

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
JUNE 30, 2017 AND 2016

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.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

We have reviewed the accompanying consolidated balance sheets of OBI PHARMA, INC. and its subsidiaries as of June 30, 2017 and 2016, and the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2017 and 2016, as well as the consolidated statements of changes in equity and of cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36, “Engagements to Review Financial Statements” in the Republic of China. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Audrey Tseng

Chang, Ming-Hui

For and on behalf of PricewaterhouseCoopers, Taiwan

August 11, 2017

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

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

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of June 30, 2017 and 2016 are reviewed, not audited)

Assets	Notes	June 30, 2017		December 31, 2016		June 30, 2016		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 3,103,688	54	\$ 1,414,078	22	\$ 1,253,830	19
1147	Investments in debt instruments	6(3)						
	without active market - current		2,046,224	36	2,359,611	37	-	-
1200	Other receivables		31,976	1	40,789	1	25,695	-
1410	Prepayments		62,610	1	65,072	1	51,707	1
11XX	Total current assets		<u>5,244,498</u>	<u>92</u>	<u>3,879,550</u>	<u>61</u>	<u>1,331,232</u>	<u>20</u>
Non-current assets								
1523	Available-for-sale financial assets -	6(2)						
	non-current		27,181	-	27,181	-	27,181	-
1546	Investments in debt instruments	6(3)						
	without active markets - non-							
	current		-	-	2,111,569	33	5,090,635	77
1600	Property, plant and equipment	6(4) and 7	226,086	4	226,648	4	92,028	1
1780	Intangible assets	6(5)	41,987	1	46,462	1	51,604	1
1900	Other non-current assets	6(5), 7 and						
		8	170,964	3	36,667	1	33,017	1
15XX	Total non-current assets		<u>466,218</u>	<u>8</u>	<u>2,448,527</u>	<u>39</u>	<u>5,294,465</u>	<u>80</u>
1XXX	Total assets		<u>\$ 5,710,716</u>	<u>100</u>	<u>\$ 6,328,077</u>	<u>100</u>	<u>\$ 6,625,697</u>	<u>100</u>

(Continued)

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Expressed in thousands of New Taiwan dollars)

(The consolidated balance sheets as of June 30, 2017 and 2016 are reviewed, not audited)

Liabilities and Equity	Notes	June 30, 2017		December 31, 2016		June 30, 2016	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities							
2200		\$ 18,635	1	\$ 84,531	2	\$ 32,348	1
2220	7	-	-	185	-	-	-
2230		537	-	606	-	2,535	-
2320	6(6)	10,068	-	10,140	-	-	-
2399		1,664	-	1,995	-	1,069	-
21XX		<u>30,904</u>	<u>1</u>	<u>97,457</u>	<u>2</u>	<u>35,952</u>	<u>1</u>
Non-current liabilities							
2540	6(6)	65,432	1	69,860	1	-	-
2XXX		<u>96,336</u>	<u>2</u>	<u>167,317</u>	<u>3</u>	<u>35,952</u>	<u>1</u>
Equity attributable to owners of parent							
Share capital							
	6(9)						
3110		1,720,611	30	1,716,119	27	1,711,996	26
3200	6(8)(10)	8,879,302	156	8,743,211	138	8,531,136	129
Retained earnings							
	6(11)						
3350		(4,597,346)	(81)	(3,913,277)	(62)	(3,268,323)	(50)
3400		(1,466)	-	1,428	-	1,657	-
3500	6(9)	(386,721)	(7)	(386,721)	(6)	(386,721)	(6)
3XXX		<u>5,614,380</u>	<u>98</u>	<u>6,160,760</u>	<u>97</u>	<u>6,589,745</u>	<u>99</u>
Significant Contingent Liabilities and Unrecognized Contract Commitments							
	11						
Balance Sheet Date							
3X2X		<u>\$ 5,710,716</u>	<u>100</u>	<u>\$ 6,328,077</u>	<u>100</u>	<u>\$ 6,625,697</u>	<u>100</u>

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

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(REVIEWED, NOT AUDITED)

Items	Notes	Three months ended June 30				Six months ended June 30			
		2017		2016		2017		2016	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(12)	\$ 366	-	\$ 92,386	79	\$ 366	-	\$ 92,386	20
5000 Operating costs		-	-	-	-	-	-	-	-
5900 Gross profit		366	-	92,386	79	366	-	92,386	20
Operating expenses	6(4)(5)(7)(8) (16)(17)(20) and 7								
6200 Administrative expenses		(92,603)	(33)	(96,802)	(83)	(159,440)	(23)	(179,014)	(39)
6300 Research and development expenses		(222,632)	(80)	(150,053)	(129)	(362,951)	(53)	(349,365)	(75)
6000 Total operating expenses		(315,235)	(113)	(246,855)	(212)	(522,391)	(76)	(528,379)	(114)
6900 Operating loss		(314,869)	(113)	(154,469)	(133)	(522,025)	(76)	(435,993)	(94)
Non-operating income and expenses									
7010 Other income	6(3)(13)	13,564	5	37,065	32	21,773	3	50,336	11
7020 Other gains (losses)	6(14)	22,167	8	1,044	1	(182,087)	(27)	(78,401)	(17)
7050 Finance costs	6(15)	(305)	-	-	-	(619)	-	-	-
7000 Total non-operating income and expenses		35,426	13	38,109	33	(160,933)	(24)	(28,065)	(6)
7900 Loss before tax		(279,443)	(100)	(116,360)	(100)	(682,958)	(100)	(464,058)	(100)
7950 Income tax expense	6(18)	(505)	-	(733)	(1)	(1,111)	-	(1,116)	-
8200 Loss for the period		(\$ 279,948)	(100)	(\$ 117,093)	(101)	(\$ 684,069)	(100)	(\$ 465,174)	(100)
Other comprehensive loss, net									
Components of other comprehensive loss that will be reclassified to profit or loss									
8361 Financial statements translation differences of foreign operations		(\$ 153)	-	(\$ 12)	-	(\$ 2,894)	(1)	(\$ 899)	-
8300 Other comprehensive loss for the period, net		(\$ 153)	-	(\$ 12)	-	(\$ 2,894)	(1)	(\$ 899)	-
8500 Total comprehensive loss for the period		(\$ 280,101)	(100)	(\$ 117,105)	(101)	(\$ 686,963)	(101)	(\$ 466,073)	(100)
Loss Per Share (in dollars)	6(19)								
9750 Basic and diluted loss per share		(\$ 1.64)		(\$ 0.69)		(\$ 4.00)		(\$ 2.73)	

