1	"	1.25
"	2011.06.10	124,000	1	"	1.44
"	2011.09.30	260,000	1	"	1.75
"	2011.12.16	2,450,000	1	"	1.96
"	2012.01.01	1,560,000	1	"	2.00
"	2012.03.09	270,000	1	"	2.19
"	2013.11.27	1,821,000	1	Two year after grant, employees can exercise options monthly at a certain percentage	3.91
"	2014.02.21	1,744,000	1	"	4.14
"	2014.03.26	575,000	1	"	4.23
"	2015.05.06	2,861,000	1	"	5.35
"	2015.08.04	75,000	1	"	5.60
"	2015.11.06	353,000	1	"	5.85
"	2015.12.15	13,000	1	"	5.96
"	2016.03.25	1,377,000	1	"	6.23
"	2017.03.09	3,145,000	1	"	7.19
"	2017.05.12	20,000	1	"	7.36
"	2017.08.11	20,000	1	"	7.61
"	2017.11.10	130,000	1	"	7.86
"	2018.01.19	1,685,000	1	"	8.05
"	2019.09.06	1,125,000	1	"	9.69
"	2019.11.08	385,000	1	"	9.86

Type of agreement	Grant date	No. of units	Subscription share per unit	Vesting conditions	Weighted-average remaining contract period (years)
Cash capital increase reserved for employee	2013.07.26	839,514	1	Vested immediately	-
"	2015.03.16	3,000,000	1	"	-
"	2019.04.22	2,175,700	1	"	-

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

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

	Years ended December 31,			
	2019		2018	
	No. of units	Weighted-average exercise price (in dollars)	No. of units	Weighted-average exercise price (in dollars)
Options outstanding at beginning of the year	10,230,484	\$ 245.60	9,602,596	\$ 260.87
Options granted	1,510,000	140.69	1,685,000	170.50
Options exercised	-	-	(150,000)	10.00
Options forfeited or expired	(1,105,652)	254.52	(907,112)	309.62
Options outstanding at end of the year	<u>10,634,832</u>	249.44	<u>10,230,484</u>	245.60
Options exercisable at end of the year	<u>7,167,497</u>		<u>5,661,427</u>	
Options authorised but not granted at end of the year	<u>-</u>		<u>-</u>	

C. The weighted-average stock price of stock options at exercise dates for the year ended December 31, 2018 was \$166 (in dollars). No stock option was exercised for the year ended December 31, 2019.

D. As of December 31, 2019 and 2018, the range of exercise prices of the Company's stock options outstanding were all \$10~\$727 (in dollars).

E. The fair value of stock options granted on grant date is measured using the Black-Scholes option-

pricing model. Relevant information is as follows:

Type of agreement	Grant date	Underlying market value on measurement date (in dollars)	Exercise price per share (in dollars)	Expected volatility (Note)	Expected option life	Expected dividend yield	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock	2010.03.08	\$ 6.9	\$ 10.0	44.23%	10 years	0%	1.42%	\$ 3.16
"	2010.05.21	6.9	10.0	44.23%	10 years	0%	1.42%	3.16
"	2010.09.10	6.9	10.0	44.23%	10 years	0%	1.42%	3.16
"	2010.12.15	6.9	10.0	44.23%	10 years	0%	1.42%	3.16
"	2011.01.01	9.6	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.03.30	9.6	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.06.10	9.6	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.09.30	7.4	10.0	40.94%	10 years	0%	1.29%	3.21
"	2011.12.16	7.4	10.0	40.94%	10 years	0%	1.29%	3.21
"	2012.01.01	10.1	10.0	40.83%	10 years	0%	1.22%	5.21
"	2012.03.09	10.1	10.0	40.83%	10 years	0%	1.22%	5.21
"	2013.11.27	255.6	247.4	49.72%	6.375 years	0%	1.44%	128.42
"	2014.02.21	231.4	214.4	47.62%	6.375 years	0%	1.34%	114.80
"	2014.03.26	215.0	227.6	46.54%	6.375 years	0%	1.38%	97.07
"	2015.05.06	334.0	334.0	44.46%	6.375 years	0%	1.33%	150.18
"	2015.08.04	283.0	283.0	43.90%	6.375 years	0%	1.21%	125.27
"	2015.11.06	422.0	422.0	44.11%	6.375 years	0%	1.01%	186.00
"	2015.12.15	727.0	727.0	45.44%	6.375 years	0%	0.99%	328.28
"	2016.03.25	420.0	420.0	47.70%	6.375 years	0%	0.72%	195.43
"	2017.03.09	326.0	326.0	50.01%	6.375 years	0%	1.11%	159.90
"	2017.05.12	261.0	261.0	49.51%	6.375 years	0%	0.96%	126.34
"	2017.08.11	191.0	191.0	48.61%	6.375 years	0%	0.82%	90.60
"	2017.11.10	169.0	169.0	48.44%	6.375 years	0%	0.81%	79.91
"	2018.01.19	170.5	170.5	48.61%	6.375 years	0%	0.88%	81.04
"	2019.09.06	144.0	144.0	45.65%	6.375 years	0%	0.62%	64.29
"	2019.11.08	131.0	131.0	45.03%	6.375 years	0%	0.65%	57.88
Cash capital increase reserved for employee preemption	2013.07.26	171.2	158.0	18.68%	0.125 years	0%	0.87%	14.02
"	2015.03.16	373.5	310.0	23.49%	0.005 years	0%	0.87%	63.51
"	2019.04.22	158.0	135.0	36.55%	0.09 years	0%	0.59%	23.61

