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Pharmaero ApS

CVR no 32 82 79 42

Dalslandsgade 11, 2300 Copenhagen S

Annual report for 2016

Adopted at the annual general meeting on 30 May 2017
Mats Persson Chairman

Contents

Statement by Management on the annual report

The Executive and Supervisory Boards have today discussed and approved the annual report of Pharmaero ApS for the financial year 1 January - 31 December 2016

The annual report has been prepared in accordance with the Danish Financial Statements Act

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the the Company's operations for the financial year 1 January - 31 December 2016

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and its financial position

We recommend the adoption of the annual report at the annual general meeting

Copenhagen, 30 May 2017

Executive Board

Tomas Norling

Supervisory Board

Mats Persson
Chairman

Carl-Åke Carlsson

Hans Lennart Svanborg

Aleksandar Danilovski

Independent auditor's report

To the shareholders of Pharmaero ApS

Opinion

We have audited the financial statements of Pharmaero ApS for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, notes and summary of significant accounting policies, including a summary of significant accounting policies. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's Responsibilities for the Audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibilities for the financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs and the additional requirements applicable in Denmark 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 Financial Statements

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.

Independent auditor's report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of Management's Review.

Copenhagen, 30 May 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-nr. 33 77 12 31

Kim Füchsel
State Authorised Public Accountant

Company details

Pharmaero ApS
Dalslandsgade 11
2300 Copenhagen S

Telephone:	+4532645500
CVR-no.	32 82 79 42
Financial year:	1 January - 31 December
Domicile:	Copenhagen S

Supervisory Board
Mats Persson, Chairman
Carl-Åke Carlsson
Hans Lennart Svanborg
Aleksandar Danilovski

Executive Board
Tomas Norling

Auditors
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Management's review

Business activities

The activities of Pharmaero ApS are development and sales of pharmaceutical products for human use.

Business review

The Company's income statement for the year ended 31 December shows a loss of TDKK 660, and the balance sheet at 31 December 2016 showes equity of TDKK 87.825.

Outlook

The Company expects an activity level at the same level as in 2016.

Significant events occurring after end of reporting period

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Income statement 1 January - 31 December

	Note	2016	2015
		TDKK	TDKK
Revenue		**1**	**1**
Gross profit		**1**	**1**
Administrative costs		-668	-110
Operating profit/loss		**-667**	**-109**
Financial costs		-15	-3
Profit/loss before tax		**-682**	**-112**
Tax on profit/loss for the year	1	22	280
Net profit/loss for the year		**-660**	**168**

Proposed distribution of profit

	2016	2015
Transferred to other statutory reserves	20.730	0
Retained earnings	-21.390	168
	-660	**168**

Balance sheet 31 December

	Note	2016 TDKK	2015 TDKK
Assets			
Development projects in progress		90.159	63.582
Intangible assets	2	**90.159**	**63.582**
Fixed assets total		**90.159**	**63.582**
Other receivables		3.322	6
Corporation tax		5.500	5.154
Receivables		**8.822**	**5.160**
Cash at bank and in hand		**9.301**	**4.950**
Current assets total		**18.123**	**10.110**
Assets total		**108.282**	**73.692**

Balance sheet 31 December

	Note	2016 TDKK	2015 TDKK
Liabilities and equity			
Share capital		7.060	5.212
Reserve for development expenditure		20.730	0
Retained earnings		60.035	60.173
Equity	3	**87.825**	**65.385**
Provision for deferred tax	4	11.892	6.542
Provisions total		**11.892**	**6.542**
Trade payables		8.187	1
Other payables		378	1.764
Short-term debt		**8.565**	**1.765**
Debt total		**8.565**	**1.765**
Liabilities and equity total		**108.282**	**73.692**

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Equity

	Share capital	Reserve for development expenditure	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January 2016	5.212	0	60.173	65.385
Cash capital increase	1.848	0	21.252	23.100
Net profit/loss for the year	0	20.730	-21.390	-660
Equity at 31 December 2016	**7.060**	**20.730**	**60.035**	**87.825**

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity 1 January 2015	4.414	50.828	55.242
Cash capital increase	798	9.177	9.975
Net profit/loss for the year	0	168	168
Equity at 31 December 2015	**5.212**	**60.173**	**65.385**

Notes

		2016	2015
		TDKK	TDKK
1	**Tax on profit/loss for the year**		
	Current tax for the year	-5.500	-2.131
	Deferred tax for the year	5.350	1.851
	Adjustment of tax concerning previous years	128	0
		-22	**-280**

2 Intangible assets

	Development projects in progress
Cost at 1 January 2016	63.582
Additions for the year	26.577
Cost at 31 December 2016	90.159
Impairment losses and amortisation at 31 December 2016	0
Carrying amount at 31 December 2016	**90.159**
Depreciated over	5 - 20 years

3 Equity

The share capital has developed as follows:

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
Share capital at 1 January	5.212	4.414	3.966	2.654	616
Additions for the year	1.848	798	448	1.312	2.038
Share capital	**7.060**	**5.212**	**4.414**	**3.966**	**2.654**

Notes

		2016	2015
		TDKK	TDKK
4	**Provision for deferred tax**		
	Provision for deferred tax at 1 January 2016	6.542	4.691
	Provision in year	5.350	1.851
	Provision for deferred tax at 31 December 2016	**11.892**	**6.542**
	Intangible assets	19.835	13.988
	Tax loss carry-forward	-7.943	-7.446
		11.892	**6.542**

5 Subsequent events

No events have occured after the balance sheet date which may materially affect the Company's financial position.

6 Contingent assets, liabilities and other financial obligations

Contingent liabilities
The Company has no contingencies or economical liabilities other than included in the Annual Report and notes.

7 Related parties and ownership

Ownership

According to the Company's register of shareholders, the following shareholders hold a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

Xellia Pharmaceuticals ApS, Denmark, 50 %
Scandinavian Health Limited, Taiwan, 50 %

Accounting policies

The Annual Report of Pharmaero ApS for 2016 has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act with additions from reporting class big C about development projects.

The accounting policies applied are consistent with those of last year.

The annual report for 2016 is presented in TDKK

Basis of recognition and measurement
Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company's and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company's and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report are presented and which confirm or invalidate matters existing at the balance sheet date.

Foreign currency translation
On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign-exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Administrative costs
Administrative costs comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Accounting policies

Financial income and expenses
Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year
Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Development projects
Development projects are capitalized when the development costs relate to new products or processes that are clearly defined and identifiable and the Company can demonstrate a future economic benefit, the technical feasibility, sufficient resources, a future market and the intention of completing the intangible asset and ability to use or sell it as well as measure reliably the expenditure attributable to the development.

Development projects that do not fulfill these requirements are expensed.

Impairment of fixed assets
The carrying amount of intangible assets is reviewed for impairment, other than what is reflected through normal amortisation and depreciation, on an annual basis.

Where there are indications of impairment, an impairment test is performed for each individual asset or group of assets, respectively. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Receivables
Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

Accounting policies

Equity

Dividend

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the annual general meeting.

Capitalised development cost occured from January 1, 2016 are reflected as an reseve in equity in accodance with the Danish Financial Act section 83.

Income tax and deffered tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss allowed for carry forward are measured at the value to which the asset is expected to be realised, either by elimination in tax on future income or by offsetting against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities, which include trade receivables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.