

**TAIWAN LIPOSOME COMPANY AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
MARCH 31, 2014 AND 2013**

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

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Taiwan Liposome Company

We have reviewed the accompanying consolidated balance sheets of Taiwan Liposome Company and subsidiaries as of March 31, 2014 and 2013, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three-month periods ended March 31, 2014 and 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these financial statements based on our reviews.

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

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

PricewaterhouseCoopers, Taipei, Taiwan

May 8, 2014

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.

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
YEARS ENDED MARCH 2014/3/31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(The consolidated balance sheets as of March 31, 2014 and 2013 are reviewed, not audited)

Assets	Notes	March 31, 2014		December 31, 2013		March 31, 2013		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
Current Assets								
1100	Cash and cash equivalents	6(1)	\$ 3,285,553	91	\$ 3,437,218	92	\$ 760,963	74
1170	Accounts receivable, net	6(2)	34,769	1	5,963	-	61,603	6
1200	Other receivables		1,740	-	1,875	-	926	-
1220	Current income tax assets		1,588	-	995	-	156	-
1410	Prepayments		34,702	1	35,284	1	5,266	-
1470	Other current assets	8	6,458	-	6,458	-	2,658	-
11XX	Total Current Assets		<u>3,364,810</u>	<u>93</u>	<u>3,487,793</u>	<u>93</u>	<u>831,572</u>	<u>80</u>
Non-current assets								
1600	Property, plant and equipment	6(3) and 8	192,879	5	184,485	5	114,729	11
1780	Intangible assets	6(4)	26,366	1	25,987	1	28,091	3
1900	Other non-current assets	6(5) and 8	29,343	1	42,673	1	59,510	6
15XX	Total Non-current Assets		<u>248,588</u>	<u>7</u>	<u>253,145</u>	<u>7</u>	<u>202,330</u>	<u>20</u>
1XXX	Total Assets		<u>\$ 3,613,398</u>	<u>100</u>	<u>\$ 3,740,938</u>	<u>100</u>	<u>\$ 1,033,902</u>	<u>100</u>

(Continued)

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
YEARS ENDED MARCH 2014/3/31

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(The consolidated balance sheets as of March 31, 2014 and 2013 are reviewed, not audited)

Liabilities and Equity	Notes	March 31, 2014		December 31, 2013		March 31, 2013	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
Current Liabilities							
2150	Notes payable	\$ 205	-	\$ 2,791	-	\$ -	-
2200	Other payables	45,504	1	61,466	1	44,679	4
2300	Other current liabilities	24,092	1	27,314	1	28,113	3
21XX	Total Current Liabilities	<u>69,801</u>	<u>2</u>	<u>91,571</u>	<u>2</u>	<u>72,792</u>	<u>7</u>
Non-current liabilities							
2540	Long-term borrowings	47,455	2	51,331	2	65,008	6
2550	Provisions for liabilities - non-current	3,087	-	3,087	-	3,087	1
2600	Other non-current liabilities	10,291	-	6,677	-	2,210	-
25XX	Total Non-current Liabilities	<u>60,833</u>	<u>2</u>	<u>61,095</u>	<u>2</u>	<u>70,305</u>	<u>7</u>
2XXX	Total Liabilities	<u>130,634</u>	<u>4</u>	<u>152,666</u>	<u>4</u>	<u>143,097</u>	<u>14</u>
Equity							
Equity Attributable to Owners of Parent							
Share capital							
3110	Common stock	547,552	15	546,288	15	440,696	43
Capital surplus							
3200	Capital surplus	3,470,563	96	3,448,175	92	691,613	66
Retained earnings							
3350	Accumulated deficit	(535,693)	(15)	(405,977)	(11)	(241,259)	(23)
Other equity							
3400	Other equity interest	342	-	(214)	-	(245)	-
31XX	Equity attributable to owners of parent	<u>3,482,764</u>	<u>96</u>	<u>3,588,272</u>	<u>96</u>	<u>890,805</u>	<u>86</u>
3XXX	Total equity	<u>3,482,764</u>	<u>96</u>	<u>3,588,272</u>	<u>96</u>	<u>890,805</u>	<u>86</u>
Significant contingent liabilities and unrecognised contract commitments							
		9					
	Total liabilities and equity	<u>\$ 3,613,398</u>	<u>100</u>	<u>\$ 3,740,938</u>	<u>100</u>	<u>\$ 1,033,902</u>	<u>100</u>