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

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, NOT AUDITED)

	Equity attributable to owners of the parent							Total equity
	Capital Reserves					Financial statements translation differences of foreign operations	Treasury stocks	
Notes	Share capital - common stock	Total capital surplus, additional paid-in capital	Employee stock warrants	Others	Unappropriated accumulated deficits			
Six months ended June 30, 2016								
Balance at January 1, 2016	\$ 1,707,200	\$ 7,720,531	\$ 467,007	\$ 89,847	(\$ 2,803,149)	\$ 2,556	\$ -	\$ 7,183,992
Net loss for the period	-	-	-	-	(465,174)	-	-	(465,174)
Other comprehensive loss for the period	-	-	-	-	-	(899)	-	(899)
Repurchase of treasury shares 6(9)	-	-	-	-	-	-	(386,721)	(386,721)
Share-based payment transactions 6(8)(9)(10)(17)	4,796	144,137	109,614	-	-	-	-	258,547
Balance at June 30, 2016	<u>\$ 1,711,996</u>	<u>\$ 7,864,668</u>	<u>\$ 576,621</u>	<u>\$ 89,847</u>	<u>(\$ 3,268,323)</u>	<u>\$ 1,657</u>	<u>(\$ 386,721)</u>	<u>\$ 6,589,745</u>
Six months ended June 30, 2017								
Balance at January 1, 2017	\$ 1,716,119	\$ 7,962,049	\$ 691,315	\$ 89,847	(\$ 3,913,277)	\$ 1,428	(\$ 386,721)	\$ 6,160,760
Net loss for the period	-	-	-	-	(684,069)	-	-	(684,069)
Other comprehensive loss for the period	-	-	-	-	-	(2,894)	-	(2,894)
Share-based payment transactions 6(8)(9)(10)(17)	4,492	31,467	104,624	-	-	-	-	140,583
Balance at June 30, 2017	<u>\$ 1,720,611</u>	<u>\$ 7,993,516</u>	<u>\$ 795,939</u>	<u>\$ 89,847</u>	<u>(\$ 4,597,346)</u>	<u>(\$ 1,466)</u>	<u>(\$ 386,721)</u>	<u>\$ 5,614,380</u>

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

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)
(REVIEWED, NOT AUDITED)

	Notes	Six months ended June 30,	
		2017	2016
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Loss before tax		(\$ 682,958)	(\$ 464,058)
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(4)(16)	23,356	15,374
Amortization	6(5)(16)	5,579	5,485
Interest expense	6(15)	619	-
Interest income	6(13)	(21,742)	(27,528)
Compensation cost for share-based payment transactions	6(8)(10)(17)	116,842	160,012
Changes in operating assets and liabilities			
Changes in operating assets			
Other receivables		(2,531)	(1,773)
Prepayments		2,462	(9,108)
Other non-current assets		14	(7,055)
Changes in operating liabilities			
Other payables		(65,299)	(17,109)
Other payables to related parties		(185)	(6,470)
Advance receipts		-	(64,580)
Other current liabilities		(331)	113
Cash outflow generated from operations		(624,174)	(416,697)
Interest paid		(619)	-
Interest received		33,086	18,736
Tax paid		(1,309)	(671)
Net cash flows used in operating activities		(593,016)	(398,632)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Acquisition of available-for-sale financial assets		-	(4,681)
Acquisition of investments in debt instruments without active markets		-	(1,152,462)
Proceeds from disposal of investments in debt instruments without active markets		2,424,956	808,027
Acquisition of property, plant and equipment	6(4)(21)	(20,327)	(28,419)
Acquisition of intangible assets	6(5)(21)	(1,464)	(106)
Increase in refundable deposits		(326)	(4)
Decrease in refundable deposits		1,055	1,324
Increase in other non-current assets		(137,486)	-
Net cash flows from (used in) investing activities		2,266,408	(376,321)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Repayment of long-term debt		(5,119)	-
Exercise of employee stock options	6(8)(9)	23,741	98,535
Repurchase of treasury shares	6(9)	-	(386,721)
Net cash flows from (used in) financing activities		18,622	(288,186)
Effects due to changes in exchange rate		(2,404)	16,421
Net increase (decrease) in cash and cash equivalents		1,689,610	(1,046,718)
Cash and cash equivalents at beginning of period		1,414,078	2,300,548
Cash and cash equivalents at end of period		<u>\$ 3,103,688</u>	<u>\$ 1,253,830</u>

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

OBI PHARMA, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(Expressed in thousands of New Taiwan dollars,
except as otherwise indicated)
(REVIEWED, NOT AUDITED)

1. HISTORY AND ORGANIZATION

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

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

These consolidated financial statements were reported to the Board of Directors on August 11, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, ‘Regulatory deferral accounts’	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

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

New standards, interpretations and amendments as endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4, 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

A. IFRS 9, 'Financial instruments'

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

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

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

B. Amendments to IAS 7, 'Disclosure initiative'

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

(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>
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019

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

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standards 34, “Interim financial reporting” as endorsed by the FSC.

(2) Basis of preparation

A. Except for the available-for-sale financial assets measured at fair value, these consolidated financial statements have been prepared under the historical cost convention:

B. The preparation of financial statements in compliance with 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 judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognized in profit or loss. All

amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

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

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Remark
			June 30, 2017	December 31, 2016	June 30, 2016	
The Company	OBI Pharma Limited	Investing and trading	100.00	100.00	100.00	-
The Company	OBI Pharma USA, Inc.	Biotechnology development	100.00	100.00	100.00	-
OBI Pharma Limited	OBI Pharma (Shanghai) Limited	Biotechnology development	100.00	100.00	100.00	-

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

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

E. Significant restrictions: None.

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

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (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 recognized 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 recognized 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 recognized in profit or loss. Non-monetary assets and

liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

- (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 recognized in other comprehensive income.