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

F. For the years ended December 31, 2019 and 2018, the Company recognised employee stock option plan compensation expense of \$111,096 and \$163,888, respectively.

(10) Share capital

- A. As of December 31, 2019, the Company's authorised capital was \$3,000,000, consisting of 300 million shares of ordinary stock (including 24 million shares reserved for employee stock options), and the outstanding capital was \$1,881,287 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

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

	2019	(Unit: share) 2018
At January 1	173,128,674	171,303,674
Issuance of new shares	-	1,675,000
Exercise of employee stock options	-	150,000
Cash capital increase	15,000,000	-
At December 31	<u>188,128,674</u>	<u>173,128,674</u>

B. Treasury stock:

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

Reason for reacquisition	Year ended December 31, 2019			
	Beginning shares	Additions	Disposal	Ending shares
To transfer shares to the employees	862 thousand shares	-	862 thousand shares	-

Reason for reacquisition	Year ended December 31, 2018			
	Beginning shares	Additions	Disposal	Ending shares
To transfer shares to the employees	862 thousand shares	-	-	862 thousand shares

- (b) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. The capital deduction took effect on March 8, 2019 as

resolved by the Board of Directors. All treasury shares were retired.

- (e) The price range of actual repurchased treasury shares was between \$431.88 ~ \$454.26 (in dollars). The average repurchased price was \$448.63 (in dollars) and the actual repurchased amount was \$386,721.

(11) Capital surplus

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

	2019		
	Share premium	Employee stock	
		options	Others
At January 1	\$ 8,284,772	\$ 1,099,675	\$ 145,671
Cash capital increase	1,875,000	-	-
Retirement of treasury shares	(41,046)	-	-
Employee stock options compensation cost	8,351	59,730	72,834
At December 31	<u>\$ 10,127,077</u>	<u>\$ 1,159,405</u>	<u>\$ 218,505</u>

	2018		
	Share premium	Employee stock	
		options	Others
At January 1	\$ 8,011,171	\$ 936,363	\$ 89,847
Issuance of new shares	273,025	-	-
Employee stock options compensation cost	-	163,888	55,824
Employee stock options exercised	576	(576)	-
At December 31	<u>\$ 8,284,772</u>	<u>\$ 1,099,675</u>	<u>\$ 145,671</u>

(12) Accumulated deficit

A. The current year's earnings, if any, shall first be used to pay all taxes and offset prior years' operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Cash dividends shall first be appropriated, and the remainder, if any, to be retained or to be appropriated shall be resolved by the stockholders at the stockholders' meeting.

B. The Company is facing a capital intensive industrial environment, with the life cycle of the

industry in the growth phase. The residual dividend policy is adopted taking into consideration the Company's operating expansion plans and investment demands. According to the balanced dividend policy adopted by the Board of Directors, stock dividends and cash dividends will be allocated in consideration of the actual net income and funds status and are subject to the approval by the Board of Directors and resolution by shareholders and cash dividends shall account for at least 10% of the total dividends distributed.

- C. Except for covering accumulated deficit, increasing capital or payment of cash, the legal reserve shall not be used for any other purpose. The amount capitalised or the cash payment shall not exceed 25% of the paid-in capital.
- D. As resolved by the shareholders on June 27, 2019, the Company's 2018 deficit is as follows:

	Year ended December 31, 2018
Accumulated deficit at beginning of the year	(\$ 5,292,713)
Net loss for 2018	(1,222,242)
Accumulated deficit at end of the year	<u><u>(\$ 6,514,955)</u></u>

- E. As resolved by the shareholders on March 13, 2020, the Company's proposal for 2019 deficit compensation is as follows:

	Year ended December 31, 2019
Accumulated deficit at beginning of the year	(\$ 6,514,955)
Net loss for 2019	(1,407,026)
Retirement of treasury shares credited to accumulated losses	(337,055)
Accumulated losses at the end of the year	(8,259,036)
Capital surplus, additional paid-in capital, used to offset accumulated deficits	<u>8,259,036</u>
Accumulated deficit at end of the year	<u><u>\$ -</u></u>

As of March 13, 2020, the aforementioned proposal for 2019 deficit compensation has not yet been resolved by the shareholders.

