

PHARMAENGINE, INC. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
MARCH 31, 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 Stockholders of PharmaEngine, Inc.

We have reviewed the accompanying consolidated balance sheets of PharmaEngine, Inc. and its subsidiary as of March 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these financial statements based on our reviews.

Our reviews were made in accordance with the Generally Accepted Auditing Standard No. 36, "Review of 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 in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated 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 IAS 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission (FSC).

for and on behalf of PricewaterhouseCoopers, Taiwan

May 3, 2017

The accompanying 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 review of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and review 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.

PHARMAENGINE, INC. AND ITS SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2017, DECEMBER 31, 2016 AND MARCH 31, 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(THE CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2017 AND 2016 ARE REVIEWED, NOT AUDITED)

	Assets	Notes	March 31, 2017		December 31, 2016		March 31, 2016	
			Amount	%	Amount	%	Amount	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 1,786,787	47	\$ 1,841,117	47	\$ 651,436	20
1170	Accounts receivable, net	6(2)	8,178	-	4,464	-	3,006	-
1200	Other receivables	7(2)	16,142	-	10,016	-	4,182	-
130X	Inventories	6(3)	9,665	-	10,185	-	-	-
1410	Prepayments		2,202	-	1,671	-	2,304	-
1476	Other current financial assets	6(4)	1,970,597	52	2,067,731	52	2,456,595	77
1479	Other current assets		<u>619</u>	<u>-</u>	<u>549</u>	<u>-</u>	<u>673</u>	<u>-</u>
11XX	Total current assets		<u>3,794,190</u>	<u>99</u>	<u>3,935,733</u>	<u>99</u>	<u>3,118,196</u>	<u>97</u>
Non-current assets								
1600	Property, plant and equipment	6(5)	9,286	-	9,929	1	11,886	1
1780	Intangible assets		570	-	651	-	422	-
1840	Deferred income tax assets		22,742	1	7,991	-	63,864	2
1900	Other non-current assets	6(6)	<u>3,787</u>	<u>-</u>	<u>4,957</u>	<u>-</u>	<u>5,056</u>	<u>-</u>
15XX	Total non-current assets		<u>36,385</u>	<u>1</u>	<u>23,528</u>	<u>1</u>	<u>81,228</u>	<u>3</u>
1XXX	Total assets		<u>\$ 3,830,575</u>	<u>100</u>	<u>\$ 3,959,261</u>	<u>100</u>	<u>\$ 3,199,424</u>	<u>100</u>

(Continued)

PHARMAENGINE, INC. AND ITS SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2017, DECEMBER 31, 2016 AND MARCH 31, 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(THE CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2017 AND 2016 ARE REVIEWED, NOT AUDITED)

	Notes	March 31, 2017		December 31, 2016		March 31, 2016	
		Amount	%	Amount	%	Amount	%
Liabilities and Equity							
Current liabilities							
2150	Notes payable	\$ 232	-	\$ 299	-	\$ 1,534	-
2200	Other payables	6(7) 65,986	2	74,467	2	24,341	1
2230	Current tax liabilities	74,274	2	74,274	2	28,494	1
2300	Other current liabilities	<u>1,052</u>	-	<u>998</u>	-	<u>781</u>	-
21XX	Total current liabilities	<u>141,544</u>	<u>4</u>	<u>150,038</u>	<u>4</u>	<u>55,150</u>	<u>2</u>
Non-current liabilities							
2570	Deferred income tax liabilities	-	-	10,445	-	9,645	-
2XXX	Total liabilities	<u>141,544</u>	<u>4</u>	<u>160,483</u>	<u>4</u>	<u>64,795</u>	<u>2</u>
Share capital							
	6(10)						
3110	Common stock	1,225,832	32	1,224,592	31	1,021,010	32
Capital surplus							
	6(11)						
3200	Capital surplus	1,788,423	47	1,773,870	45	1,828,270	58
Retained earnings							
3310	Legal reserve	6(12)(19) 51,761	1	51,761	1	12,359	-
3350	Unappropriated retained earnings	623,335	16	748,850	19	360,315	11
Other equity interest							
3400	Other equity interest	(320)	-	(295)	-	(70)	-
3500	Treasury shares	6(10) -	-	-	-	(87,255)	(3)
3XXX	Total equity	<u>3,689,031</u>	<u>96</u>	<u>3,798,778</u>	<u>96</u>	<u>3,134,629</u>	<u>98</u>
Significant contingent liabilities and unrecognised contract commitments							
	9						
3X2X	Total liabilities and equity	<u>\$ 3,830,575</u>	<u>100</u>	<u>\$ 3,959,261</u>	<u>100</u>	<u>\$ 3,199,424</u>	<u>100</u>

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

PHARMAENGINE, INC. AND ITS SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR LOSS PER SHARE DATA)
(UNAUDITED)

