SENHWA BIOSCIENCES, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 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.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Senhwa Biosciences, Inc.

Opinion

We have audited the accompanying consolidated balance sheets of Senhwa Biosciences, Inc. and its subsidiary (the "Group") as at December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Key audit matters

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

Existence of bank deposits

Description

Refer to Note 4(6) for accounting policies on cash equivalents, and Note 6(1) for details of cash and cash equivalents. As at December 31, 2017, the Group's cash and cash equivalents amounted to NT$1,601,000 thousand, accounting for 98% of total assets. Given the significance of cash and cash equivalents to the Group's total assets, we consider the existence of bank deposits a key audit matter.

How our audit addressed the matter

We performed the following audit procedures to address the above key audit matter:

- Confirmed the bank accounts and specific agreements with the financial institutions to verify the existence of bank accounts and accompanying rights and obligations;
- Obtained the bank reconciliation statements and checked any unusual reconciling items; and
- Inspected the source documents of significant cash receipts and payments to verify whether the transactions are for business purposes.

Other matter – Parent company only financial reports

We have audited and expressed an unqualified opinion on the parent company only financial statements of Senhwa Biosciences, Inc. as at and for the years ended December 31, 2017 and 2016.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by

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

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

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

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

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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

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

Teng, Sheng-Wei Audrey Tseng

For and on behalf of PricewaterhouseCoopers, Taiwan

February 13, 2018

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.

SENHWA BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Assets	Notes	2017 Amount	2017 %	2016 Amount	2016 %
	Current assets					
1100	Cash and cash equivalents	6(1)	$ 1,601,000	98	$ 513,883	97
1200	Other receivables		1,441	-	1,450	-
1410	Prepayments	6(2)	14,626	1	10,364	2
11XX	**Total current assets**		1,617,067	99	525,697	99
	Non-current assets					
1543	Financial assets at cost - non-current	6(14)	128	-	128	-
1600	Property, plant and equipment		5,792	1	1,940	-
1780	Intangible assets		409	-	736	-
1900	Other non-current assets		2,500	-	3,982	1
15XX	**Total non-current assets**		8,829	1	6,786	1
1XXX	**Total assets**		$ 1,625,896	100	$ 532,483	100

	Liabilities and Equity	Notes	2017 Amount	2017 %	2016 Amount	2016 %
	Current liabilities					
2200	Other payables	6(3)	$ 57,537	4	$ 20,671	4
2300	Other current liabilities		296	-	146	-
21XX	**Total current liabilities**		57,833	4	20,817	4
2XXX	**Total liabilities**		57,833	4	20,817	4
	Equity					
	Equity attributable to owners of parent					
	Share capital					
3110	Common stock	1 and 6(6)	743,926	46	657,856	123
	Capital surplus					
3200	Capital surplus	6(7)	1,382,363	85	113,607	22
	Retained earnings					
3350	Accumulated deficit	6(8)(13)	(558,879)	(35)	(265,158)	(50)
	Other equity interest					
3400	Other equity interest		653	-	5,361	1
3XXX	**Total equity**		1,568,063	96	511,666	96
	Significant contingent liabilities and unrecognised contract commitments	9				
3X2X	**Total liabilities and equity**		$ 1,625,896	100	$ 532,483	100

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

SENHWA BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT LOSS PER SHARE AMOUNT)