- F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(18).

(13) Operating revenue

	Years ended December 31,	
	2019	2018
Revenue from contracts with customers	<u>\$ 872</u>	<u>\$ 5,162</u>

- A. Disaggregation of revenue from contracts with customers

The Company derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

Year ended December 31, 2019	Sale of materials	Patent technology licencing	Total
Revenue from external customer contracts			
Contract revenue	\$ -	\$ 872	\$ 872
Timing of revenue recognition			
At a point in time	\$ -	\$ 872	\$ 872
Year ended December 31, 2018	Sale of materials	Patent technology licencing	Total
Revenue from external customer contracts			
Contract revenue	\$ 3,985	\$ 1,177	\$ 5,162
Timing of revenue recognition			
At a point in time	\$ 3,985	\$ 1,177	\$ 5,162

(14) Other income

	Years ended December 31,	
	2019	2018
Interest income:		
Interest income from bank deposits	\$ 90,387	\$ 86,265
Interest income from financial assets at amortised cost	-	2,538
Total interest income	90,387	88,803
Other income, others	4,403	671
	\$ 94,790	\$ 89,474

(15) Other gains and losses

	Years ended December 31,	
	2019	2018
Net currency exchange (loss) gain	(\$ 83,963)	\$ 81,802

(16) Finance costs

	Years ended December 31,	
	2019	2018
Interest expense	\$ 2,566	\$ 1,058

(17) Expenses by nature

	Years ended December 31,	
	2019	2018
Employee benefit expenses	\$ 286,231	\$ 335,686
Clinical material expenses	321,387	300,963
Consulting and service fees	280,584	206,634
Clinical trials cost	243,889	309,070
Rental expenses	11,147	24,529
Depreciation charges	99,648	56,547
Amortisation charges	21,290	21,889
Other expenses	58,355	50,511
Operating expenses	<u>\$ 1,322,531</u>	<u>\$ 1,305,829</u>

(18) Employee benefit expense

	Years ended December 31,	
	2019	2018
Wages and salaries	\$ 145,876	\$ 141,974
Employee stock options	111,096	163,888
Labor and health insurance fees	10,941	10,645
Pension costs	7,122	6,746
Directors' remuneration	4,798	4,698
Other personnel expenses	6,398	7,735
	<u>\$ 286,231</u>	<u>\$ 335,686</u>

- A. In accordance with the Articles of Incorporation, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 2% for directors' remuneration. A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the abovementioned employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders during their meeting. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation. The term shall be defined by the Board of Directors.
- B. As of December 31, 2019, the Company had an accumulated deficit; thus, no employees' compensation and directors' and supervisors' remuneration was recognised for the years ended December 31, 2019 and 2018. Information about employees' compensation and directors' and supervisors' remuneration of the Company as approved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(19) Income tax

A. The reconciliation between accounting income and income tax expense:

	Years ended December 31,	
	2019	2018
Tax calculated based on loss before tax and statutory tax rate	(\$ 281,405)	(\$ 244,448)
Expenses disallowed by tax regulation	350	251
Tax effects of unrecognised deferred tax assets	281,055	244,197
Income tax expense	<u>\$ -</u>	<u>\$ -</u>

B. Details of the amount the Company is entitled as investment tax credits and unrecognised deferred tax assets under the Act for the Development of Biotech and New Pharmaceuticals Industry are as follows:

December 31, 2019		
<u>Qualifying items</u>	<u>Unused tax credits</u>	<u>Unrecognised deferred tax assets</u>
Research and development expense	<u>\$ 636,745</u>	<u>\$ 636,745</u>

December 31, 2018		
<u>Qualifying items</u>	<u>Unused tax credits</u>	<u>Unrecognised deferred tax assets</u>
Research and development expense	<u>\$ 477,348</u>	<u>\$ 477,348</u>

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

C. Expiration dates of unused tax losses and amounts of unrecognised deferred tax assets for the Company are as follows:

December 31, 2019				
Year incurred	Amount field/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2010	\$ 92,437	\$ 92,437	\$ 92,437	2020
2011	116,457	116,457	116,457	2021
2012	239,902	239,902	239,902	2022
2013	405,027	405,027	405,027	2023
2014	606,286	606,286	606,286	2024
2015	981,510	981,510	981,510	2025
2016	943,536	943,536	943,536	2026
2017	1,040,320	1,040,320	1,040,320	2027
2018	1,225,909	1,225,909	1,225,909	2028
2019	1,245,148	1,245,148	1,245,148	2029

December 31, 2018				
Year incurred	Amount field/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2009	\$ 7,557	\$ 7,557	\$ 7,557	2019
2010	92,437	92,437	92,437	2020
2011	116,457	116,457	116,457	2021
2012	239,902	239,902	239,902	2022
2013	405,027	405,027	405,027	2023
2014	606,286	606,286	606,286	2024
2015	981,510	981,510	981,510	2025
2016	943,536	943,536	943,536	2026
2017	1,040,320	1,040,320	1,040,320	2027
2018	1,225,909	1,225,909	1,225,909	2028

D. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority.