Items	Notes	Three months ended March 31				
		2017		2016		
		Amount	%	Amount	%	
4000	Operating revenue	6(13)	\$ 10,950	100	\$ 1,586	100
5000	Operating costs	6(3)(14)(17)(18)	(452)	(4)	(1,387)	(88)
5900	Gross profit		10,498	96	199	12
	Operating expenses	6(17)(18)				
6100	Selling expenses		(5,780)	(53)	(1,810)	(114)
6200	General and administrative expenses		(14,570)	(133)	(11,273)	(711)
6300	Research and development expenses		(27,037)	(247)	(20,690)	(1304)
6000	Total operating expenses		(47,387)	(433)	(33,773)	(2129)
6900	Operating loss		(36,889)	(337)	(33,574)	(2117)
	Non-operating income and expenses					
7010	Other income	6(15)	10,686	98	2,015	127
7020	Other gains and losses	6(16)	(124,507)	(1137)	(20,002)	(1261)
7000	Total non-operating income and expenses		(113,821)	(1039)	(17,987)	(1134)
7900	Loss before income tax		(150,710)	(1376)	(51,561)	(3251)
7950	Income tax benefit	6(19)	25,195	230	8,566	540
8200	Loss for the period		<u>(\$ 125,515)</u>	<u>(1146)</u>	<u>(\$ 42,995)</u>	<u>(2711)</u>
	Other comprehensive loss, net					
	Components of other comprehensive loss that will be reclassified to profit or loss (before tax)					
8361	Exchange differences on translation		(\$ 25)	-	(\$ 28)	(2)
8300	Other comprehensive loss for the period, net		<u>(\$ 25)</u>	<u>-</u>	<u>(\$ 28)</u>	<u>(2)</u>
8500	Total comprehensive loss for the period		<u>(\$ 125,540)</u>	<u>(1146)</u>	<u>(\$ 43,023)</u>	<u>(2713)</u>
	Loss attributable to:					
8610	Owners of the parent		<u>(\$ 125,515)</u>	<u>(1146)</u>	<u>(\$ 42,995)</u>	<u>(2711)</u>
	Comprehensive loss attributable to:					
8710	Owners of the parent		<u>(\$ 125,540)</u>	<u>(1146)</u>	<u>(\$ 43,023)</u>	<u>(2713)</u>
	Loss per share (in dollars)	6(20)				
9750	Basic loss per share		<u>(\$ 1.02)</u>		<u>(\$ 0.42)</u>	
9850	Diluted loss per share		<u>(\$ 1.02)</u>		<u>(\$ 0.42)</u>	

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

PHARMAENGINE, INC. AND ITS SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	Notes	Equity attributable to owners of the parent							Total equity	
		Capital Surplus			Retained Earnings			Other Equity Interest		
		Common stock	Additional paid-in capital	Capital surplus-treasury shares	Capital surplus-employee stock options	Legal reserve	Unappropriated retained earnings			Exchange difference on translation of foreign financial statements
<u>Three months ended March 31, 2016</u>										
Balance at January 1, 2016		\$ 1,019,650	\$ 1,763,292	\$ -	\$ 47,857	\$ 12,359	\$ 403,310	(\$ 42)	(\$ 87,255)	\$ 3,159,171
Amortisation of compensation cost of employee stock options	6(9)	-	-	-	3,997	-	-	-	-	3,997
Exercise of employee stock options converted to shares	6(9)(10)	1,360	14,353	-	(1,229)	-	-	-	-	14,484
Loss after income tax for the three months ended March 31, 2016	6(12)	-	-	-	-	-	(42,995)	-	-	(42,995)
Other comprehensive loss		-	-	-	-	-	-	(28)	-	(28)
Balance at March 31, 2016		<u>\$ 1,021,010</u>	<u>\$ 1,777,645</u>	<u>\$ -</u>	<u>\$ 50,625</u>	<u>\$ 12,359</u>	<u>\$ 360,315</u>	<u>(\$ 70)</u>	<u>(\$ 87,255)</u>	<u>\$ 3,134,629</u>
<u>Three months ended March 31, 2017</u>										
Balance at January 1, 2017		\$ 1,224,592	\$ 1,682,975	\$ 26,197	\$ 64,698	\$ 51,761	\$ 748,850	(\$ 295)	\$ -	\$ 3,798,778
Amortisation of compensation cost of employee stock options	6(9)	-	-	-	4,467	-	-	-	-	4,467
Exercise of employee stock options converted to shares	6(9)(10)	1,240	16,760	-	(6,674)	-	-	-	-	11,326
Expired employee stock options		-	823	-	(823)	-	-	-	-	-
Loss after income tax for the three months ended March 31, 2017	6(12)	-	-	-	-	-	(125,515)	-	-	(125,515)
Other comprehensive loss		-	-	-	-	-	-	(25)	-	(25)
Balance at March 31, 2017		<u>\$ 1,225,832</u>	<u>\$ 1,700,558</u>	<u>\$ 26,197</u>	<u>\$ 61,668</u>	<u>\$ 51,761</u>	<u>\$ 623,335</u>	<u>(\$ 320)</u>	<u>\$ -</u>	<u>\$ 3,689,031</u>