	Items	Notes	2017 Amount	2017 %	2016 Amount	2016 %
4000	**Operating revenue**	6(14)	$ -	-	$ 128	100
5000	**Operating costs**		-	-	-	-
5900	**Gross profit**		-	-	128	100
	Operating expenses	6(11)(12) and 7(2)				
6200	General and administrative expenses		(60,652)	-	(51,281)	(40063)
6300	Research and development expenses		(314,740)	-	(206,862)	(161611)
6000	**Total operating expenses**		(375,392)	-	(258,143)	(201674)
6900	**Operating loss**		(375,392)	-	(258,015)	(201574)
	Non-operating income and expenses					
7010	Other income	6(9)	7,525	-	4,396	3434
7020	Other gains and losses	6(10)	(3,539)	-	(735)	(574)
7050	Finance costs		(14)	-	(15)	(12)
7000	**Total non-operating income and expenses**		3,972	-	3,646	2848
7900	**Loss before income tax**		(371,420)	-	(254,369)	(198726)
7950	Income tax expense	6(13)	(478)	-	(646)	(504)
8200	**Loss for the year**		($ 371,898)	-	($ 255,015)	(199230)
	Other comprehensive loss					
	Components of other comprehensive loss that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		($ 4,708)	-	($ 1,184)	(925)
8500	**Total comprehensive loss for the year**		($ 376,606)	-	($ 256,199)	(200155)
	Loss attributable to:					
8610	Owners of the parent		($ 371,898)	-	($ 255,015)	(199230)
	Comprehensive loss attributable to:					
8710	Owners of the parent		($ 376,606)	-	($ 256,199)	(200155)
	Loss per share	6(15)				
9750	Basic loss per share (in dollars)		($ 5.18)		($ 3.89)	
9850	Diluted loss per share (in dollars)		($ 5.18)		($ 3.89)	

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

SENHWA BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		Equity attributable to owners of the parent					
			Capital Surplus			Other Equity	
	Notes	Common stock	Additional paid-in capital	Stock options	Accumulated deficit	Financial statements translation differences of foreign operations	Total
2016							
Balance at January 1, 2016		$ 654,931	$ 243,368	$ 21,283	($ 195,400)	$ 6,545	$ 730,727
Capital surplus used to offset accumulated deficit	6(8)	-	(185,257)	-	185,257	-	-
Amortisation on compensation cost of employee stock options	6(5)	-	-	16,048	-	-	16,048
Amortisation on compensation cost of subsidiaries' employee stock options	6(5)	-	-	17,533	-	-	17,533
Employee stock options exercised		2,925	20,066	(19,434)	-	-	3,557
Net loss for the year		-	-	-	(255,015)	-	(255,015)
Other comprehensive loss for the year		-	-	-	-	(1,184)	(1,184)
Balance at December 31, 2016		$ 657,856	$ 78,177	$ 35,430	($ 265,158)	$ 5,361	$ 511,666
2017							
Balance at January 1, 2017		$ 657,856	$ 78,177	$ 35,430	($ 265,158)	$ 5,361	$ 511,666
Issuance of shares	6(6)	85,000	1,336,039	-	-	-	1,421,039
Capital surplus used to offset accumulated deficit	6(8)	-	(78,177)	-	78,177	-	-
Compensation cost of shares issued	6(5)	-	537	-	-	-	537
Amortisation on compensation cost of employee stock options	6(5)	-	-	5,471	-	-	5,471
Amortisation on compensation cost of subsidiaries' employee stock options	6(5)	-	-	4,654	-	-	4,654
Employee stock options exercised		1,070	7,350	(7,118)	-	-	1,302
Net loss for the year		-	-	-	(371,898)	-	(371,898)
Other comprehensive loss for the year		-	-	-	-	(4,708)	(4,708)
Balance at December 31, 2017		$ 743,926	$ 1,343,926	$ 38,437	($ 558,879)	$ 653	$ 1,568,063

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

SENHWA BIOSCIENCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		($ 371,420)	($ 254,369)
Adjustments			
Adjustments to reconcile profit (loss)			
Acquisition of financial assets at cost with licensing revenue	6(14)	-	(128)
Compensation cost of employee stock options	6(5)	10,662	33,581
Depreciation	6(11)	1,466	726
Amortisation	6(11)	551	608
Interest income	6(9)	(7,525)	(4,396)
Changes in operating assets and liabilities			
Changes in operating assets			
Other receivables		61	(136)
Prepayments		(4,740)	(3,973)
Other current assets		-	3
Changes in operating liabilities			
Other payables		36,866	7,918
Other current liabilities		150	10
Cash outflow generated from operations		(333,929)	(220,156)
Interest received		6,576	5,242
Income tax refund		897	721
Income tax paid		-	(6,373)
Net cash flows used in operating activities		(326,456)	(220,566)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(5,382)	(1,221)
Increase in intangible assets		(127)	(744)
Decrease in refundable deposits		1,384	429
Net cash flows used in investing activities		(4,125)	(1,536)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares	6(6)	1,421,039	-
Employee stock options exercised	6(5)	1,302	3,557
Net cash flows from financing activities		1,422,341	3,557
Effect of exchange rate changes		(4,643)	(1,164)
Net increase (decrease) in cash and cash equivalents		1,087,117	(219,709)
Cash and cash equivalents at beginning of year		513,883	733,592
Cash and cash equivalents at end of year		$ 1,601,000	$ 513,883