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE-MONTH PERIODS ENDED MARCH 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

Items	Notes	Three months ended March 31			
		2014		2013	
		AMOUNT	%	AMOUNT	%
4000 Sales revenue	6(15)	\$ 35,987	100	\$ 77,208	100
Operating expenses	6(18)(19)				
6200 General and administrative expenses		(22,300)	(62)	(12,778)	(17)
6300 Research and development expenses		(151,904)	(422)	(68,289)	(88)
6000 Total operating expenses		(174,204)	(484)	(81,067)	(105)
6900 Operating loss		(138,217)	(384)	(3,859)	(5)
Non-operating income and expenses					
7010 Other income	6(16)	6,817	19	1,103	2
7020 Other gains and losses	6(17)	2,067	5	(2,861)	(4)
7050 Finance costs		(343)	(1)	(477)	(1)
7000 Total non-operating income and expenses		8,541	23	(2,235)	(3)
7900 Loss before income tax		(129,676)	(361)	(6,094)	(8)
7950 Income tax expense	6(20)	(40)	-	-	-
8200 Loss for the period		(\$ 129,716)	(361)	(\$ 6,094)	(8)
Other comprehensive income					
8310 Financial statements translation differences of foreign operations	6(14)	\$ 556	2	\$ 524	1
8300 Total other comprehensive income for the period		\$ 556	2	\$ 524	1
8500 Total comprehensive income for the period		(\$ 129,160)	(359)	(\$ 5,570)	(7)
Profit (Loss) attributable to:					
8610 Owners of the parent		(\$ 129,716)	(361)	(\$ 6,094)	(8)
Other comprehensive income attributable to:					
8710 Owners of the parent		(\$ 129,160)	(359)	(\$ 5,570)	(7)
New Item	6(21)				
9750 Basic Loss Per Share		(\$ 2.37)		(\$ 0.14)	
9850 Diluted Loss Per Share		(\$ 2.37)		(\$ 0.14)	

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

	Equity attributable to owners of the parent							
	Capital		Capital Reserves			Total unappropriated earnings (accumulated deficit)	Financial statements translation differences of foreign operations	Total equity
	Notes	Share capital - common stock	Advance receipts for share capital	Total capital surplus, additional paid-in capital	Net Loss Not Recognized as Pension Cost			
2012								
Balance at January 1, 2012		\$ 439,930	\$ 2,146	\$ 685,958	\$ 4,275	(\$ 235,165)	(\$ 769)	\$ 896,375
Employee stock options		766	(2,146)	1,380	-	-	-	-
Loss for the period		-	-	-	-	(6,094)	-	(6,094)
Other comprehensive income for the period	6(14)	-	-	-	-	-	524	524
Balance at December 31, 2012		<u>\$ 440,696</u>	<u>\$ -</u>	<u>\$ 687,338</u>	<u>\$ 4,275</u>	<u>(\$ 241,259)</u>	<u>(\$ 245)</u>	<u>\$ 890,805</u>
2013								
Balance at January 1, 2013		\$ 546,288	\$ -	\$ 3,435,804	\$ 12,371	(\$ 405,977)	(\$ 214)	\$ 3,588,272
Share-based payments	6(9)	-	-	-	18,859	-	-	18,859
Employee stock options		1,264	-	4,352	(823)	-	-	4,793
Loss for the period		-	-	-	-	(129,716)	-	(129,716)
Other comprehensive loss for the period	6(14)	-	-	-	-	-	556	556
Balance at December 31, 2013		<u>\$ 547,552</u>	<u>\$ -</u>	<u>\$ 3,440,156</u>	<u>\$ 30,407</u>	<u>(\$ 535,693)</u>	<u>\$ 342</u>	<u>\$ 3,482,764</u>

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

	Notes	2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Consolidated loss before tax for the period		(\$ 129,676)	(\$ 6,094)
Adjustments to reconcile consolidated net loss to net cash used in operating activities			
Income and expenses having no effect on cash flows			
Share-based payments	6(9)	18,859	-
Depreciation	6(18)	10,650	5,588
Amortization	6(18)	1,704	1,370
Interest expense		343	477
Interest income	6(16)	(5,891)	(1,067)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable, net		(28,806)	(26,538)
Other receivables		87	(4)
Prepayments		582	(424)
Other non-current assets		-	(20,000)
Net changes in liabilities relating to operating activities			
Notes payable		(2,586)	(12,952)
Other payables		(7,899)	(79,696)
Other current liabilities		1,071	4,961
Provisions for liabilities		-	(1,050)
NewItem		321	3
Cash used in generated from operations		(141,241)	(135,426)
Interest received		5,939	811
Interest paid		(347)	(481)
Income tax paid		(633)	(35)
Net cash used in operating activities		(136,282)	(135,131)