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

PHARMAENGINE, INC. AND ITS SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	Notes	Three months ended March 31,	
		2017	2016
<u>Cash flows from operating activities</u>			
Profit before income tax for the period		(\$ 150,710)	(\$ 51,561)
Adjustments to reconcile net profit to net cash used in operating activities:			
Adjustments to reconcile profit (loss)			
Depreciation	6(5)(17)	682	667
Amortisation	6(17)	81	66
Amortisation of compensation cost of employee stock options	6(9)	4,467	3,997
Interest income	6(15)	(10,685)	(1,762)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable, net		(3,714)	1,175
Other receivables		968	(757)
Inventories		520	-
Prepayments		(531)	(1,020)
Other current assets		(70)	(416)
Net changes in liabilities relating to operating activities			
Notes payable		(67)	(2,380)
Other payables		(8,481)	(8,495)
Other current liabilities		54	(41)
Cash used in operations		(167,486)	(60,527)
Interest received		3,591	3,586
Net cash used in operating activities		(163,895)	(56,941)
<u>Cash flows from investing activities</u>			
Decrease in other current financial assets		97,134	263,190
Acquisition of property, plant and equipment	6(5)	(36)	(502)
Decrease (increase) in other non-current assets		1,170	(1,263)
Net cash provided by investing activities		98,268	261,425
<u>Cash flows from financing activities</u>			
Employees stock options exercised		11,326	14,484
Net cash used in financing activities		11,326	14,484
Effect of exchanges rate changes		(29)	(48)
Net (decrease) increase in cash and cash equivalents		(54,330)	218,920
Cash and cash equivalents at beginning of period		1,841,117	432,516
Cash and cash equivalents at end of period		\$ 1,786,787	\$ 651,436

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

PHARMAENGINE, INC. AND ITS SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)
(UNAUDITED)

1. HISTORY AND ORGANIZATION

PharmaEngine, Inc. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) in August 2002. On September 18, 2012, the Company’s common stock was officially listed on the GreTai Securities Market. The Company and its subsidiary (collectively referred herein as the “Group”) are primarily engaged in the development of new medicine and therapeutic drugs for Asian rare disorders. The Company focuses on building effective corporate governance structure to enhance the Board of Directors’ function, to display supervisors’ function and improve management’s principles and communication. Information transparency, stakeholders’ interest and social responsibility area are enhanced to ensure the shareholders’ equity interest. The Company has received a Certificate of Corporate Governance System CG6009 General Assessment issued by Taiwan Corporate Governance Association on March 31, 2014.

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 May 3, 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 (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

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

<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

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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
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 Company's financial condition and operating results based on the Company's assessment.	

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

None.

(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 effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
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 IFRSs 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendment 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 operating results based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'

The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. The amendment also clarifies the accounting for modifications that change an award from cash-settled to equity-settled. Besides, the amendment introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

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

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

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which

the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer

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

Step 3: Determine the transaction price

Step 4: Allocate the transaction price

Step 5: Recognise revenue when the performance obligation is satisfied

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

Cost of obtaining contract costs

IFRS 15 requires that an entity capitalises the incremental costs of obtaining a contract with a customer if it expects to recover those costs. Contract cost assets are amortised on a systematic basis consistent with the expected pattern of transfer of the related goods or services under the contract.

Licenses

Under IFRS 15, depending on the nature of licenses, they are either (1) a promise to provide a right to access to an entity's intellectual property as it exists throughout the license period, or (2) a promise to provide a right to use an entity's intellectual property as it exists at the point in time when the license is granted.

Licenses that meet all of the following criteria provide access to an entity's intellectual property, and revenue is recognised based on the performance obligation's progress towards completion:

- (a) the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;
- (b) the rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities identified above; and
- (c) those activities do not result in the transfer of a good or service to the customer as those activities occur.

If licenses cannot meet all criteria listed above, the entity provides a right to use the entity's intellectual property. Revenue shall be recognised at the point in time at which the license is granted to the customer.

Contract modification

A contract modification could change the scope of the contract, the price of the contract, or both. IFRS 15 states that an entity accounts for a contract modification as a separate contract if the scope of the contract increases because of the addition of distinct goods or services,

and the price of the contract increases by an amount of consideration that reflects the entity's standalone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract.

If a modification does not meet the above criteria, an entity should determine whether the remaining goods or services (including the increase of scope from the contract modification) are distinct from the goods or services transferred before the modification. If they are distinct, an entity shall account for the modification prospectively. If the remaining goods or services in the modification are not distinct, an entity accounts for a modification through a cumulative catch-up adjustment. The effect that the modification has on the transaction price, and the measure of progress towards complete satisfaction of the performance obligation, is recognised as an adjustment to revenue at the date of modification.