(5) Classification of current and non-current items

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

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

Otherwise, they are classified as non-current assets.

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

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

Otherwise, they are classified as non-current liabilities.

(6) Cash equivalents

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

(7) Available-for-sale financial assets

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

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

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

(9) Impairment of financial assets - available-for-sale financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (a) Significant financial difficulty of the issuer or debtor;
 - (b) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - (c) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or
 - (d) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, the amount of the impairment loss is measured as the difference between the asset’s acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from “other comprehensive income” to “profit or loss”. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

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

(11) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost.
- B. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets’ residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets’ residual values and useful lives differ from previous estimates or the patterns of consumption of the assets’ future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”, from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

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

(12) Operating leases (lessee)

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

(13) Intangible assets

A. Patent:

- (a) Patents acquired in intellectual property right as equity are recognized at fair value at the acquisition date, and amortized on a straight-line basis over their estimated useful lives of 17 years.
- (b) Patents acquired in cash are stated at cost and amortized on a straight-line basis over their estimated useful lives of 5 to 10 years.

B. Computer software

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

(14) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(15) Borrowings

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

(16) Derecognition of financial liabilities

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

(17) Employee benefits

A. Short-term employee benefits

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

B. Pensions - Defined contribution plans

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

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

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' compensation and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the Board of Directors subsequently, the differences should be recognized based on the accounting for changes in estimates.

(18) Employee share-based payment

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

(19) Income tax

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

substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

- D. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognized for the carryforward of unused tax credits resulting from research and development expenditures, to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.
- G. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(20) Share capital

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

(21) Revenue recognition

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

- A. Royalties are fixed or cannot be refunded.
- B. Contracts are irrevocable.
- C. Franchisee has the latitude in dealing with related license.
- D. Franchisor has no other obligation after giving the license.

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

(22) Operating segments

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

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

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

A. Financial assets-impairment of equity investments

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

B. Impairment on intangible assets (excluding goodwill)

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

(2) Critical accounting estimates and assumptions

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

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Cash on hand	\$ 100	\$ 100	\$ 100
Checking accounts and demand deposits	210,280	379,359	491,549
Time deposits	2,893,308	1,034,619	762,181
	<u>\$ 3,103,688</u>	<u>\$ 1,414,078</u>	<u>\$ 1,253,830</u>

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

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

(2) Available-for-sale financial assets

<u>Items</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Non-current item:			
Unlisted stocks	<u>\$ 27,181</u>	<u>\$ 27,181</u>	<u>\$ 27,181</u>

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

(3) Investments in debt instruments without active markets

<u>Items</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Current item			
Time deposits	\$ 2,046,224	\$ 2,359,611	\$ -
Non-current item:			
Time deposits	-	2,111,569	5,090,635
	<u>\$ 2,046,224</u>	<u>\$ 4,471,180</u>	<u>\$ 5,090,635</u>

A. The Group recognized interest income of \$6,282, \$11,283, \$13,252 and \$22,587 for time deposits with maturity over 1 year in profit or loss for the three months ended June 30, 2017 and 2016, and six months ended June 30, 2017 and 2016, respectively.

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

(4) Property, plant and equipment

	<u>Land</u>	<u>Buildings and structures</u>	<u>Lab equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2017</u>						
Cost	\$ 87,514	\$ 14,996	\$ 158,484	\$ 16,138	\$ 27,706	\$ 304,838
Accumulated depreciation	-	(75)	(55,248)	(8,494)	(14,373)	(78,190)
	<u>\$ 87,514</u>	<u>\$ 14,921</u>	<u>\$ 103,236</u>	<u>\$ 7,644</u>	<u>\$ 13,333</u>	<u>\$ 226,648</u>
<u>2017</u>						
At January 1	\$ 87,514	\$ 14,921	\$ 103,236	\$ 7,644	\$ 13,333	\$ 226,648
Additions	-	-	14,473	3,820	2,056	20,349
Reclassifications (Note 1)	-	-	2,467	-	-	2,467
Depreciation	-	(150)	(18,974)	(1,568)	(2,664)	(23,356)
Net exchange differences	-	-	(11)	(11)	-	(22)
At June 30	<u>\$ 87,514</u>	<u>\$ 14,771</u>	<u>\$ 101,191</u>	<u>\$ 9,885</u>	<u>\$ 12,725</u>	<u>\$ 226,086</u>
<u>At June 30, 2017</u>						
Cost	\$ 87,514	\$ 14,996	\$ 175,400	\$ 19,139	\$ 29,753	\$ 326,802
Accumulated depreciation	-	(225)	(74,209)	(9,254)	(17,028)	(100,716)
	<u>\$ 87,514</u>	<u>\$ 14,771</u>	<u>\$ 101,191</u>	<u>\$ 9,885</u>	<u>\$ 12,725</u>	<u>\$ 226,086</u>
	<u>Land</u>	<u>Buildings and structures</u>	<u>Lab equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2016</u>						
Cost	\$ -	\$ -	\$ 84,045	\$ 9,787	\$ 25,581	\$ 119,413
Accumulated depreciation	-	-	(29,141)	(6,220)	(9,118)	(44,479)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,904</u>	<u>\$ 3,567</u>	<u>\$ 16,463</u>	<u>\$ 74,934</u>
<u>2016</u>						
At January 1	\$ -	\$ -	\$ 54,904	\$ 3,567	\$ 16,463	\$ 74,934
Additions	-	-	19,703	4,523	135	24,361
Reclassifications (Note 1)	-	-	5,102	1,796	1,217	8,115
Depreciation	-	-	(10,974)	(1,773)	(2,627)	(15,374)
Net exchange differences	-	-	(4)	(4)	-	(8)
At June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,731</u>	<u>\$ 8,109</u>	<u>\$ 15,188</u>	<u>\$ 92,028</u>
<u>At June 30, 2016</u>						
Cost	\$ -	\$ -	\$ 108,843	\$ 16,098	\$ 26,931	\$ 151,872
Accumulated depreciation	-	-	(40,112)	(7,989)	(11,743)	(59,844)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,731</u>	<u>\$ 8,109</u>	<u>\$ 15,188</u>	<u>\$ 92,028</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.