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

SENHWA BIOSCIENCES, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANISATION

(1) Senhwa Biosciences, Inc. (the "Company) was incorporated and registered with the Ministry of Economic Affairs on November 16, 2012. The Company's shares started trading over-the-counter after approval by the Taipei Exchange on April 24, 2017. The Company is primarily engaged in the development of new drugs and special pharmaceutical ingredients.

(2) As of December 31, 2017, the Company's authorised capital and paid-in capital amounted to $1,000,000 and $743,926, respectively.

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

These consolidated financial statements were authorised for issuance by the Board of Directors on February 13, 2018.

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 endorsed by FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 10, IFRS 12 and IAS 28, 'Investment entities: applying the consolidation exception'	January 1, 2016
Amendments to IFRS 11, 'Accounting for acquisition of interests in joint operations'	January 1, 2016
IFRS 14,'Regulatory deferral accounts'	January 1, 2016
Amendments to IAS 1, 'Disclosure initiative'	January 1, 2016
Amendments to IAS 16 and IAS 38, 'Clarification of acceptable methods of depreciation and amortisation'	January 1, 2016
Amendments to IAS 16 and IAS 41, 'Agriculture: bearer plants'	January 1, 2016
Amendments to IAS 19, 'Defined benefit plans: employee contributions'	July 1, 2014
Amendments to IAS 27, 'Equity method in separate financial statements'	January 1, 2016

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'	January 1, 2014
Amendments to IAS 39, 'Novation of derivatives and continuation of hedge accounting'	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Annual improvements to IFRSs 2012-2014 cycle	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 endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
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 based on the Group’s assessment. The quantitative impact will be disclosed when the assessment is complete.

A. IFRS 9, ‘Financial instruments’

(a) Classification of debt instruments is driven by the entity’s business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The impairment losses of debt instruments are assessed using an ‘expected credit loss’ approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) When adopting the new standards endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the new standard as of January 1, 2018 are summarised below:

In accordance with IFRS 9, the Group expects to reclassify financial assets at cost in the amount of $128 and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income in the amount of $128.

Based on the Group’s assessment in applying the regulations under IFRS 9 on provision for impairment, the standard has no significant impact to the Group’s financial condition and financial performance.

B. IFRS 15, ‘Revenue from contracts with customers’

(a) 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.

(b) Licence authorisation

Under IFRS 15, depending on the nature of licences, they are either a promise to provide a right to access to an entity’s intellectual property as it exists throughout the licence period, or a promise to provide a right to use an entity’s intellectual property as it exists at the point in time when the licence is granted.

Licences 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:

i. 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;

ii. the rights granted by the licence directly expose the customer to any positive or negative effects of the entity’s activities identified above; and

iii. those activities do not result in the transfer of a good or service to the customer as those activities occur.

If licences cannot meet the 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 licence is granted to the customer.

(c) When adopting the new standard endorsed by the FSC effective from 2018, the Group will apply the new rules under IFRS 15 using the modified retrospective approach. The significant effects of applying the new standard as of January 1, 2018 are summarised below:

Recognition of licensing revenue

The Group authorises others to access the intellectual property rights of pharmaceuticals. The licensees are entitled to the development, application for drug approval, manufacturing and sales in terms of the authorised pharmaceuticals. In return, the Group receives an upfront payment when the conditions of entering into the licensing agreement are fulfilled. The Group receives milestone royalties when the licensees reach specified milestone and subsequently a regular payment of royalties computed based on a certain percentage of net sales revenue once the pharmaceuticals are granted a marketing approval. As of December 31, 2017, the Group has received the upfront payment which has been recognised as revenue in accordance with the previously applied accounting policies. In line with IFRS 15, the upfront payment is also to be recognised at the point when the IP rights are transferred, considering that the IP rights are granted to licensees under the agreement. Thus, the recognition under the new standard and previous accounting policies are consistent and caused no significant impact on the retained earnings following the adoption beginning January 1, 2018.