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

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

D. Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'

These amendments clarify the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, and they clarify several of the general principles underlying the accounting for deferred tax assets. The amendments clarify that a deductible temporary difference exists whenever an asset is measured at fair value and that fair value is below the asset's tax base. When an entity assesses whether taxable profits will be available against which it can utilise a deductible temporary difference, it considers a deductible temporary difference in combination with all of its other deductible temporary differences unless there are tax law restrictions, and the tax deduction resulting from temporary differences is excluded from estimated future taxable profits. The amendments are effective from January 1, 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2016, except for the compliance statement, basis of preparation, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

A. 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 Standard 34, “Interim financial reporting” as endorsed by the FSC.

- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2016.

(2) Basis of preparation

- A. These consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its 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:

The basis for preparation of consolidated financial statements is consistent with that for the year ended December 31, 2016.

- B. Subsidiary included in the consolidated financial statements:

<u>Name of investor</u>	<u>Name of subsidiary</u>	<u>Main business activities</u>	<u>Ownership (%)</u>			<u>Description</u>
			<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>	
PharmaEngine, Inc.	PharmaEngine Europe SARL	Development and promotion of new drugs	100	100	-	

- 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) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its

subsidiary 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 stockholders resolve to retain the earnings.

- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.
- G. The interim period income tax expense is recognised 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.

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

There has been no significant change as of March 31, 2017. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2016.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Cash on hand and revolving funds	\$ 200	\$ 200	\$ 200
Checking accounts and demand deposits (including foreign currency)	210,664	289,208	115,165
Time deposits (including foreign currency)	<u>1,575,923</u>	<u>1,551,709</u>	<u>536,071</u>
	<u>\$ 1,786,787</u>	<u>\$ 1,841,117</u>	<u>\$ 651,436</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) Accounts receivable

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Accounts receivable	\$ 8,178	\$ 4,464	\$ 3,006
Less: allowance for bad debts	-	-	-
	<u>\$ 8,178</u>	<u>\$ 4,464</u>	<u>\$ 3,006</u>

A. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's Credit Quality Control Policy:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Group 1 (Note)	<u>\$ 4,077</u>	<u>\$ 3,804</u>	<u>\$ 1,576</u>

Note: The only counterparty who has optimal credit.

B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
31 to 90 days	<u>\$ 4,101</u>	<u>\$ 660</u>	<u>\$ 1,430</u>

The above ageing analysis was based on past due date.

(3) Inventories

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2015</u>
Goods	<u>\$ 9,665</u>	<u>\$ 10,185</u>	<u>\$ -</u>

The cost of inventories recognised as expense for the period:

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Cost of goods sold	\$ 452	\$ -
Cost of services	-	1,387
	<u>\$ 452</u>	<u>\$ 1,387</u>

(4) Other financial assets

<u>Item</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Current item: Other current financial assets - time deposits	<u>\$ 1,970,597</u>	<u>\$ 2,067,731</u>	<u>\$ 2,456,595</u>

The Group has no other current financial assets pledged to others.

(5) Property, plant and equipment

	<u>Computer and communication equipment</u>	<u>Testing equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2017</u>					
Cost	\$ 1,330	\$ 180	\$ 3,046	\$ 9,599	\$ 14,155
Accumulated depreciation	(438)	(33)	(918)	(2,837)	(4,226)
	<u>\$ 892</u>	<u>\$ 147</u>	<u>\$ 2,128</u>	<u>\$ 6,762</u>	<u>\$ 9,929</u>
<u>2017</u>					
Opening net book amount	\$ 892	\$ 147	\$ 2,128	\$ 6,762	\$ 9,929
Additions	-	-	-	36	36
Depreciation charge	(54)	(8)	(127)	(493)	(682)
Effects of foreign exchange	-	-	-	3	3
Closing net book amount	<u>\$ 838</u>	<u>\$ 139</u>	<u>\$ 2,001</u>	<u>\$ 6,308</u>	<u>\$ 9,286</u>
<u>At March 31, 2017</u>					
Cost	\$ 1,330	\$ 180	\$ 3,046	\$ 9,833	\$ 14,389
Accumulated depreciation	(492)	(41)	(1,045)	(3,525)	(5,103)
	<u>\$ 838</u>	<u>\$ 139</u>	<u>\$ 2,001</u>	<u>\$ 6,308</u>	<u>\$ 9,286</u>
	<u>Computer and communication equipment</u>	<u>Testing equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2016</u>					
Cost	\$ 1,113	\$ 180	\$ 3,046	\$ 9,138	\$ 13,477
Accumulated depreciation	(219)	(3)	(411)	(813)	(1,446)
	<u>\$ 894</u>	<u>\$ 177</u>	<u>\$ 2,635</u>	<u>\$ 8,325</u>	<u>\$ 12,031</u>
<u>2016</u>					
Opening net book amount	\$ 894	\$ 177	\$ 2,635	\$ 8,325	\$ 12,031
Additions	217	-	-	285	502
Depreciation charge	(50)	(8)	(127)	(482)	(667)
Effects of foreign exchange	-	-	-	20	20
Closing net book amount	<u>\$ 1,061</u>	<u>\$ 169</u>	<u>\$ 2,508</u>	<u>\$ 8,148</u>	<u>\$ 11,886</u>
<u>At March 31, 2016</u>					
Cost	\$ 1,330	\$ 180	\$ 3,046	\$ 9,423	\$ 13,979
Accumulated depreciation	(269)	(11)	(538)	(1,275)	(2,093)
	<u>\$ 1,061</u>	<u>\$ 169</u>	<u>\$ 2,508</u>	<u>\$ 8,148</u>	<u>\$ 11,886</u>