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

- (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 authorized sale contract for Antibiotics-Fidaxomicin with OPT on June 6, 2011. The contract states that the Company must pay royalty fees to OPT based on 17% or 22% of sales under the revenue achievements. The payment period of the royalty fee is the duration of patent right or ten years starting from the initial sales, whichever is later.
 - (c) The Company signed a patent transfer contract for Macrolide with Optimer Pharmaceuticals, Inc. on October 30, 2009. The price was \$109,126 and the Company recognized a gain on disposal of assets amounting to \$26,660 by deducting the costs of \$116,423 and accumulated amortisation of \$33,957.
 - (d) The Company needs to pay the annual fee and achieved milestones. As of June 30, 2017, the remaining unpaid amount for achieved milestones amounted to US\$13,250 thousand. The amount of payment was determined based on whether the milestones in the agreement are achieved or not. Furthermore, the Company must pay royalty fees based on a certain percentage of the sales of patented products annually.
- B. In order to improve mass production and manufacturing process of OBI-822 for expanding global market, the Company has signed an exclusive patent license for chemosynthesis of carbohydrates with Academia Sinica on April 23, 2014, and the contract period is from April 23, 2014 to the expiration of protection duration of the last patented product. The Company must pay patent licensing fees and royalty fees in accordance with the contract. Except for royalty fees, the Company assesses whether to pay patent licensing fees based on 4 achieved milestones. The total contract amount was approximately \$60,000. Further, pursuant to the supplements and amendments agreement on February 18, 2016, the patent licensing fees reduced to \$57,320. As of June 30, 2017, the Company paid royalty fees of \$20,000 in 2014 and paid patent licensing fees of \$27,320 for the year ended December 31, 2016. These fees were recognised as research and development expenses.
- C. The Company purchased a patent named “product development project of botulinum” from Amaran Biotechnology Inc. on March 2, 2012, which amounted to \$42,858 based on external experts’ valuation.
- D. The Company acquired patents named “next-generation cancer vaccine” and “reagent for cancer screening”. The contract states that the Company must pay royalty fees based on the achieved milestones. In 2013, the Company paid royalty fees of \$1,500 separately for both projects. Furthermore, the Company must pay royalty fees based on a certain percentage of the sales of patented products annually.
- E. On 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. The drug was then renamed OBI-3424, which is a chemotherapy prodrug that could attain anti-cancer effect. The total contract value is \$90,693 and has been settled by the Company. However, the transfer of related rights have not yet completed so the transaction was recognised as other non-current assets.

F. The Group has no intangible assets pledged to others.

(6) Long-term borrowings

<u>Type of borrowings</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Long-term bank borrowings					
Secured borrowings	Borrowing period is from October 5, 2016 to October 5, 2026; interest is repayable monthly (Note 1)	1.60%	Note 3	\$ 66,500	\$ 70,000
Unsecured borrowings	Borrowing period is from October 5, 2016 to October 5, 2021; interest is repayable monthly (Note 2)	1.60%	Note 3	<u>9,000</u>	<u>10,000</u>
				75,500	80,000
Less: current portion				<u>(10,068)</u>	<u>(10,140)</u>
				<u>\$ 65,432</u>	<u>\$ 69,860</u>

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

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

Note 3: Please refer to Note 8 for details.

As of June 30, 2016, the Group has no borrowings.

(7) Pension

A. The Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company were \$1,970, \$1,621, \$3,850 and \$3,125 for the three months ended June 30, 2017 and 2016, and six months ended June 30, 2017 and 2016, respectively.

B. For the pension plan based on local government regulations, OBI Pharma USA, Inc. and OBI Pharma (Shanghai) Limited recognised pension costs of \$734, \$761, \$1,585 and \$1,514 for the three months ended June 30, 2017 and 2016, and six months ended June 30, 2017 and 2016, respectively.

(8) Share-based payment

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

<u>Type of agreement</u>	<u>Grant date</u>	<u>No. of units</u>	<u>Subscription share per unit</u>	<u>Vesting conditions</u>	<u>Weighted-average remaining contract period (years)</u>
Employee stock option plan	2010.03.08	2,360,000	1	One year after grant, employees can exercise options monthly at a certain percentage	2.69
"	2010.05.21	100,000	1	"	2.89
"	2010.09.10	60,000	1	"	3.20
"	2010.12.15	144,000	1	"	3.46
"	2011.01.01	588,000	1	"	3.51
"	2011.03.30	80,000	1	"	3.75
"	2011.06.10	124,000	1	"	3.95
"	2011.09.30	260,000	1	"	4.25
"	2011.12.16	2,450,000	1	"	4.46
"	2012.01.01	1,560,000	1	"	4.51
"	2012.03.09	270,000	1	"	4.69
"	2013.11.27	1,821,000	1	Two years after grant, employees can exercise options monthly at a certain percentage	6.41
"	2014.02.21	1,744,000	1	"	6.64
"	2014.03.26	575,000	1	"	6.74
"	2015.05.06	2,861,000	1	"	7.85
"	2015.08.04	75,000	1	"	8.10
"	2015.11.06	353,000	1	"	8.35
"	2015.12.15	13,000	1	"	8.46
"	2016.03.25	1,377,000	1	"	8.73
"	2017.03.09	3,145,000	1	"	9.69
"	2017.05.12	20,000	1	"	9.86
Cash capital increase reserved for employee preemption	2013.07.26	839,514	1	Vested immediately	-
"	2015.03.16	3,000,000	1	"	-

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

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

	Six months ended June 30,			
	2017		2016	
	No. of units	Weighted-average exercise price (in dollars)	No. of units	Weighted-average exercise price (in dollars)
Options outstanding at beginning of the period	8,827,788	\$ 212.65	8,910,542	\$ 224.40
Options granted	3,165,000	325.59	1,377,000	420.00
Options exercised	(449,200)	52.85	(479,624)	205.44
Options forfeited or expired	(730,877)	338.96	(74,834)	351.60
Options outstanding at end of the period	<u>10,812,711</u>	246.30	<u>9,733,084</u>	252.03
Options exercisable at end of the period	<u>4,727,155</u>		<u>3,735,458</u>	
Options authorized but not granted at end of the period	<u>3,220,000</u>		<u>1,385,000</u>	
Options expired	<u>-</u>		<u>-</u>	

C. The weighted-average stock price of stock options at exercise dates for the six months ended June 30, 2017 and 2016 were \$319.49 and \$468.65 (in dollars), respectively.