(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:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by International Accounting Standards Board
IFRS 16, ‘Leases’	January 1, 2019
IFRS 17, ‘Insurance contracts’	January 1, 2021
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for 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”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

A. The consolidated financial statements have been prepared under the historical cost convention.

B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement 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 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 unrealised 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.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%) December 31, 2017	Ownership (%) December 31, 2016
Senhwa Biosciences, Inc.	SenHwa Biosciences Corporation	New drug clinical and technical support services	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) 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 recognised in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.

(c) All foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within 'other gains and losse's.

B. Translation of foreign operations

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

(a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

(b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

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

(5) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

(a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realised within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

(a) Liabilities that are expected to be settled within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be settled within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(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) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading unless they are designated as hedges. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

(a) Hybrid (combined) contracts; or

(b) They eliminate or significantly reduce a measurement or recognition inconsistency; or

(c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.

C. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(8) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised 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 recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(9) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(10) Impairment of 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) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) The disappearance of an active market for that financial asset because of financial difficulties;

(f) 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;

(g) 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, accounting for impairment is made as follows according to the category of financial assets:

Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(11) Derecognition of financial assets

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

(12) Property, plant and equipment

A. Equipment are initially recorded at cost.

B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Equipment applies cost model and is depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of 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 financial year-end. 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 useful lives are 3 and 2 years for office equipment and leasehold improvements, respectively.

(13) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 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 recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. 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 amortised historical cost would have been if the impairment had not been recognised.

(15) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(16) Derecognition of financial liabilities

A financial liability is derecognised 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 recognised as expense in that period when the employees render service.

B. Pensions

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

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

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

(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 recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest. In addition, the Group chose the date on which the number of shares for employee pre-emption was confirmed to be the grant date for the reporting period and the following reporting periods.

(19) 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. 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. However, the deferred tax is not accounted for if it arises from initial recognition 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 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 tax asset is realised or the deferred tax liability is settled.

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. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(20) Share capital

Common stocks 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.

(21) Revenue recognition

The Group recognises the revenue arising from licensing agreement provided that the requirements for the revenue recognition of sales of goods are satisfied and the following conditions are met:

A. The amount of royalty is fixed or non-refundable.

B. The contract is irrevocable.

C. Related rights are granted to the authorised party for its own disposition.

D. The party granting authority has no further obligation after passing on the rights to the authorised party.

In case the licensing agreement fails to meet all the conditions listed above, the revenue is recognised on a reasonable and systematic basis during the licensing period instead of being recognised at once.

(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 assumptions, and estimates concerning future events. However, none of the assumptions is considered critical. 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:

Realisability of deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Assessment of the realisability of deferred tax assets involves critical accounting judgements and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred tax assets.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Petty cash and cash on hand	$ 92	$ 69
Checking account deposits	270	10
Demand deposits	56,112	77,682
Time deposits	1,544,526	436,122
	$ 1,601,000	$ 513,883

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

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

(2) Prepayments

	December 31, 2017	December 31, 2016
Prepaid service expenses	$ 6,245	$ -
Excess business tax paid	3,259	1,595
Prepaid income tax	2,449	3,296
Prepaid insurance premiums	1,386	1,673
Prepayment for clinical trial and commission research	905	3,180
Others	382	620
	$ 14,626	$ 10,364

(3) Other payables

	December 31, 2017	December 31, 2016
Commission research expenses	$ 47,686	$ 11,246
Salaries and bonuses	5,191	4,136
Service expenses	2,261	3,581
Others	2,399	1,708
	$ 57,537	$ 20,671

(4) Pensions

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 no less than 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 subsidiary, SenHwa Biosciences Corporation, offers its employees 401(K) pension savings plan which adopts defined contribution plan. The plan enables both the employer and employees during their employment to contribute monthly based on a certain percentage of their salaries in their pension accounts.