E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Company has assessed the impact of the change in income tax rate.

(20) Loss per share

	Year ended December 31, 2019		
	<u>Amount after tax</u>	<u>Weighted-average number of ordinary shares outstanding (shares in thousands)</u>	<u>Loss per share (in dollars)</u>
<u>Basic and diluted loss per share</u>			
Loss	(\$ <u>1,407,026</u>)	<u>181,348</u>	(\$ <u>7.76</u>)

	Year ended December 31, 2018		
	<u>Amount after tax</u>	<u>Weighted-average number of ordinary shares outstanding (shares in thousands)</u>	<u>Loss per share (in dollars)</u>
<u>Basic and diluted loss per share</u>			
Loss	(\$ <u>1,222,242</u>)	<u>173,080</u>	(\$ <u>7.06</u>)

Note: The potential ordinary shares have anti-dilutive effect due to net loss for the years ended December 31, 2019 and 2018, so the calculation of basic loss per share.

(21) Operating leases

Prior to 2019

The Company leases offices under non-cancellable operating lease agreements. For the year ended December 31, 2018, the Group recognised rental expenses of \$24,529. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2018</u>
Not later than one year	\$ 17,218
Later than one year but not later than five years	62,182
Later than five years	28,252
	<u>\$ 107,652</u>

(22) Supplemental cash flow information

Investing activities with partial cash payments

	Years ended December 31,	
	2019	2018
Acquisition of property, plant and equipment	\$ 27,460	\$ 18,380
Add: Opening balance of payable	1,615	1,742
Less: Ending balance of payable	(1,337)	(1,615)
	<u>\$ 27,738</u>	<u>\$ 18,507</u>

	Years ended December 31,	
	2019	2018
Acquisition of intangible assets	\$ 3,307	\$ 573
Add: Opening balance of payable	-	-
Less: Ending balance of payable	-	-
	<u>\$ 3,307</u>	<u>\$ 573</u>

(23) Changes in liabilities from financing activities

	Long-term borrowings	Liabilities from financing activities
At January 1, 2019	\$ 62,000	\$ 62,000
Changes in cash flow from financing activities	(9,000)	(9,000)
At December 31, 2019	<u>\$ 53,000</u>	<u>\$ 53,000</u>

	Long-term borrowings	Liabilities from financing activities
At January 1, 2018	\$ 71,000	\$ 71,000
Changes in cash flow from financing activities	(9,000)	(9,000)
At December 31, 2018	<u>\$ 62,000</u>	<u>\$ 62,000</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

As of December 31, 2019 and 2018, the Company does not have an ultimate parent or controlling party.

(2) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
OBI Pharma USA, Inc.	Subsidiaries
OBI Pharma Australia Pty Ltd.	Subsidiaries
AP Biosciences, Inc.	Subsidiaries
Amaran Biotechnology Inc.	Other related parties

(3) Significant related party transactions

A. Operating revenue

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Sale of materials:		
Other related parties		
-Amaran Biotechnology Inc.	\$ <u> -</u>	\$ <u> 3,985</u>

The transaction price and payment terms of the sales of materials are based on the mutual agreement.

B. Research and development expenses

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Subsidiaries		
-OBI Pharma USA, Inc.	\$ 92,636	\$ 68,918
-AP Biosciences, Inc.	-	10,286
Other related parties		
-Amaran Biotechnology Inc.	<u>32,487</u>	<u>12,322</u>
	\$ <u>125,123</u>	\$ <u>91,526</u>

(a) The Company commissioned OBI Pharma USA, Inc. to render services of clinical trials and research and development for cancer. The price of services rendered was based on mutual agreement.

(b) The Company commissioned AP Biosciences, Inc. to render services of clinical trials and research and development for cancer. The price of services rendered was based on mutual agreement.

(c) The Company signed the drugs purchase agreement for clinical trial of OBI-821, OBI-822 and

OBI-866 with Amaran Biotechnology Inc. The purchase amount was based on the mutual agreement.

C. Other payables

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Subsidiaries		
-OBI Pharma USA, Inc.	\$ 28,608	\$ 16,638
-Others	2	2
Other related parties		
-Amaran Biotechnology Inc.	<u>6,013</u>	<u>3,652</u>
	<u>\$ 34,623</u>	<u>\$ 20,292</u>

It was paid for research and development expenditures.