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TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE-MONTH PERIODS ENDED MARCH 31
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

	Notes	2014	2013
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other financial assets		\$ 664	\$ 664
Acquisition of property, plant and equipment	6(22)	(14,341)	(1,384)
Increase in other non-current assets		(173)	(7,853)
Increase in intangible assets	6(22)	(1,595)	-
Decrease (increase) in refundable deposits		(277)	1,066
Net cash used in investing activities		(15,722)	(7,507)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Payment of long-term borrowings		(4,876)	(4,866)
Employee stock options		4,793	-
Net cash used in financing activities		(83)	(4,866)
Effect due to changes in exchange rate		422	366
Decrease in cash and cash equivalents		(151,665)	(147,138)
Cash and cash equivalents at beginning of period		3,437,218	908,101
Cash and cash equivalents at end of period		<u>\$ 3,285,553</u>	<u>\$ 760,963</u>

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2014 AND 2013

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

(UNAUDITED BUT REVIEWED)

1. HISTORY AND ORGANIZATION

Taiwan Liposome Company (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) and was listed on the GreTai Securities Market since December 21, 2012. The Company and its subsidiaries (collectively referred herein as the “Group”) are a biopharmaceutical company focused on the research, development and commercialization of innovative pharmaceutical products based on its proprietary drug delivery technologies.

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

These consolidated financial statements were authorised for issuance by the Board of Directors on May 8, 2014.

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”)

None.

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

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, ‘Financial instruments’) as endorsed by the FSC in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below:

New Standards, Interpretations and Amendments	Date
Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1)	July 1, 2010
Severe hyperinflation and removal of fixed dates for first-time adopters (amendment to IFRS 1)	July 1, 2011
Government loans (amendment to IFRS 1)	January 1, 2013
Disclosures—Transfers of financial assets (amendment to IFRS 7)	July 1, 2011
Disclosures—Offsetting financial assets and financial liabilities (amendment to IFRS 7)	January 1, 2013
IFRS 10, ‘Consolidated financial statements’	January 1, 2013 (Investment entities: January 1, 2014)
IFRS 11, ‘Joint arrangements’	January 1, 2013
IFRS 12, ‘Disclosure of interests in other entities’	January 1, 2013
IFRS 13, ‘Fair value measurement’	January 1, 2013
IAS 19 (revised), ‘Employee benefits’	January 1, 2013
IAS 27, ‘Separate financial statements’ (as amended in 2011)	January 1, 2013
IAS 28, ‘Investments in associates and joint ventures’ (as amended in 2011)	January 1, 2013
Offsetting financial assets and financial liabilities (amendment to IAS 32)	January 1, 2014
IFRIC 20, ‘Stripping costs in the production phase of a surface mine’	January 1, 2013
Improvements to IFRSs 2010	January 1, 2011
Improvements to IFRSs 2009—2011	January 1, 2013

Based on the Group’s assessment, the adoption of the 2013 version of IFRS has no significant impact on the consolidated financial statements of the Group, except the following:

A. IAS 1, ‘Presentation of financial statements’

The amendment requires entities to separate items presented in OCI classified by nature into two groups on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. If the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified and those that will not be reclassified) must be shown separately. Accordingly, the Group will adjust its presentation of the statement of comprehensive income.

B. IFRS 12, ‘Disclosure of interests in other entities’

The standard integrates the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group will disclose additional information about its interests in consolidated entities and unconsolidated entities accordingly.

For the above items, the Group is assessing their impact on the consolidated financial statements and will disclose the affected amounts accordingly.

(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 2013 version of IFRS as endorsed by the FSC:

<u>New Standards, Interpretations and Amendments</u>	<u>IASB Effective Date</u>
IFRS 9, 'Financial instruments'	Not yet been decided
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Services related contributions from employees or third parties (amendments to IAS 19R)	July 1, 2014
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014

The Group is assessing the potential impact of the new standards, interpretations and amendments above and has not yet been able to reliably estimate their impact on the consolidated financial statements.