B. The pension costs the under the defined contribution pension plans of the Group for the years ended December 31, 2017 and 2016 were $1,762 and $1,771, respectively.

(5) Share-based payment

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

Type of arrangement	Grant date	Quantity granted (shares in thousands)	Contract period	Vesting conditions
Employee stock options –B	2014.11.21	2,000	6 years	2~5 years' service
Employee stock options –C	2016.7.27	350	4 years	2~3 years' service
Cash capital increase reserved for employee preemption	2017.4.10	134	Not applicable	Vested immediately

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

	2017		2016	
	No. of options (in thousands)	Weighted-average exercise price (in dollars)	No. of options (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at January 1	1,137	$ 55.98	1,105	$ 12.16
Options granted	134	162.00	350	154.50
Options exercised	(241)	95.47	(293)	12.16
Options forfeited	(150)	12.16	(25)	12.16
Options outstanding at December 31	880	68.78	1,137	55.98
Options exercisable at December 31	304	12.16	260	12.16

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2017 and 2016 was $86.61 (in dollars) and $193.33 (in dollars), respectively.

D. The expiry date and exercise price of stock options outstanding at balance sheet date are as follows:

		December 31, 2017		December 31, 2016	
Issue date approved	Expiry date	No. of shares (in thousands)	Exercise price (in dollars)	No. of shares (in thousands)	Exercise price (in dollars)
2014.11.21	2020.11.20	530	$ 12.16	787	$ 12.16
2016.7.27	2020.7.26	350	$ 154.50	350	$ 154.50

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

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit (in dollars)
Employee stock options –B	2014.11.21	$ 77.8 (Note)	$ 12.16	49.5%	5.5 years	0%	1.08%~1.3%	$ 66.44~67.09
Employee stock options –C	2016.7.27	154.22	154.5	50.56%	3~3.5 years	0%	0.45%~0.47%	52.80~56.81
Cash capital increase reserved for employee preemption	2017.4.10	162.00	162	37.41%	0.03 years	0%	0.41%	4.01

Note: The Company was an emerging company when issuing the stock options so price-book ratio was used to compute the stock price.

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

	Year ended Decemer 31, 2017	Year ended Decemer 31, 2016
Equity-settled	$ 10,662	$ 33,581

(6) Share capital

A. As of December 31, 2017, the Company's authorised capital was $1,000,000, consisting of 100 million shares of ordinary stock (including 2,500 thousand shares reserved for employee stock options), and the paid-in capital was $743,456 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

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

	2017	2016
At January 1	$ 65,786	$ 65,493
Cash capital increase	8,500	-
Employee stock options exercised	107	293
At December 31	$ 74,393	$ 65,786

(7) Capital surplus

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

(8) Retained earnings

A. Under the Company's Articles of Incorporation, 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. Stock dividends should be appropriated at a rate of 10% per annum. The remainder, if any, to be retained or to be appropriated shall be resolved by the stockholders at the stockholders' meeting.

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 paid-in capital.

C. The shareholders during their meeting on June 16, 2017 and June 16, 2016 resolved to offset the accumulated deficit with capital surplus of $78,177 and $185,257, respectively.

D. The Board of Directors during its meeting on February 13, 2018 resolved to offset the accumulated deficit with capital surplus of $558,879. Said proposal has not yet been approved by the shareholders as of February 13, 2018.