(6) Other non-current assets

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Refundable deposits	<u>\$ 3,787</u>	<u>\$ 4,957</u>	<u>\$ 5,056</u>

(7) Other payables

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Accrued directors' and supervisors' remuneration and employees' compensation	\$ 53,478	\$ 53,478	\$ 16,958
Employees' salary and compensation payable	6,013	13,039	5,710
Payables for commissioned research	-	239	282
Others	6,495	7,711	1,391
	<u>\$ 65,986</u>	<u>\$ 74,467</u>	<u>\$ 24,341</u>

(8) Pensions

Defined contribution plans

- A. Effective July 1, 2005, 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.
- B. The pension costs under the defined contribution pension plan of the Company for the three months ended March 31, 2017 and 2016 were \$467 and \$392, respectively.
- C. The subsidiary, PharmaEngine Europe SARL, was established on November 13, 2015 and had no employee as of March 31, 2017.

(9) Share-based payment

- A. For the three months ended March 31, 2017 and 2016, the Company's share-based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted (in thousands)</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Third employee stock options plan	2011.05.27	680	8 years	1.59~3.59 years' service
Fourth employee stock options plan	2012.09.17	1,150	8 years	2~4 years' service
Fifth employee stock options plan	2014.06.18	450	8 years	2~4 years' service
Fifth employee stock options plan	2014.12.26	60	8 years	2~4 years' service
Fifth employee stock options plan	2015.03.19	490	8 years	2~4 years' service
Sixth employee stock options plan	2016.08.11	1,000	8 years	2~4 years' service
Treasury stock transferred to employees	2016.08.11	540	N/A	Vested immediately

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

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

	2017		2016	
	No. of options	Weighted-average exercise price (in dollars)	No. of options	Weighted-average exercise price (in dollars)
Options outstanding at January 1	2,526	\$ 194.47	1,708	\$ 173.76
Options exercised	(124)	91.33	(136)	88.75
Options forfeited	(20)	262.50	-	-
Options outstanding at March 31	<u>2,382</u>	199.80	<u>1,572</u>	181.11
Options exercisable at March 31	<u>925</u>		<u>473</u>	

Due to capitalization of earnings in 2016, weighted-average exercise price above had been adjusted.

- C. The weighted-average stock price of stock options at exercise dates for the three months ended March 31, 2017 and 2016 was \$193.13 and \$222.48 (in dollars), respectively.
- D. As of March 31, 2017, December 31, 2016 and March 31, 2016, the range of exercise prices of stock options outstanding was \$12.5 ~ \$262.5 (in dollars) for all periods; and the weighted-average remaining contractual period was 1.76~7.37 years, 2~7.61 years and 2.76~6.62 years, respectively. Exercise prices of stock option had been adjusted due to capitalization of earnings in 2016.
- E. The fair values of the Company's stock options are all measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price (in dollars) (Note)	Exercise price (in dollars) (Note)	Expected price volatility	Expected option life	Expected dividends (in dollars)	Risk-free interest rate	Fair value per unit (in dollars) (Note)
Third employee stock options plan	2011.05.27	\$ 16.72	\$ 12.5	48.8%	8 years	\$ 0	0.32%	6.06~7.73
Fourth employee stock options plan	2012.09.17	97.08	97.5	39.7%	8 years	0	1.08%	15.26~26.82
Fifth employee stock options plan	2014.06.18	262.5	262.5	33.9%	8 years	0	1.43%	42.73
Fifth employee stock options plan	2014.12.26	229.6	229.6	40.9%	8 years	0	1.43%	44.63
Fifth employee stock options plan	2015.03.19	237.5	237.5	30.1%	8 years	0	1.35%	34.58
Sixth employee stock options plan	2016.08.11	210.5	210.5	31.6%	8 years	0	0.62%	31.75
Treasury stock transferred to employees	2016.08.11	210.5	135.0	N/A	N/A	N/A	N/A	N/A

Note: Due to capitalization of earnings in 2016, exercise price had been adjusted.