D. As of June 30, 2017, December 31, 2016 and June 30, 2016, the range of exercise prices of stock options outstanding were both \$10~\$727 (in dollars).

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

Type of agreement	Grant date	Exercise price per share (in dollars)	Expected volatility (Note)	Expected option life	Expected dividend yield	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock option plan	2010.03.08	\$ 10.0	44.23%	10 years	0%	1.42%	\$ 3.16
"	2010.05.21	10.0	44.23%	10 years	0%	1.42%	3.16
"	2010.09.10	10.0	44.23%	10 years	0%	1.42%	3.16
"	2010.12.15	10.0	44.23%	10 years	0%	1.42%	3.16
"	2011.01.01	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.03.30	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.06.10	10.0	41.62%	10 years	0%	1.51%	4.98
"	2011.09.30	10.0	40.94%	10 years	0%	1.29%	3.21
"	2011.12.16	10.0	40.94%	10 years	0%	1.29%	3.21
"	2012.01.01	10.0	40.83%	10 years	0%	1.22%	5.21
"	2012.03.09	10.0	40.83%	10 years	0%	1.22%	5.21
"	2013.11.27	247.4	49.72%	6.375 years	0%	1.44%	128.42
"	2014.02.21	214.4	47.62%	6.375 years	0%	1.34%	114.80
"	2014.03.26	227.6	46.54%	6.375 years	0%	1.38%	97.07
"	2015.05.06	334.0	44.46%	6.375 years	0%	1.33%	150.18

Type of agreement	Grant date	Exercise price per share (in dollars)	Expected volatility (Note)	Expected option life	Expected dividend yield	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock option plan	2015.08.04	\$ 283.0	43.90%	6.375 years	0%	1.21%	\$ 125.27
"	2015.11.06	422.0	44.11%	6.375 years	0%	1.01%	186.00
"	2015.12.15	727.0	45.44%	6.375 years	0%	0.99%	328.28
"	2016.03.25	420.0	47.70%	6.375 years	0%	0.72%	195.43
"	2017.03.09	326.0	50.01%	6.375 years	0%	1.11%	159.90
"	2017.05.12	261.0	49.51%	6.375 years	0%	0.96%	126.34
Cash capital increase reserved for employee preemption	2013.07.26	158.0	18.68%	0.125 years	0%	0.87%	14.02
"	2015.03.16	310.0	23.49%	0.005 years	0%	0.87%	63.51

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

F. For the three months ended June 30, 2017 and 2016, and six months ended June 30, 2017 and 2016, the Company recognized employee stock option plan compensation expense of \$90,363, \$83,364, \$116,842 and \$160,012, respectively.

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

(9) Share capital

A. As of June 30, 2017, the Company's authorized capital after the capital increase was \$3,000,000, consisting of 300 million shares of ordinary stock (including 24 million shares reserved for employee stock options), and the outstanding capital was \$1,720,611 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:

	2017	2016
At January 1	170,749,880	170,719,960
Exercise of employee stock options	449,200	479,624
Shares retired	-	(862,000)
At June 30	<u>171,199,080</u>	<u>170,337,584</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	Six months ended June 30, 2017			
	Beginning shares	Additions	Disposal	Ending shares
To enhance the Company's credit rating and stockholders' equity	862 thousand shares	-	-	862 thousand shares

Reason for reacquisition	Six months ended June 30, 2016			
	Beginning shares	Additions	Disposal	Ending shares
To enhance the Company's credit rating and stockholders' equity	-	862 thousand shares	-	862 thousand shares

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

(10) Capital surplus

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

	2017		
	Share premium	Employee stock options	Others
At January 1	\$ 7,962,049	\$ 691,315	\$ 89,847
Employee stock options compensation cost	-	116,842	-
Employee stock options exercised	31,467	(12,218)	-
At June 30	<u>\$ 7,993,516</u>	<u>\$ 795,939</u>	<u>\$ 89,847</u>
	2016		
	Share premium	Employee stock options	Others
At January 1	\$ 7,720,531	\$ 467,007	\$ 89,847
Employee stock options compensation cost	-	160,012	-
Employee stock options exercised	144,137	(50,398)	-
At June 30	<u>\$ 7,864,668</u>	<u>\$ 576,621</u>	<u>\$ 89,847</u>

(11) Accumulated deficit

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

C. Except for covering accumulated deficit, increasing capital or payment of cash, the legal reserve shall not be used for any other purpose. The amount capitalized or the cash payment shall not exceed 25% of the paid-in capital.

D. As resolved by the shareholders on June 28, 2017, the Company's proposal for 2016 deficit compensation is as follows:

	Year ended December 31, 2016
Accumulated deficit at beginning of the year	(\$ 2,803,149)
Net loss for 2016	(1,110,128)
Accumulated deficit at end of the year	<u>(\$ 3,913,277)</u>

E. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(17).

(12) Operating revenue

	Three months ended June 30,	
	2017	2016
Sales of materials	\$ 366	\$ -
Licensing revenue	-	92,386
	<u>\$ 366</u>	<u>\$ 92,386</u>

	Six months ended June 30,	
	2017	2016
Sales of materials	\$ 366	\$ -
Licensing revenue	-	92,386
	<u>\$ 366</u>	<u>\$ 92,386</u>

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 Taiwanese 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 which calculated with 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 the second quarter of 2016, the Company has completed the transfer of all related rights to MSD and received US\$3 million under the contract. In addition, the authorised sale contract mentioned in Note 6(5)A.(b) has been terminated when the contract value of this transfer contract is settled based on mutual agreement.