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 "Rules Governing the Preparation of Financial Statements by Securities Issuers" and IAS 34, 'Interim Financial Reporting' as endorsed by the FSC.

(2) Basis of preparation

- A. Except for defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation, these consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. In general, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The existence and effect of potential voting rights that are currently exercisable or convertible have been considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.
- 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 (%)			Description
			March 31, 2014	December 31, 2013	March 31, 2013	
Taiwan Liposome Biopharmaceuticals Company Inc.	TLC	Research on new anti-cancer drugs and biotechnology services	100	100	100	
Taiwan Liposome Biopharmaceuticals Company B.V.	TLC	Technical authorization and product development	100	100	100	

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

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

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: 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) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- d) All foreign exchange gains and losses are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

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

- a) Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- b) Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
- c) All resulting exchange differences are recognised in other comprehensive income.

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

(6) Cash equivalents

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

(7) Accounts receivable and other receivables

Accounts receivable are claims resulting from the sale of goods or services. Other receivables are those arising from transactions other than the sale of goods or services. Accounts receivable and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) 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; or
 - e) 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.
- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred on financial assets measured at amortised cost, accounting for

impairment is made as follows:

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 the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(9) Derecognition of financial assets

The Group derecognises a financial asset when one of the following conditions is met:

- A. The contractual rights to receive cash flows from the financial asset expire.
- B. The contractual rights to receive cash flows of the financial asset have been transferred and the Group has transferred substantially all risks and rewards of ownership of the financial asset.
- C. The contractual right to receive cash flows of the financial assets have been transferred; however, the Group has not retained control of the financial asset.

(10) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- 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. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Buildings	44 years
Testing equipment	5 years ~ 10 years
Office equipment	3 years ~ 5 years
Leasehold improvements	2 years ~ 6 years

(11) Leased assets/ lessee

Payments made under an operating lease net of any incentives received from the lessor are recognised in profit or loss on a straight-line basis over the lease term.

(12) Intangible assets

A. Professional technology is stated at cost and amortized on a straight-line basis over 10 years.

B. Computer software is stated at cost and amortized on a straight-line basis over 2 ~ 5 years.

(13) 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.

(14) Borrowings

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

(15) Notes payable

Notes 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) Provisions

Provisions (decommissioning) are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle

the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(18) Employee benefits

A. Short-term employee benefits

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

B. Pensions

a) Defined contribution plans

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

b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date).
- ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income.
- iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

(19) Employee share-based payment

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

that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

(20) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the 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 consolidated 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 provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred 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 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 and employees' training costs to the extent that it

is possible that future taxable profit will be available against which the unused tax credits can be utilised.

G. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(21) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(22) Revenue recognition

1. Royalty revenues are recognized with the contract when the earning process is substantially completed and are realized or realizable.

2. Co-development revenue shall be recognized in a reasonable and systematic approach during the authorized period, and shall not be recognized in full one time, if the authorization contract of the Group does not meet all of the following criteria:

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

B. The contract is irrevocable.

C. Relevant rights may be at the authorized party's own disposition.

D. The party granting authority has no further obligations after passing on the rights to the authorized party.

3. Milestone payment revenue is recognized upon each milestone achieved by development stage.

(23) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(24) Operating segments

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

5. CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

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

(1) Impairment assessment of tangible and intangible assets

The Group assesses impairment based on its subjective judgement and determines the separate cash flows of a specific group of assets, useful lives of assets and the future possible income and expenses arising from the assets depending on how assets are utilised and industrial characteristics. Any changes in economic circumstances or estimates due to the change of Group strategy might cause material impairment on assets in the future.

(2) 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, tax exempt duration, 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

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Cash on hand	\$ 100	\$ 99	\$ 83
Checking and demand deposits	581,598	767,674	137,676
Time deposits	<u>2,703,855</u>	<u>2,669,445</u>	<u>623,204</u>
	<u>\$ 3,285,553</u>	<u>\$ 3,437,218</u>	<u>\$ 760,963</u>

A. The Group associates with a variety of financial institutions with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all cash and cash equivalents.

B. Details of the Group's bank deposits pledged to others as collateral are provided in Note 8, and these bank deposits are not accounted for as cash and cash equivalents.

(2) Accounts receivable

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Accounts receivable	<u>\$ 34,769</u>	<u>\$ 5,963</u>	<u>\$ 61,603</u>

A. The Group's accounts receivable include royalty revenue and co-development revenue. The average credit term was 30~90 days, therefore, the Group expects that the fair value is equal to its book value.