D. Property transactions

On March 26, 2016, the Company entered into purchase agreement for production equipment with Amaran Biotechnology Inc. The Company purchased the existing equipment from Amaran Biotechnology Inc. and made it available for processing related products of OBI-821 (Saponin adjuvant), OBI-822 (therapeutically metastatic breast cancer vaccines), Globo H and OBI-858 (product development project of botulinum). The initial acquisition cost of \$108,753 less the carrying amount (net of accumulated depreciation) was the purchase amount. As of December 31, 2019, the Company has paid \$101,696 for production equipment, of which \$83,547 (\$30,909 and \$5,585 in 2019 and 2018, respectively) has been transferred and \$18,149 was recognised as other non-current assets.

(4) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term employee benefits	\$ 46,694	\$ 52,306
Share-based payments	<u>7,885</u>	<u>72,931</u>
	<u>\$ 54,579</u>	<u>\$ 125,237</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value		Purpose
	December 31, 2019	December 31, 2018	
Land	\$ 87,514	\$ 87,514	Long-term borrowings (Note)
Buildings and structures	14,021	14,321	Long-term borrowings (Note)
Other non-current assets (refundable deposits)	33,785	32,279	Duty paid after customer release, deposits for clinical trial agreement and rental deposit, etc.
	<u>\$ 135,320</u>	<u>\$ 134,114</u>	

Note: The Company has entered into mortgage contract with E. SUN Bank in 2016. The contract requires a property as collateral and the credit line is \$100 million. Please refer to Note 6(7) for details.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

- (1) Pursuant to the government grants for OBI-822 (formerly OPT-822/821), therapeutically metastatic breast cancer vaccines, in Phase II / III obtained by the Company from Department of Industrial Technology of Ministry of Economic Affairs R.O.C. (MOEA) on December 25, 2012, if OBI-822 (formerly OPT-822/821) will be successfully licensed to others, the Company promises to contribute 5% of the signing bonus and achieved milestones as feedback fund and the maximum amount for feedback fund is \$150,256.
- (2) In September 2017, the Company commissioned Pharmacore Biotech Co., Ltd. to build a customised production line for OBI-858 botulinum toxin under an agreement. The contract price totaled \$36,500 with some other service charges whenever additional machinery and equipment is acquired. As of December 31, 2019, the Company has paid \$30,401.
- (3) In September 2017, the Company commissioned EirGenix, Inc. to jointly develop CRM197 under an agreement. On December 13, 2018, the Company has amended the agreement with EirGenix, Inc. whereby additional tasks were included to further improve the development process. The contract price totaled \$47,848, of which \$28,286 had been paid as of December 31, 2019.
- (4) Except for the promised payments described in Note 6(6) Intangible assets, the Company entered into operating lease contracts for its offices. Refer to Note 6(21) for the details of future lease payments under those leases.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 6(12) for details on the proposal of 2019 deficit compensation.

12. OTHERS

(1) Capital management

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

During 2019, the Company's strategy, which was unchanged from 2018, was to maintain the gearing ratio within reasonable security range. The ratios are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Total liability	\$ 322,282	\$ 163,285
Less: Cash and cash equivalents	(4,424,629)	(3,551,174)
Net debt	<u>(\$ 4,102,347)</u>	<u>(\$ 3,387,889)</u>
Total equity	<u>\$ 5,104,846</u>	<u>\$ 4,346,932</u>

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Financial assets</u>		
Financial assets at fair value through other comprehensive income		
-Designation of equity instrument	\$ 8,318	\$ 7,454
Financial assets at amortised cost/loans and receivables		
Cash and cash equivalents	4,424,629	3,551,174
Accounts receivable	854	872
Other receivables	37,403	37,018
Other financial assets	33,785	32,279
	<u>\$ 4,504,989</u>	<u>\$ 3,628,797</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Other payables (including related parties)	\$ 145,713	\$ 100,157
Long-term borrowings (including current portion)	53,000	62,000
	<u>\$ 198,713</u>	<u>\$ 162,157</u>
Lease liabilities	<u>\$ 122,352</u>	<u>\$ -</u>

B. Financial risk management policies

- (a) The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial position and financial performance.
- (b) Risk management is carried out by a central treasury department (Company treasury) under policies approved by the Board of Directors. Company treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to exchange rate risk arising from the transactions of the Company used in various functional currency, primarily with respect to the USD and RMB. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury.
- iii. The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- iv. The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2019					
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Sensitivity Analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 103,276	29.980	\$ 3,096,214	1%	\$ 30,962	\$ -
RMB:NTD	45,676	4.305	196,635	1%	1,966	-
<u>Financial assets</u>						
<u>Non-monetary items</u>						
USD:NTD	2,155	29.980	64,594	-	-	-
AUD:NTD	418	21.038	8,790	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	2,841	29.980	85,173	1%	852	-

December 31, 2018

	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)	Sensitivity Analysis		
				Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 97,170	30.715	\$ 2,984,577	1%	\$ 29,846	\$ -
RMB:NTD	44,080	4.472	197,126	1%	1,971	-
<u>Financial assets</u>						
<u>Non-monetary items</u>						
USD:NTD	1,799	30.715	55,265	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	1,741	30.715	53,475	1%	535	-

- v. The total exchange (loss) gain, including realised and unrealized, arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2019 and 2018 amounted to (\$83,963) and \$81,802, respectively.