F. Expenses incurred on share-based payment transactions are shown below:

For the three months ended March 31, 2017 and 2016, expenses incurred on share-based

payment transactions were accrued at \$4,467 and \$3,997, respectively.

(10) Share capital

- A. As of March 31, 2017, the Company's authorised capital was \$1,500,000, consisting of 150 million shares of ordinary stock (including 15 million shares reserved for employee stock options), and the paid-in capital was \$1,225,832, 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 (in thousand shares):

	<u>2017</u>	<u>2016</u>
At January 1	122,459	101,425
Employee stock options exercised	<u>124</u>	<u>136</u>
At March 31	<u><u>122,583</u></u>	<u><u>101,561</u></u>

B. Treasury shares

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

	<u>March 31, 2016</u>
Name of company	Number of shares
<u>holding the shares</u>	<u>Reason for reacquisition (shares in thousands)</u>
The Company	540 \$ <u><u>87,255</u></u>
	To be reissued to employees

March 31, 2017 and December 31, 2016: None.

- (b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury shares should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange 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.

(11) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange 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. Movements in capital surplus – additional paid-in capital and employee stock options are provided in the statements of changes in equity.

(12) Unappropriated retained earnings

	<u>2017</u>	<u>2016</u>
At January 1	\$ 748,850	\$ 403,310
Profit (loss) after income tax for the period	(125,515)	(42,995)
At March 31	<u>\$ 623,335</u>	<u>\$ 360,315</u>

- A. Under the Company's Articles of Incorporation prior to the Board of Directors' resolution on December 23, 2015, 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. The Board of Directors shall propose the appropriation of the remainder, if any, which shall be approved by the stockholders at the stockholders' meeting, after taking into consideration point C below.
- B. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- D. The appropriations of earnings for 2015 was resolved by the stockholders during their meeting on June 15, 2016. Details are summarized below:

	<u>Year ended December 31, 2015</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Legal reserve	\$ 39,402	\$ -
Cash dividends	101,561	1
Stock dividends	203,122	2
	<u>\$ 344,085</u>	<u>\$ 3</u>

The appropriation of 2015 earnings as resolved by the shareholders was in agreement with the appropriation as proposed by the Board of Directors.

- E. The appropriation of 2016 earnings was proposed by the Board of Directors on May 3, 2017. Details are summarized below:

	<u>Year ended December 31, 2016</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Legal reserve	\$ 68,962	\$ -
Special reserve	295	-
Cash dividends	245,166	2
Stock dividends	122,583	1
	<u>\$ 437,006</u>	<u>\$ 3</u>

The above appropriation of 2016 earnings has not yet been resolved by the shareholders as of May 3, 2017.

- F. The Board of Directors during its meeting on May 3, 2017 has proposed to distribute cash dividends of \$61,292 and stock dividends of \$122,583 from the Company's additional paid-in capital.
- G. For information about employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(18).

(13) Operating revenue

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Royalty revenue	\$ 4,413	\$ -
Service revenue	6,537	-
Sales revenue	-	1,586
	<u>\$ 10,950</u>	<u>\$ 1,586</u>

For the three months ended March 31, 2017, the Company recognised \$4,413 (equivalent to US\$144 thousand) as royalty revenue based on a certain percentage of sales of Merrimack Pharmaceuticals, Inc. in European region pursuant to the supplementary agreement of Cooperation Contract signed in 2011. Such royalty revenue had been collected as of March 31, 2017.

(14) Operating costs

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Cost of services	\$ -	\$ 1,387
Cost of sales		
- Cost of goods sold	452	-
	<u>\$ 452</u>	<u>\$ 1,387</u>

(15) Other income

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Interest income from bank deposits	\$ 10,685	\$ 1,762
Other income	1	253
	<u>\$ 10,686</u>	<u>\$ 2,015</u>

(16) Other gains and losses

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Net currency exchange loss	(\$ 124,506)	(\$ 19,997)
Others	(1)	(5)
	<u>(\$ 124,507)</u>	<u>(\$ 20,002)</u>

(17) Expenses by nature

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Employee benefit expense	\$ 28,918	\$ 22,753
Depreciation charges on property, plant and equipment	\$ 682	\$ 667
Amortisation charges on intangible assets	\$ 81	\$ 66

(18) Employee benefit expense

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Wages and salaries	\$ 21,941	\$ 16,397
Employee stock options	4,467	3,997
Labour and health insurance fees	890	841
Pension costs	467	392
Other personnel expenses	1,153	1,126
	<u>\$ 28,918</u>	<u>\$ 22,753</u>

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 be 2%~8% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration.