(13) Other income

	Three months ended June 30,	
	2017	2016
Interest income	\$ 13,548	\$ 14,291
Others	16	22,774
	<u>\$ 13,564</u>	<u>\$ 37,065</u>

	Six months ended June 30,	
	2017	2016
Interest income	\$ 21,742	\$ 27,528
Others	31	22,808
	<u>\$ 21,773</u>	<u>\$ 50,336</u>

In the second quarter of 2016, the Company received the legal attest letter from Securities and Futures Investors Protection Center that the Company was required to enforce disgorgement. The Company has enforced disgorgement and recognised disgorgement profits amounting to \$22,394.

(14) Other gains and losses

	Three months ended June 30,	
	2017	2016
Net currency exchange gain	\$ 22,183	\$ 1,058
Other expenses	(16)	(14)
	<u>\$ 22,167</u>	<u>\$ 1,044</u>

	Six months ended June 30,	
	2017	2016
Net currency exchange loss	(\$ 182,054)	(\$ 78,379)
Other expense	(33)	(22)
	<u>(\$ 182,087)</u>	<u>(\$ 78,401)</u>

(15) Finance costs

	Three months ended June 30,	
	2017	2016
Interest expense:		
Bank borrowings	<u>\$ 305</u>	<u>\$ -</u>

	Six months ended June 30,	
	2017	2016
Interest expense:		
Bank borrowings	<u>\$ 619</u>	<u>\$ -</u>

(16) Expenses by nature

	Three months ended June 30,	
	2017	2016
Employee benefit expenses	\$ 146,112	\$ 143,607
Clinical trials cost	12,622	11,230
Clinical material expenses	64,318	25,756
Rental expenses	7,072	5,439
Consulting and service fees	54,253	31,275
Depreciation charges on property, plant and equipment	13,012	8,128
Amortization charges on intangible assets	2,803	2,746
Other expenses	15,043	18,674
	<u>\$ 315,235</u>	<u>\$ 246,855</u>

	Six months ended June 30,	
	2017	2016
Employee benefit expenses	\$ 236,476	\$ 265,193
Clinical trials cost	40,095	27,109
Clinical material expenses	77,241	108,159
Royalty	-	8,140
Rental expenses	13,132	10,845
Consulting and service fees	85,929	52,843
Depreciation charges on property, plant and equipment	23,356	15,374
Amortisation charges on intangible assets	5,579	5,485
Other expenses	40,583	35,231
	<u>\$ 522,391</u>	<u>\$ 528,379</u>

(17) Employee benefit expense

	Three months ended June 30,	
	2017	2016
	<u>Operating expense</u>	<u>Operating expense</u>
Wages and salaries	\$ 48,369	\$ 53,522
Employee stock options	90,363	83,364
Labor and health insurance fees	2,767	2,616
Pension costs	2,704	2,382
Other personnel expenses	1,909	1,723
	<u>\$ 146,112</u>	<u>\$ 143,607</u>

	Six months ended June 30,	
	2017	2016
	Operating expense	Operating expense
Wages and salaries	\$ 103,719	\$ 92,421
Employee stock options	116,842	160,012
Labor and health insurance fees	5,711	4,796
Pension costs	5,435	4,639
Other personnel expenses	4,769	3,325
	<u>\$ 236,476</u>	<u>\$ 265,193</u>

- A. According to the Articles of Incorporation, a ratio of profit of the current year distributable, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration. A company may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the abovementioned employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders during their meeting. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation. The term shall be defined by the Board of Directors.
- B. As of June 30, 2017, the Company had an accumulated deficit, thus, no employees' compensation and directors' and supervisors' remuneration was recognized for the year ended December 31, 2016 and six months ended June 30, 2017. Information about employees' compensation and directors' and supervisors' remuneration of the Company as approved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(18) Income tax

- A. Components of income tax expense:

	Three months ended June 30,	
	2017	2016
Total current tax	\$ 505	\$ 733
Tax expense	<u>\$ 505</u>	<u>\$ 733</u>

	Six months ended June 30,	
	2017	2016
Total current tax	\$ 1,111	\$ 1,116
Tax expense	<u>\$ 1,111</u>	<u>\$ 1,116</u>

B. The Company's income tax returns through 2014 have been assessed and approved by the Tax Authority.

C. Accumulated deficit:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Deficit generated in and after 1998	(\$ 4,597,346)	(\$ 3,913,277)	(\$ 3,268,323)

D. As of June 30, 2017, December 31, 2016 and June 30, 2016, the balance of the imputation credit account was \$0, and no earnings can be distributed due to the accumulated deficit.

(19) Loss per share

	<u>Three months ended June 30, 2017</u>		
	<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>			
Net loss	(\$ 279,948)	171,178	(\$ 1.64)
	<u>Three months ended June 30, 2016</u>		
	<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>			
Net loss	(\$ 117,093)	170,229	(\$ 0.69)
	<u>Six months ended June 30, 2017</u>		
	<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>			
Net loss	(\$ 684,069)	171,016	(\$ 4.00)

	Six months ended June 30, 2016		
	<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>			
Net loss	(\$ 465,174)	170,357	(\$ 2.73)

Note: The potential ordinary shares have anti-dilutive effect due to net loss for the six months ended June 30, 2017 and 2016, so the calculation of diluted loss per share is the same as the calculation of basic loss per share.

(20) Operating leases

The Group leases offices under non-cancellable operating lease agreements. For the three months ended June 30, 2017 and 2016 and six months ended June 30, 2017 and 2016, the Group recognized rental expenses of \$7,072, \$5,439, \$13,132 and \$10,845, respectively. Information about the future aggregate minimum lease payments under non-cancellable operating leases are disclosed in Note 9.

(21) Supplemental cash flow information

Investing activities with partial cash payments

	Six months ended June 30,	
	2017	2016
Acquisition of property, plant and equipment	\$ 20,349	\$ 24,361
Add: opening balance of payable	1,375	5,288
Less: ending balance of payable	(1,397)	(1,230)
Cash paid during the period	<u>\$ 20,327</u>	<u>\$ 28,419</u>

	Six months ended June 30,	
	2017	2016
Acquisition of intangible assets	\$ 1,104	\$ 106
Add: opening balance of payable	360	-
Less: ending balance of payable	-	-
Cash paid during the period	<u>\$ 1,464</u>	<u>\$ 106</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

As of June 30, 2017, the Company does not have an ultimate parent company or controlling party.