Price risk

- i. The Company's equity securities, which are exposed to price risk, are the held financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- ii. The prices of the Company's investments in equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity for the years ended December 31, 2019 and 2018 would have increased / decreased by \$83 and \$75, respectively, as a result of other comprehensive income classified as equity investment at fair value through other comprehensive income.

Cash flow and fair value interest rate risk

- i. The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. The Company's borrowings were calculated by floating rate and stated at New Taiwan Dollars for the years ended December 31, 2019 and 2018.
- ii. At December 31, 2019 and 2018, if interest rates had been 1% higher or lower with all other variables held constant, post-tax profit for the years ended December 31, 2019 and 2018 would have been \$1,283 and \$529 lower or higher, respectively, mainly as a result

of changes in interest expense on floating rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. For banks and financial institutions the Company only independently rated parties with stable credit rating are accepted. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. Under IFRS 9, if the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Company adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
- v. The Company classifies customers' accounts receivable, contract assets and rent receivable in accordance with customer types. The Company applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vi. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganisation due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.
- vii. When estimating the allowance for uncollectible accounts for receivables, the Company incorporates forward-looking information in the adjustment of the loss rate, which is calculated based on historical data from specific periods and current information. As of December 31, 2019 and 2018, the expected loss rate of the Company's accounts

receivable that are not past due is immaterial.

(c) Liquidity risk

- i. Cash flow forecasting is performed by Company treasury to monitor rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational and R&D needs. Such forecasting is in compliance with internal R&D project schedule targets.
- ii. Company treasury invests surplus cash in interest bearing current deposits, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.
- iii. The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	December 31, 2019				
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Non-derivative financial liabilities:					
Other payables (including related parties)	\$ 145,713	\$ -	\$ -	\$ -	\$ -
Long-term borrowings (including current portion)	9,770	9,626	7,499	21,826	7,051
Lease liabilities (including current portion)	36,965	29,108	12,875	31,377	12,027

	December 31, 2018				
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Non-derivative financial liabilities:					
Other payables (including related parties)	\$ 100,157	\$ -	\$ -	\$ -	\$ -
Long-term borrowings (including current portion)	9,914	9,770	9,626	14,887	21,490

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

flow amount will be significantly different.

(3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Company's investment in financial assets at fair value through other comprehensive income is included in Level 3.

B. The carrying amount of financial instruments not measured at fair value (including cash and cash equivalents, accounts receivable, other receivables and other payables (including those to related parties)) is a reasonable approximation to their fair value; the interest rate on long-term borrowings (including the portion due within a year or one operating cycle) is close to the market interest rate, therefore their carrying amount is a reasonable basis for the estimation of their fair value.

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

	December 31, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	\$ -	\$ -	\$ 8,318	\$ 8,318

	December 31, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through other comprehensive income				
Equity securities	\$ -	\$ -	\$ 7,454	\$ 7,454

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

	<u>Fair value at December 31, 2019</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (median)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity					
Unlisted shares	<u>\$ 8,318</u>	Market comparable companies	Price to book ratio multiple	1.09~3.26 (1.75)	The higher the multiple, the higher the fair value
			Discount for lack of marketability	8.44%~ 47.77% (21%)	The higher the discount for lack of marketability, the lower the fair value
	<u>Fair value at December 31, 2018</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (median)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity					
Unlisted shares	<u>\$ 7,454</u>	Market comparable companies	Price to book ratio multiple	0.69~3.70 (1.57)	The higher the multiple, the higher the fair value
			Discount for lack of marketability	25% (25%)	The higher the discount for lack of marketability, the lower the fair value

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

				December 31, 2019			
				Recognised in profit or loss		Recognised in other comprehensive income	
				Favourable	Unfavourable	Favourable	Unfavourable
				change	change	change	change
	Input	Change					
Financial assets							
Equity instrument	Price to book ratio multiple	±10%	\$ -	\$ -	\$ 890	(\$ 890)	
	Discount for lack of marketability	±10%	\$ -	\$ -	\$ 223	(\$ 223)	

				December 31, 2018			
				Recognised in profit or loss		Recognised in other comprehensive income	
				Favourable	Unfavourable	Favourable	Unfavourable
				change	change	change	change
	Input	Change					
Financial assets							
Equity instrument	Price to book ratio multiple	±10%	\$ -	\$ -	\$ 780	(\$ 780)	
	Discount for lack of marketability	±10%	\$ -	\$ -	\$ 248	(\$ 248)	

G. The following chart is the movement of Level 3 for the years ended December 31, 2019 and 2018:

	Equity securities	
	Years ended December 31,	
	2019	2018
Opening net book amount	\$ 7,454	\$ 10,160
Gain (loss) recognised in other comprehensive income	864	(2,706)
Closing net book amount	\$ 8,318	\$ 7,454

H. As of December 31, 2019 and 2018, there was no transfer into or out from Level 3.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

A. Loans to others: None.

B. Provision of endorsements and guarantees to others: None.

- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 2.