B. For the three months ended March 31, 2017 and 2016 employees' compensation and directors' and supervisors' remuneration were both accrued at \$0.

Employees' compensation and directors' and supervisors' remuneration for the year ended December 31, 2016 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2016 financial statements. Employees' compensation for 2016 which has not yet been distributed as of May 3, 2017, will be distributed in the form of cash. Information about the appropriation of employees' compensation and directors' and

supervisors' remuneration by the Company as proposed by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(19) Income tax

A. Components of income tax expense:

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Current tax:		
Current tax on profits for the period	\$ -	\$ -
Additional 10% tax imposed on undistributed earnings	-	-
Prior year income tax underestimate	-	42
Total current tax	<u>-</u>	<u>42</u>
Deferred tax:		
Origination and reversal of temporary differences	(<u>25,195</u>)	(<u>8,608</u>)
Income tax benefit	(<u>\$ 25,195</u>)	(<u>\$ 8,566</u>)

B. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

C. Unappropriated retained earnings:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Earnings generated in and after 1998	<u>\$ 623,335</u>	<u>\$ 748,850</u>	<u>\$ 360,315</u>

D. The details of imputation tax credit account and creditable tax rate are as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2015</u>
Imputation tax credit account	<u>\$ 30,814</u>	<u>\$ 30,814</u>	<u>\$ 3,056</u>
Creditable tax rate		<u>2016 (Estimate)</u>	<u>2015 (Actual)</u>
		<u>14.03%</u>	<u>8.54%</u>

(20) Loss per share

	<u>Three months ended March 31, 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 loss per share</u>			
Net loss	(\$ 125,515)	122,465	(\$ 1.02)
<u>Diluted loss per share</u>			
Net loss	(\$ 125,515)	122,465	
Assumed conversion of all dilutive potential ordinary shares:			
Employee stock options (Note)	-	-	
	(\$ 125,515)	122,465	(\$ 1.02)

	<u>Three months ended March 31, 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 loss per share</u>			
Net loss	(\$ 42,995)	101,432	(\$ 0.42)
<u>Diluted loss per share</u>			
Net loss	(\$ 42,995)	101,432	
Assumed conversion of all dilutive potential ordinary shares:			
Employee stock options (Note)	-	-	
	(\$ 42,995)	101,432	(\$ 0.42)

Note: If anti-dilutive effect will arise when adopting treasury stock method, anti-dilutive shares are not included in the computation.

7. RELATED PARTY TRANSACTIONS

(1) Name and relationship of related party

<u>Name of related party</u>	<u>Relationship with the Company</u>
TTY Biopharm Company Limited	Entities with significant influence to the Company

(2) Significant related party transactions

A. Other income

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Other income:		
-Entities with significant influence to the Company	\$ -	\$ 193

Other income arose from sales of testing equipment reaching the useful lives to the above entities in the first quarter of 2016. The carrying amount was \$0 and the gain on disposal

which was recorded as 'other income' was \$193. As of March 31, 2017, the amount has not been collected.

B. Other receivable:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Other receivable			
-Entities with significant influence to the Company	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 203</u>

(3) Key management compensation

	<u>Three months ended March 31,</u>	
	<u>2017</u>	<u>2016</u>
Salaries and other short-term employee benefits	\$ 9,184	\$ 6,537
Post-employment benefits	81	68
Share-based payments	689	372
	<u>\$ 9,954</u>	<u>\$ 6,977</u>

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

The Company's significant commitments as of March 31, 2017 were as follows:

- (1) The Company has signed a licensing and collaboration contract for NBTXR3 in Asia-Pacific region with Nanobiotix S.A. on August 6, 2012, and promised to pay license fee and a certain percentage of royalties based on the stage of completion and sales of products. The maximum license fees payable is USD56 million. The Company has paid upfront payment of approximately USD1 million, the first milestone payment of USD1 million and the second milestone payment of USD1 million in the third quarter of 2012, fourth quarter of 2014 and second quarter of 2016, respectively.
- (2) The Company signed a drug research commissioned contract with Company A and B in 2015. Company A and B are responsible for clinical research. The total amount of contract was \$37,430, of which \$19,138 had already been paid as of March 31, 2017.
- (3) The Company signed a drug research commissioned contract with Company A in 2016. Company A is responsible for clinical research. The total amount of contract was \$11,300, of which \$3,164 had already been paid as of March 31, 2017.

(4) Operating lease agreements

The future aggregate minimum lease payments payable under operating leases are as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>	<u>March 31, 2016</u>
Not later than one year	\$ 11,696	\$ 11,147	\$ 13,591
Later than one year but not later than five years	<u>18,891</u>	<u>21,076</u>	<u>37,442</u>
	<u>\$ 30,587</u>	<u>\$ 32,223</u>	<u>\$ 51,033</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

There was no significant change in the reporting period. Please refer to Note 12 in the consolidated financial statements for the year ended December 31, 2016.