B. The credit quality of accounts receivable (based on invoice date) was neither past due nor impaired as the counterparties of the Group are corporate pharmaceutical companies with high credit quality. The Group has lower significant concentrations of credit risk and has policies in place to ensure that customers have an appropriate credit history when signing the contract.

C. The maximum exposure to credit risk at March 31, 2014, December 31, 2013 and March 31,

2013 was the carrying amount of accounts receivable.

(3) Property, plant and equipment

A. The details of property, plant and equipment are as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Testing equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2014</u>						
Cost	\$ 14,962	\$ 29,532	\$ 171,172	\$ 9,026	\$ 29,195	\$ 253,887
Accumulated depreciation	-	(2,734)	(53,494)	(4,340)	(8,834)	(69,402)
	<u>\$ 14,962</u>	<u>\$ 26,798</u>	<u>\$ 117,678</u>	<u>\$ 4,686</u>	<u>\$ 20,361</u>	<u>\$ 184,485</u>
<u>2014</u>						
Opening net book amount	\$ 14,962	\$ 26,798	\$ 117,678	\$ 4,686	\$ 20,361	\$ 184,485
Additions	-	-	5,492		95	5,587
Transfer (Note)	-	-	13,368	-	-	13,368
Depreciation charge	-	(165)	(8,464)	(428)	(1,593)	(10,650)
Net exchange differences	-	-	60	1	28	89
Closing net book amonut	<u>\$ 14,962</u>	<u>\$ 26,633</u>	<u>\$ 128,134</u>	<u>\$ 4,259</u>	<u>\$ 18,891</u>	<u>\$ 192,879</u>
<u>At March 31, 2014</u>						
Cost	\$ 14,962	\$ 29,532	\$ 186,470	\$ 8,937	\$ 29,334	\$ 269,235
Accumulated depreciation	-	(2,899)	(58,336)	(4,678)	(10,443)	(76,356)
	<u>\$ 14,962</u>	<u>\$ 26,633</u>	<u>\$ 128,134</u>	<u>\$ 4,259</u>	<u>\$ 18,891</u>	<u>\$ 192,879</u>

	<u>Land</u>	<u>Buildings</u>	<u>Testing equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2013</u>						
Cost	\$ 14,962	\$ 29,532	\$ 81,719	\$ 8,663	\$ 28,576	\$ 163,452
Accumulated depreciation	<u>-</u>	<u>(2,078)</u>	<u>(38,759)</u>	<u>(2,702)</u>	<u>(2,806)</u>	<u>(46,345)</u>
	<u>\$ 14,962</u>	<u>\$ 27,454</u>	<u>\$ 42,960</u>	<u>\$ 5,961</u>	<u>\$ 25,770</u>	<u>\$ 117,107</u>
<u>2013</u>						
Opening net book amount	\$ 14,962	\$ 27,454	\$ 42,960	\$ 5,961	\$ 25,770	\$ 117,107
Additions	-	-	1,384	-	-	1,384
Transfer (Note)	-	-	1,732	-	-	1,732
Depreciation charge	-	(164)	(3,479)	(433)	(1,512)	(5,588)
Net exchange differences	<u>-</u>	<u>-</u>	<u>56</u>	<u>2</u>	<u>36</u>	<u>94</u>
Closing net book amount	<u>\$ 14,962</u>	<u>\$ 27,290</u>	<u>\$ 42,653</u>	<u>\$ 5,530</u>	<u>\$ 24,294</u>	<u>\$ 114,729</u>
<u>At March 31, 2013</u>						
Cost	\$ 14,962	\$ 29,532	\$ 84,978	\$ 8,680	\$ 28,623	\$ 166,775
Accumulated depreciation	<u>-</u>	<u>(2,242)</u>	<u>(42,325)</u>	<u>(3,150)</u>	<u>(4,329)</u>	<u>(52,046)</u>
	<u>\$ 14,962</u>	<u>\$ 27,290</u>	<u>\$ 42,653</u>	<u>\$ 5,530</u>	<u>\$ 24,294</u>	<u>\$ 114,729</u>

Note: Transferred from prepayments for business facilities (recorded as other non-current assets).