(2) Information on investees

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

(3) Information on investments in Mainland China

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

14. SEGMENT INFORMATION

(1) General information

Pursuant to Article 22 of Regulations Governing the Preparation of Financial Reports by Securities Issuers, segment information is not required in the parent company only financial statements.

OBI PHARMA, INC.
STATEMENT OF CASH AND CASH EQUIVALENTS
DECEMBER 31, 2019
(Expressed in Thousands of New Taiwan dollars)

<u>Item</u>	<u>Description</u>	<u>Amount</u>
Cash on hand		\$ 100
Checking accounts		13,591
Demand deposits - NTD		832,131
- Foreign currencies	USD 258 thousand, exchange rate 29.98	7,725
- Foreign currencies	RMD 76 thousand, exchange rate 4.305	325
Time deposits - Foreign currencies	USD 102,550 thousand, exchange rate 29.98, interest rate 2.0%~2.88%, mature between January 2020 and June 2020	3,074,449
	RMD 45,600 thousand, exchange rate 4.305, interest rate 2.94%~3.25%, mature in January 2020	196,308
- NTD		300,000
		<u>\$ 4,424,629</u>

OBI PHARMA, INC.
STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD
YEAR ENDED DECEMBER 31, 2019
(Expressed in Thousands of New Taiwan dollars)

Name	Beginning Balance		Addition		Decrease		Investment Income (Loss)	Change in Other Equity Interest	Ending Balance			Collateral	
	Shares (in shares)	Amount	Shares (in shares)	Amount	Shares (in shares)	Amount			Shares (in shares)	Percentage of Ownership	Amount		Market Value or Net Assets Value
OBI Pharma Limited	1,150,000	\$ 7,829	500,000	\$ 15,545	-	\$ -	(\$ 11,914)	\$ 3,580	1,650,000	100%	\$ 15,040	\$ 15,040	None
OBI Pharma USA, Inc.	2,701,000	47,436	-	-	-	-	(12,009)	14,127	2,701,000	100%	49,554	49,554	"
AP Biosciences, Inc.	8,040,000	318,050	-	-	-	-	(66,113)	10,565	8,040,000	67%	262,502	262,502	"
OBI Pharma Australia Pty Ltd	650,100	12,675	-	-	-	-	(3,592)	(293)	650,100	100%	8,790	8,790	"
		<u>\$ 385,990</u>		<u>\$ 15,545</u>		<u>\$ -</u>	<u>(\$ 93,628)</u>	<u>\$ 27,979</u>			<u>\$ 335,886</u>	<u>\$ 335,886</u>	

OBI PHARMA, INC.
STATEMENT OF OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2019
(Expressed in Thousands of New Taiwan dollars)

<u>Item</u>	<u>Administrative Expense</u>	<u>Research and Development Expense</u>	<u>Note</u>
Wages and salaries and directors remuneration	\$ 73,376	\$ 188,394	
Clinical material expenses	-	321,387	
Consulting and service fees	57,228	223,356	
Clinical trials cost	-	243,889	
Other expenses	<u>57,590</u>	<u>157,311</u>	Balance of individual accounts has not exceeded 5% of total account balance
	<u>\$ 188,194</u>	<u>\$ 1,134,337</u>	

OBI PHARMA, INC.
SUMMARY STATEMENT OF CURRENT PERIOD EMPLOYEE BENEFITS, DEPRECIATION, AND AMORTIZATION EXPENSES BY FUNCTION
YEAR ENDED DECEMBER 31, 2019
(Expressed in Thousands of New Taiwan dollars)

Function Nature	Years ended December 31,					
	2019			2018		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Employee benefit expense						
Wages and salaries	\$ -	\$ 256,972	\$ 256,972	\$ -	\$ 305,862	\$ 305,862
Labour and health insurance fees	-	10,941	10,941	-	10,645	10,645
Pension costs	-	7,122	7,122	-	6,746	6,746
Directors' remuneration	-	4,798	4,798	-	4,698	4,698
Other personnel expenses	-	6,398	6,398	-	7,735	7,735
	<u>\$ -</u>	<u>\$ 286,231</u>	<u>\$ 286,231</u>	<u>\$ -</u>	<u>\$ 335,686</u>	<u>\$ 335,686</u>
Depreciation Expense	\$ -	\$ 99,648	\$ 99,648	\$ -	\$ 56,547	\$ 56,547
Amortisation Expense	\$ -	\$ 21,290	\$ 21,290	\$ -	\$ 21,889	\$ 21,889

Note:

A. As at December 31, 2019 and 2018, the Company had 124 and 118 employees, including 6 and 7 non-employee directors, respectively.