(2) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Amaran Biotechnology Inc.	Other related parties

(3) Significant related party transactions

A. Research and development expenses

	Three months ended June 30,	
	2017	2016
Other related parties	\$ 5,926	\$ -

	Six months ended June 30,	
	2017	2016
Other related parties	\$ 7,547	\$ 17,361

The Group signed the drugs purchase agreement for clinical trial of OBI-821 and OBI-822 with other related parties.

B. Other payables

	June 30, 2017	December 31, 2016	June 30, 2016
Other related parties	\$ -	\$ 185	\$ -

It was paid for research and development expenditures.

C. Property transactions

(a) On March 26, 2016, the Group entered into purchase agreement for production equipment with other related parties. The Group purchased the existing equipment from other related parties and made it available for processing related products of OBI-821/822, Globo H and OBI-858. The initial acquisition cost of \$108,753 less the carrying amount (net of accumulated depreciation) was the purchase amount. As of June 30, 2017, the Group has paid \$76,643 for production equipment, of which \$47,053 has been transferred and \$29,590 was recognised as other non-current assets.

(b) For the six months ended June 30, 2017, experimental equipment amounting to \$915 was purchased from other related parties.

(4) Key management compensation

	Three months ended June 30,	
	2017	2016
Salaries and other short-term employee benefits	\$ 24,023	\$ 26,365
Share-based payments	47,742	56,760
	\$ 71,765	\$ 83,125

	Six months ended June 30,	
	2017	2016
Salaries and other short-term employee benefits	\$ 53,332	\$ 45,554
Share-based payments	61,823	107,325
	<u>\$ 115,155</u>	<u>\$ 152,879</u>

8. PLEDGED ASSETS

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

Pledged asset	Book value			Purpose
	June 30, 2017	December 31, 2016	June 30, 2016	
Land	\$ 87,514	\$ 87,514	\$ -	- Long-term borrowings (Note)
Buildings and structures	14,771	14,921		- Long-term borrowings (Note)
Other non-current assets	32,248	32,956	32,542	Deposits for import duty, bank loan, clinical trial agreement and rental deposit, etc.
	<u>\$ 134,533</u>	<u>\$ 135,391</u>	<u>\$ 32,542</u>	

Note: The Group 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(6) for details.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED 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) Except for the promised payments described in Note 6(5) Intangible assets, the Group entered into operating lease contracts for its offices. Future lease payments under those leases as of June 30, 2017 were as follows:

Year	Amount
2017	\$ 10,795
2018	13,876
2019	13,847
2020	14,595
After 2021	70,978
	<u>\$ 124,091</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On July 11, 2017, the Group entered into a license agreement with PolyTherics Limited (Abzena). The Company will pay the upfront payment to obtain the exclusive worldwide right of development and commodification of antibody complex of Globo series using ThioBridge technique. The unpaid amount for achieved milestones amounted to GBP 128 million. In addition, the Company should pay a royalty based on a certain percentage of sales of the products which used the ThioBridge technique.

12. OTHERS

(1) Capital management

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

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain the gearing ratio within reasonable security range. The ratios are as follows:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>	<u>June 30, 2016</u>
Total liability	\$ 96,336	\$ 167,317	\$ 35,952
Less: cash and cash equivalents	<u>3,103,688</u>	<u>1,414,078</u>	<u>1,253,830</u>
Net debt	(\$ 3,007,352)	(\$ 1,246,761)	(\$ 1,217,878)
Total equity	<u>\$ 5,614,380</u>	<u>\$ 6,160,760</u>	<u>\$ 6,589,745</u>

(2) Financial instruments

A. Fair value information of financial instruments

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

B. Financial risk management policies

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

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

June 30, 2017

	Foreign currency			Sensitivity Analysis		
	amount (in thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 114,787	30.42	\$3,491,821	1%	\$ 34,918	\$ -
RMB:NTD	42,137	4.49	189,027	1%	1,890	-
<u>Financial assets</u>						
<u>Non-monetary items</u>						
USD:NTD	1,966	30.42	59,797	-	-	-
RMB:USD	3,347	0.147	15,015	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	16	30.42	487	1%	5	-

December 31, 2016

	Foreign currency			Sensitivity Analysis		
	amount (in thousands)	Exchange rate	Book value (NTD)	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)						
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	\$ 88,600	32.25	\$2,857,350	1%	\$ 28,574	\$ -
RMB:NTD	40,497	4.617	186,975	1%	1,870	-
<u>Financial assets</u>						
<u>Non-monetary items</u>						
USD:NTD	1,458	32.25	47,019	-	-	-
RMB:USD	494	0.143	2,279	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	1,725	32.25	55,631	1%	556	-
GBP:NTD	275	39.61	10,893	1%	109	-
RMB:NTD	32	4.617	148	1%	1	-

June 30, 2016

	Foreign currency		Book value (NTD)	Sensitivity Analysis		
	amount (in thousands)	Exchange rate		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	\$ 78,910	32.28	\$2,547,215	1%	\$ 25,472	\$ -
RMB:NTD	40,571	4.85	196,769	1%	1,968	-
USD:RMB	70	6.66	466	1%	5	-
<u>Financial assets</u>						
<u>Monetary items</u>						
USD:NTD	1,526	32.28	49,255	-	-	-
RMB:USD	1,034	0.15	5,016	-	-	-
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD:NTD	278	32.28	8,974	1%	90	-
SGD:NTD	-	-	-	1%	-	-
RMB:NTD	13	4.85	63	1%	1	-

E. The total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended June 30, 2017 and 2016 and six months ended June 30, 2017 and 2016 amounted to \$22,183, \$1,058, (\$182,054) and (\$78,379), respectively.

Price risk

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

Interest rate risk

- A. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. The Group's borrowings were calculated by floating rate and stated at New Taiwan Dollars for the six months ended June 30, 2017. The Group has no additional borrowing for the six months ended June 30, 2016.