(9) Other income

	Year ended December 31,	
	2017	2016
Interest income	$ 7,525	$ 4,396

(10) Other gains and losses

	Year ended December 31,	
	2017	2016
Net currency exchange losses	($ 3,335)	($ 703)
Net gains on financial assets at fair value through profit or loss	361	-
Other disbursements	(565)	(32)
	($ 3,539)	($ 735)

(11) Expenses by nature

	Year ended December 31, 2017	Year ended December 31, 2016
Commission research expenses	$ 206,868	$ 106,514
Employee benefit expense	86,856	92,867
Service expenses	38,935	15,628
Patent application fees	13,441	14,486
Depreciation	1,466	726
Amortisation	551	608
Other expenses	27,275	27,314
Operating costs and expenses	$ 375,392	$ 258,143

(12) Employee benefit expense

	Year ended December 31, 2017	Year ended December 31, 2016
Wages and salaries	$ 68,694	$ 53,138
Share-based payment compensation cost	10,662	33,581
Labour and health insurance fees	1,942	1,538
Pension costs	1,762	1,771
Other personnel expenses	3,796	2,839
	$ 86,856	$ 92,867

A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 10% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration.

B. The Company incurred loss before tax for the years ended December 31, 2017 and 2016. Therefore, employees' compensation and directors' and supervisors' remuneration were not accrued in accordance with the Company's Articles of Incorporation.

(13) Income tax

A. Income tax expense

	Year ended December 31, 2017	Year ended December 31, 2016
Current tax:		
Current tax on profits for the year	$ 454	$ -
Prior year income tax underestimation	24	646
Deferred tax:		
Origination and reversal of temporary differences	-	-
Income tax expense	$ 478	$ 646

B. Reconciliation between income tax expense and accounting profit

	Year ended December 31, 2017	Year ended December 31, 2016
Tax calculated based on profit before tax and statutory tax rate (note)	$ 454	$ -
Prior year income tax underestimation	24	646
Income tax expense	$ 478	$ 646

Note: The basis for computing the applicable tax rate are the rates applicable in the respective countries where the Group entities operate.

C. Details of the amount the Company is entitled as investment tax credit and unrecognised deferred tax assets are as follows:

Qualifying items	December 31, 2017 Unused tax credits	Unrecognised deferred tax assets	Expiry year
Research and development	$ 250,683	$ 250,683	(Note)

Qualifying items	December 31, 2016 Unused tax credits	Unrecognised deferred tax assets	Expiry year
Research and development	$ 173,500	$ 173,500	(Note)

Note: The Company and its shareholders are entitled to the incentives conferred under the Biotech and New Pharmaceutical Development Act following the Company's incorporation as a biotech pharmaceutical company pursuant to the Letter No. Jing-Shou-Gong-Zi-10320407310 issued by the Ministry of Economic Affairs (MOEA) on April 3, 2014. The incentive measures are valid for five years beginning on the next date of the issuance of MOEA's Letter. The investment tax credit can be first used when there is taxable business income. Any unused tax credit is available for the following four years.

D. Expiration dates of unused tax losses and amounts of unrecognised deferred tax assets are as follows:

December 31, 2017				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2012	Assessed	$ 669	$ 669	2022
2013	Assessed	113,000	113,000	2023
2014	Assessed	156,145	156,145	2024
2015	Assessed	195,046	195,046	2025
2016	Filed	235,170	235,170	2026
2017	Filed	355,660	355,660	2027
		$ 1,055,690	$ 1,055,690	

December 31, 2016				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2012	Assessed	$ 669	$ 669	2022
2013	Assessed	113,000	113,000	2023
2014	Assessed	156,145	156,145	2024
2015	Assessed	195,046	195,046	2025
2016	Filed	235,170	235,170	2026
		$ 700,030	$ 700,030	

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

F. For the U.S. subsidiary, expiration dates of unused tax losses and amounts of unrecognised deferred tax assets are as follows:

December 31, 2017				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Expiry year
2016	Filed	$ 10,403	$ 10,403	2036

G. Unappropriated retained earnings:

	December 31, 2017	December 31, 2016
Earnings generated in and after 1998	($ 558,879)	($ 265,158)

H. As of December 31, 2017 and 2016, the balance of the imputation tax credit account were both $0. The estimated and actual creditable tax rate are not applicable as a result of accumulated deficit.

(14) Significant contracts

A. The Company acquired intangible assets including multiple patents, technologies, clinical trial drugs and clinical trial information from Company A under the agreement in April 2013. The Company's payment for acquiring the assets relative to the agreement was shown as 'research and development expenses'. In the following years, the Company is obliged to pay royalties computed based on a certain percentage of revenue arising from either licensing to the third party or sales pertaining to the assets provided that the research and development comes to fruition.