B. As at December 31, 2019 and 2018, the amounts of employee stock options expensed as employee salaries were \$111,096 and \$163,888, respectively.

C. A company whose stock is listed for trading on the stock exchange or over-the-counter securities exchange shall additionally disclose the following information:

(a) Average employee benefit expense in current year was \$2,385 ((Total employee benefit expense in current year – Total directors' compensation in current year)/(Number of employees in current year – Number of non-employee directors in current year)).

Average employee benefit expense in previous year was \$2,982 ((Total employee benefit expense in previous year – Total directors' compensation in previous year)/(Number of employees in previous year – Number of non-employee directors in previous year)).

(b) Average employees salaries in current year were \$2,178 (Total employee salaries in current year / (Number of employees in current year – Number of non-employee directors in current year)).

Average employees salaries in previous year were \$2,756 (Total employee salaries in previous year / (Number of employees in previous year –Number of non-employee directors in previous year)).

Average employees salaries, excluding the expenses from employee stock options, in current year, were \$1,236 (Total employee salaries in current year – Total employee stock options expenses in current year / (Number of employees in current year – Number of non-employee directors in current year)).

Average employees salaries, excluding the expenses from employee stock options, in previous year were \$1,279 (Total employee salaries in previous year - Total employee stock options expenses in previous year / (Number of employees in previous year – Number of non-employee directors in previous year)).

OBI PHARMA, INC.
SUMMARY STATEMENT OF CURRENT PERIOD EMPLOYEE BENEFITS, DEPRECIATION, AND AMORTIZATION EXPENSES BY FUNCTION
(Cont.)
YEAR ENDED DECEMBER 31, 2019
(Expressed in Thousands of New Taiwan dollars)

(c) Adjustments of average employees salaries were -20.97% ((Average employee salaries in current year- Average employee salaries in previous year)/ Average employee salaries in previous year).

Adjustments of average employees salaries, excluding the expenses from employee stock options, were -3.36% ((Average employee salaries, excluding employee stock options expenses, in current year- Average employee salaries, excluding employee stock options expenses, in previous year)/ Average employee salaries, excluding employee stock options expenses, in previous year).

OBI Pharma, Inc.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2019

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2019				
				Number of shares	Book value	Ownership	Fair value	Footnote
OBI Pharma, Inc.	Stock - Agnitio Science & Technology Inc.	None	Financial assets at fair value through other comprehensive income-non-current	867,018	\$ 8,318	4.19%	\$ 8,318	None

OBI Pharma, Inc.
 Significant inter-company transactions during the reporting period
 Year ended December 31, 2019

Table 2

Expressed in thousands of NTD
 (Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
1	OBI Pharma USA, Inc.	OBI Pharma, Inc.	2	Accounts receivable	\$ 28,608	(Note 4)	0.51%
1	"	"	"	Service revenue	92,636	"	10,623.39%

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

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

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

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

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

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

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

OBI Pharma, Inc.
Information on investees
Year ended December 31, 2019

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019			Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognised by the Company for the year ended December 31, 2019	Footnote
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value			
OBI Pharma, Inc.	OBI Pharma Limited	Hong Kong	Investments and trading	\$ 49,467	\$ 34,477	1,650,000	100.00	\$ 15,040	(\$ 11,914)	(\$ 11,914)	Note 2
"	OBI Pharma USA, Inc.	USA	Research and development of biotechnology	80,946	80,946	2,701,000	100.00	49,554	(12,009)	(12,009)	"
"	AP Biosciences, Inc.	Taiwan	Research and development of biotechnology	350,075	350,075	8,040,000	67.00	262,502	(64,942)	(66,113)	"
"	OBI Pharma Australia Pty Ltd.	Australia	Research and development of biotechnology	13,676	13,676	650,100	100.00	8,790	(3,592)	(3,592)	"

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

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

OBI Pharma, Inc.
Information on investments in Mainland China
Year ended December 31, 2019

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee for the year months ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year months ended December 31, 2019	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
OBI Pharma (Shanghai) Limited	Research and development of biotechnology	\$ 44,970	Note 1	\$ 29,980	14,990	-	\$ 44,970	(\$ 11,835)	100.00	(\$ 11,835)	\$ 13,845	-	
<u>Company name</u>	<u>Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019 (Note 2)</u>		<u>Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)</u>		<u>Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA</u>								
OBI Pharma, Inc.	\$	44,970	\$	44,970	\$ 3,062,908								

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

Note 2: The total investment amount of USD 1.5 million was approved pursuant to the Jing-Shen-II-Zi Letter No.10200125600, No. 10600182730 and No. 10800182030.

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

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