B. At June 30, 2017, if interest rates had been 1% higher or lower with all other variables held constant, post-tax profit for the six months ended June 30, 2017 would have been \$321 lower or higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the counterparties of financial instruments on the contract obligations. Credit risk arises from deposits in banks and financial institutions, as well as credit exposures to associated research agencies, including outstanding receivables and committed transactions. For banks and financial institutions, only those with the stable credit quality are accepted.
- ii For the six months ended June 30, 2017 and 2016, management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk

- i. Cash flow forecasting is performed by Group treasury to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational and R&D needs. Such forecasting is in compliance with internal R&D project schedule targets.
- ii. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. As of June 30, 2017, December 31, 2016 and June 30, 2016, the Group's investments in debt instruments without active market (including current and non-current) amounted to \$2,046,224, \$4,471,180 and \$5,090,635, respectively, that are expected to readily generate cash inflows for managing liquidity risk.
- iii. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	June 30, 2017				
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Non-derivative financial liabilities:					
Other payables (related parties)	\$ 18,635	\$ -	\$ -	\$ -	\$ -
Long-term borrowings (current portion)	10,130	9,986	9,842	18,257	32,613

	December 31, 2016				
		Between 1	Between 2	Between 3	
	Less than 1 year	and 2 years	and 3 years	and 5 years	Over 5 years
Non-derivative financial liabilities:					
Other payables (related parties)	\$ 84,716	\$ -	\$ -	\$ -	\$ -
Long-term borrowings (current portion)	10,202	10,058	9,914	19,396	36,377

	June 30, 2016				
		Between 1	Between 2	Between 3	
	Less than 1 year	and 2 years	and 3 years	and 5 years	Over 5 years
Non-derivative financial liabilities:					
Other payables	\$ 32,348	\$ -	\$ -	\$ -	\$ -

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

(3) Fair value information

A. Details of the fair value of the Group's financial assets and financial liabilities not measured at fair value are provided in Note 12(2) A.

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

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

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

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in available-for-sale financial assets – non-current is included in Level 3.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at June 30, 2017, December 31, 2016 and June 30, 2016 is as follows:

	June 30, 2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Equity securities				
Available-for-sale financial assets	\$ -	\$ -	\$ 27,181	\$ 27,181

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

	June 30, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Equity securities				
Available-for-sale financial assets	\$ -	\$ -	\$ 27,181	\$ 27,181

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

	<u>Fair value at June 30, 2017</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity					
Unlisted shares	\$ 27,181	Net asset value	Not applicable	-	Not applicable

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

	<u>Fair value at June 30, 2016</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Non-derivative equity					
Unlisted shares	\$ <u>27,181</u>	Net asset value	Not applicable	-	Not applicable

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

		<u>June 30, 2017</u>				
		<u>Recognised in profit or loss</u>		<u>Recognised in other comprehensive income</u>		
	<u>Input</u>	<u>Change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>	<u>Favourable change</u>	<u>Unfavourable change</u>
Financial assets						
Equity instrument	Net asset value	±1%	\$ <u>-</u>	\$ <u>-</u>	\$ <u>272</u>	\$ <u>272</u>

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

			June 30, 2016			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Net asset value	±1%	\$ -	\$ -	\$ 272	\$ 272

G. The following chart is the movement of Level 3 for the three months ended June 30, 2017 and 2016:

	Equity securities	
	Six months ended June 30,	
	2017	2016
Opening net book amount	\$ 27,181	\$ 22,500
Acquired in the period	-	4,681
Closing net book amount	\$ 27,181	\$ 27,181

H. As of June 30, 2017, December 31, 2016 and June 30, 2016, there was no transfer into or out from Level 3.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

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

(2) Information on investees

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

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 4.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

(1) General information

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

(2) Measurement of segment information

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

B. The financial information reported to the chief operating decision-maker and the financial information of the consolidated statements of comprehensive income are the same.

OBI Pharma, Inc. and Subsidiaries

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

June 30, 2017

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 June 30, 2017				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
OBI Pharma, Inc.	Stock - Agnitio Science & Technology Inc.	None	Available-for-sale financial assets - non-current	1,734,036	\$ 27,181	4.19%	\$ 27,181	None

OBI Pharma, Inc. and Subsidiaries
 Significant inter-company transactions during the reporting period
 Six months ended June 30, 2017

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	\$ 15,667	(Note 4)	0.27
1	"	"	"	Service revenue	35,090	"	9,587.43

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

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

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

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

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

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

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

OBI Pharma, Inc. and Subsidiaries
Information on investees
Six months ended June 30, 2017

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at June 30, 2017					Footnote
				Balance as at June 30, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the six months ended June 30, 2017	Investment income (loss) recognised by the Company for the six months ended June 30, 2017	
OBI Pharma, Inc.	OBI Pharma Limited	Hong Kong	Investments and trading	\$ 34,983	\$ 18,252	1,150,000	100.00	\$ 16,439	(\$ 2,509)	(\$ 2,509)	Note 2
"	OBI Pharma USA, Inc.	USA	Research and development of biotechnology	82,164	82,164	2,701,000	100.00	43,358	1,191	1,191	"

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

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

OBI Pharma, Inc. and Subsidiaries
Information on investments in Mainland China
Six months ended June 30, 2017

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, 2017	Amount remitted from Taiwan to Mainland China/		Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2017	Net income of investee for the six months ended June 30, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the six months ended June 30, 2017	Book value of investments in Mainland China as of June 30, 2017	Accumulated amount of investment income remitted back to Taiwan as of June 30, 2017	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
OBI Pharma (Shanghai) Limited	Research and development of biotechnology	\$ 30,420	Note 1	\$ 15,210	15,210	-	\$ 30,420	(\$ 2,385)	100.00	(\$ 2,385)	\$ 15,015	-	

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of June 30, 2017	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
OBI Pharma (Shanghai) Limited	\$ 30,420	\$ 30,420	\$ 3,368,628

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

Note 2: The total investment amount was USD 1 million, however, pursuant to the Jing-Shen-II-Zi Letter No.10200125600, the investment amount was USD 500 thousand, the Group would report to the competent authority for the other USD 500 thousand.

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

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