B. The Company was commissioned on improving API Production using the industrial strains for generic medicine by Company C under an agreement in April 2013. The Company was permitted to recommission the third party provided that Company C owns the research results. The total contract price was $45,000. The Company recognised the commission research revenue for each period based on the period of time the service was rendered. Further, the Company is entitled to the receipt of royalties computed based on a certain percentage of net sales amount provided that the products are manufactured and sold under cGMP standard. However, Company C entered into a termination agreement with the Company due to the shift in its operating strategy. The latest agreement allowed the Company to access the research results as well as to authorise the third party to the extent of development. Once the products are manufactured or sold, the revenue must be shared with Company C without exceeding the R&D expenses amounting to $28,125 paid by the Company. All service revenue was recognised by the Company during the year ended December 31, 2014.

C. The Company licensed Chaperone Therapeutics, Inc. (hereafter referred to as "Chaperone") a global preclinical drug patent under an agreement in September 2015. Chaperone is responsible for the development, application for drug approval, manufacturing and sales in terms of the authorised pharmaceuticals. In return, the Company receives an upfront payment from Chaperone and milestone royalties when Chaperone reaches specified milestones. The upfront payment was 15% equity of Chaperone while the milestone royalties totalled US$102,700 thousand. The agreement provides that the upfront payment is due one year after the earlier of verification of compound validation or when the agreement is entered into. The Company recognised licensing revenue of $128 and recorded 15% equity of common shares as 'Financial assets at cost-non current'.

(15) Loss per share

	Year ended December 31, 2017		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Loss per share (in dollars)
Basic loss per share (note)			
Loss attributable to owners of the parent	($ 371,898)	71,782	($ 5.18)

	Year ended December 31, 2016		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Loss per share (in dollars)
Basic loss per share (note)			
Loss attributable to owners of the parent	($ 255,015)	65,518	($ 3.89)

Note: The stock options are converted into the Company's stocks. Hence, the options have no dilutive effect.

7. RELATED PARTY TRANSACTIONS

(1) Significant related party transactions

The Group did not have significant transactions with related parties for the years ended December 31, 2017 and 2016.

(2) Key management compensation

	Year ended December 31,	
	2017	2016
Salaries and other short-term employee benefits	$ 12,057	$ 11,012
Share-based payments	4,129	11,585
	$ 16,186	$ 22,597

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

Commitments

(1) Operating lease agreement

Except for that mentioned in Note 6(14)A and C, the Group recognised rental expense of $5,605 and

$5,343 for the lease of offices and vehicles for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments are as follows:

	December 31, 2017	December 31, 2016
Not later than one year	$ 6,280	$ 4,917
Later than one year but not later than three years	6,262	135
	$ 12,542	$ 5,052

(2) As of December 31, 2017, future payment for the service contracts entered into by the Group amounted to $12,206.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

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 in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

(2) Financial instruments

A. Fair value information of financial instruments

The carrying amounts of the Group's financial instruments not measured at fair value (including cash and cash equivalents, other receivables, other payables and other current liabilities) are approximate to their fair values.

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate 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 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

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

	December 31, 2017		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 5,939	29.76	$ 176,753
Non-monetary items			
USD:NTD	2,076	29.76	61,791
Financial liabilities			
Monetary items			
USD:NTD	2,735	29.76	81,390

	December 31, 2016		
	Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	$ 1,437	32.25	$ 46,333
Non-monetary items			
USD:NTD	2,318	32.25	74,747
Financial liabilities			
Monetary items			
USD:NTD	986	32.25	31,507

ii. The unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2017 and 2016 amounted to $1,643 and $307, respectively.

iii. Analysis of foreign currency market risk arising from significant foreign exchange variation:

	Year ended December 31, 2017		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 1,768	$ -
Non-monetary items			
USD:NTD	1%	-	618
Financial liabilities			
Monetary items			
USD:NTD	1%	814	-

	Year ended December 31, 2016		
	Sensitivity analysis		
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
Financial assets			
Monetary items			
USD:NTD	1%	$ 463	$ -
Non-monetary items			
USD:NTD	1%	-	747
Financial liabilities			
Monetary items			
USD:NTD	1%	315	-

(b) 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 client 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. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk

i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.

ii. The Group does not expect to have significant liquidity risk since the other payables and other current liabilities are due in twelve months.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

The following transactions were eliminated when preparing the consolidated financial statements.