(2) Financial instruments

A. Fair value information of financial instruments

There was no significant change in the reporting period. Please refer to Note 12 in the consolidated financial statements for the year ended December 31, 2016.

B. Financial risk management policies

There was no significant change in the reporting period. Please refer to Note 12 in the consolidated financial statements for the year ended December 31, 2016.

(c) Significant financial risks and degrees of financial risks

i. Market risk

- (i) The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; overseas subsidiaries' functional currency: local currencies). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	<u>March 31, 2017</u>		
	<u>Foreign</u>		<u>Book value</u>
	<u>currency amount</u>	<u>Exchange rate</u>	<u>(NTD)</u>
	<u>(in thousands)</u>		
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 65,474	30.33	\$ 1,985,822
<u>Non-monetary items</u>			
EUR:NTD	119	32.77	4,039

<u>December 31, 2016</u>			
	Foreign	<u>Exchange rate</u>	Book value
	currency amount (in thousands)		(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 65,394	32.24	\$ 2,107,971
<u>Non-monetary items</u>			
EUR:NTD	105	33.90	3,547

<u>March 31, 2016</u>			
	Foreign	<u>Exchange rate</u>	Book value
	currency amount (in thousands)		(NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 31,548	32.19	\$ 1,015,598
EUR:NTD	35	36.51	1,261
<u>Non-monetary items</u>			
EUR:NTD	101	36.51	3,688

As of March 31, 2017, December 31, 2016 and March 31, 2016, there was no significant monetary financial liability denominated in foreign currency.

- (ii) The unrealised exchange loss arising from foreign exchange variation on the monetary items held by the Group for the three months ended March 31, 2017 and 2016 amounted to \$124,446 and \$20,151, respectively.
- (iii) Analysis of foreign currency market risk arising from significant foreign exchange variation:

<u>Three months ended March 31, 2017</u>			
<u>Sensitivity analysis</u>			
	<u>Degree of variation</u>	<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 19,858	-
<u>Non-monetary items</u>			
EUR:NTD	1%	-	40

Three months ended March 31, 2016

Sensitivity analysis

	<u>Degree of variation</u>	<u>Effect on profit or loss</u>	<u>Effect on other comprehensive income</u>
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1%	\$ 10,156	\$ -
EUR:NTD	1%	13	-
<u>Non-monetary items</u>			
EUR:NTD	1%	-	37

ii. Credit risk

- (i) Credit risk refers to the risk of financial loss to the Group arising from default by the clients on the contract obligations. According to the Group's credit policy, the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings. The utilisation of credit limits is regularly monitored.
- (ii) No credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (iii) The Group's accounts receivable that are neither past due nor impaired are fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability.

iii. Liquidity risk

- (i) Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury along with Administrative Management Department. Group treasury along with Administrative Management Department monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- (ii) The Group's notes payable and other payables are due within 12 months, therefore, the Group expects no significant liquidity risk.

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): None.

- D. Acquisition or sale of the same security with the accumulated cost reaching \$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 financial instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: There was no transaction amounting to NT\$100 million or exceeding 20% of paid-in capital.

(2) Information on investees

Please refer to table 1.

(3) Information on investments in Mainland China

None.

14. OPERATING SEGMENT INFORMATION

(1) General information

The Company and its subsidiary are mainly engaged in the research of new medicine. The Company and its subsidiary operate business only in a single industry. The chief operating decision-maker, who allocates resources and assesses performance of the Company as a whole, has identified that the Company has only one reportable operating segment.

(2) Segment information

The Group has one reportable operating segment, thus, the reportable information was in agreement with the financial statements.

(3) Reconciliation for segment loss

Consolidated segment operating losses reported to the chief operating decision-maker is measured in a manner consistent with revenue and expense in the statement of comprehensive income. The Group did not provide total assets and liabilities to operating decision-maker, thus, the report provided to operating decision-maker for deciding management of segments is in agreement with the statements of comprehensive income. No reconciliation is needed.

PharmaEngine, Inc. and Subsidiary
Information on investees
Three months ended March 31, 2017

Expressed in thousands of NTD
(Except as otherwise indicated)

Table 1

		Initial investment amount		Shares held as at March 31, 2017		Investment				
Investor	Investee	Main business activities	Balance as at March 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value	Net profit (loss) of the investee for the three months ended March 31, 2017	Investment income (loss) recognised by the Company for the three months ended March 31, 2017	Footnote
PharmaEngine, Inc.	PharmaEngine Europe SARL	France Development and promotion of new drugs	\$ 3,699	\$ 3,699	-	100.00	\$ 4,039	\$ 517	\$ 517	Note 1, 2

Note 1: The Company's subsidiary, PharmaEngine Europe SARL, is a limited company and thus has no shares.

Note 2: The transaction was eliminated when preparing the consolidated financial statements.