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: Please refer to table 2.

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: No transaction involves $100 million or 20% of paid-in capital or more.

(2) Information on investees

The following transactions with the subsidiary were eliminated when preparing the consolidated financial statements.

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

None.

14. SEGMENT INFORMATION

(1) General information

The Group operates business only in a single industry by primarily engaging in the development of new drugs and special pharmaceutical ingredients. The chief operating decision maker, who allocates resources and assesses operating performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Measurement of segment information

The accounting policies adopted by the Group's operating segments are consistent with that summarised in Note 2. The operating segments' profit or loss is measured with net operating profit and based on which the performance is evaluated.

(3) Information about segment profit or loss, assets and liabilities

The Group has only one reportable segment so the reportable information is identical with the financial statements.

(4) Reconciliation for segment income (loss)

The net operating loss reported to the chief operating decision-maker is measured in a manner consistent with the income and expense in the statement of comprehensive income. Hence, the reconciliation is indicated in the statement of comprehensive income.

(5) Information on products and services

	Year ended December 31,	
	2017	2016
Licensing revenue	$ -	$ 128

(6) Geographical information

Geographical information for the years ended December 31, 2017 and 2016 is as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ -	$ 5,620	$ -	$ 1,804
USA	-	581	128	969
	$ -	$ 6,201	$ 128	$ 2,773

(7) Major customer information

Information on major customer accounting for 10% of the Company's operating revenue for the years ended December 31, 2017 and 2016 is as follows:

	Year ended December 31,	
	2017	2016
Chaperone	$ -	$ 128

Senhwa Biosciences, Inc. and Subsidiary

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

Year ended December 31, 2017

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

				As of December 31, 2017				
Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Footnote
Senhwa Biosciences, Inc.	Chaperone Therapeutics, Inc. - ordinary shares	None	Financial assets at cost-non current	409,400	$ 128	13.15%	$ 128	None

Senhwa Biosciences, Inc. and Subsidiary

Acquisition or sale of the same security with the accumulated cost exceeding $300 million or 20% of the Company's paid-in capital

Year ended December 31, 2017

Table 2

Expressed in thousands of NTD

(Except as otherwise indicated)

					Balance as at January 1, 2017		Addition		Disposal				Balance as at December 31, 2017	
Investor	Marketable securities (Note 1)	General ledger account	Counterparty	Relationship with the investor	Number of shares	Amount	Number of shares	Amount	Number of shares	Selling price	Book value	Gain (loss) on disposal	Number of shares	Amount
Senhwa Biosciences, Inc.	Taishin 1699 Money Market Fund	Current financial assets at fair value through profit or loss	N/A	N/A	-	$ -	74,562,319	$ 1,000,000	74,562,319	$ 1,000,361	$ 1,000,000	$ 361	-	$ -

Senhwa Biosciences, Inc. and Subsidiary

Names, locations and other information of investee companies (not including investee in Mainland China)

Year ended December 31, 2017

Table 3

Expressed in thousands of NTD

(Except as otherwise indicated)

Investor	Investee	Location	Main business activities	Initial investment amount: As at December 31, 2017	Initial investment amount: As at December 31, 2016	Shares held as at December 31, 2017: Number of shares	Shares held as at December 31, 2017: Ownership (%)	Shares held as at December 31, 2017: Book value	Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised by the Company for the year ended December 31, 2017	Footnote
Senhwa Biosciences, Inc.	SenHwa Biosciences Corporation	USA	New drug clinical and technical support services	$ 59,123	$ 59,123	1,000,000	100	$ 61,791	($ 12,902)	($ 12,902)	Subsidiary