- B. Information about the investment activities that were partially paid by cash is provided in Note 6(22).
- C. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(4) Intangible assets

A. The details of intangible assets are as follows:

	<u>Professional technology</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1, 2014</u>			
Cost	\$ 49,113	\$ 3,707	\$ 52,820
Accumulated amortisation	(25,943)	(890)	(26,833)
	<u>\$ 23,170</u>	<u>\$ 2,817</u>	<u>\$ 25,987</u>
<u>2014</u>			
Opening net book amount	\$ 23,170	\$ 2,817	\$ 25,987
Addition-acquired separately	-	2,038	2,038
Amortisation charge	(1,275)	(429)	(1,704)
Net exchange differences	45	-	45
Closing net book amount	<u>\$ 21,940</u>	<u>\$ 4,426</u>	<u>\$ 26,366</u>
<u>At March 31, 2014</u>			
Cost	\$ 49,157	\$ 5,745	\$ 54,902
Accumulated amortisation	(27,217)	(1,319)	(28,536)
	<u>\$ 21,940</u>	<u>\$ 4,426</u>	<u>\$ 26,366</u>
	<u>Professional technology</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1, 2013</u>			
Cost	\$ 49,050	\$ 1,473	\$ 50,523
Accumulated amortisation	(20,851)	(275)	(21,126)
	<u>\$ 28,199</u>	<u>\$ 1,198</u>	<u>\$ 29,397</u>
<u>2013</u>			
Opening net book amount	\$ 28,199	\$ 1,198	\$ 29,397
Amortisation charge	(1,272)	(98)	(1,370)
Net exchange differences	64	-	64
Closing net book amount	<u>\$ 26,991</u>	<u>\$ 1,100</u>	<u>\$ 28,091</u>
<u>At March 31, 2013</u>			
Cost	\$ 49,114	\$ 1,473	\$ 50,587
Accumulated amortisation	(22,123)	(373)	(22,496)
	<u>\$ 26,991</u>	<u>\$ 1,100</u>	<u>\$ 28,091</u>

B. The details of the amortisation charge of intangible assets (recorded in operating expenses) are as follows:

	For the three-month periods ended March 31,	
	2014	2013
General and administrative expenses	\$ 316	\$ 217
Research and development expenses	1,388	1,153
	<u>\$ 1,704</u>	<u>\$ 1,370</u>

C. Information about the investment activities that were partially paid by cash is provided in Note 6(22).

(5) Other non-current assets

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Prepaid expense for medicines research - over one year	\$ 20,000	\$ 20,000	\$ 20,000
Prepayments for business facilities	3,287	16,230	27,857
Refundable deposits	4,288	4,011	3,427
Other financial assets - non-current	1,768	2,432	8,226
	<u>\$ 29,343</u>	<u>\$ 42,673</u>	<u>\$ 59,510</u>

(6) Other payables

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Salaries and bonuses	\$ 17,475	\$ 17,067	\$ 11,768
Research medicine expenses	10,881	6,100	2,353
Research expenses	3,623	13,424	12,271
Service expenses	3,621	6,341	2,100
Payables on machinery and equipment	2,187	10,246	10,694
Accrued expenses	7,717	8,288	5,493
	<u>\$ 45,504</u>	<u>\$ 61,466</u>	<u>\$ 44,679</u>

(7) Long-term borrowings

<u>Type of loans</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>March 31, 2014</u>
Taiwan Business Bank secured borrowings	Note 1	2.25%	Land and buildings	\$ 40,811
Taiwan Business Bank secured borrowings	Note 2	3.00%	Demand deposits	9,710
Taiwan Business Bank secured borrowings	Note 3	1%	Demand deposits	12,420
Taiwan Business Bank secured borrowings	Note 4	1%	Time deposits	<u>2,024</u>
				64,965
Less: current portion (recorded as other current liabilities)				(<u>17,510</u>)
				<u>\$ 47,455</u>

<u>Type of loans</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>December 31, 2013</u>
Taiwan Business Bank secured borrowings	Note 1	2.25%	Land and buildings	\$ 41,353
Taiwan Business Bank secured borrowings	Note 2	3.00%	Demand deposits	11,652
Taiwan Business Bank secured borrowings	Note 3	1%	Demand deposits	13,800
Taiwan Business Bank secured borrowings	Note 4	1%	Time deposits	<u>3,036</u>
				69,841
Less: current portion (recorded as other current liabilities)				(<u>18,510</u>)
				<u>\$ 51,331</u>

Type of loans	Borrowing period and repayment term	Interest rate	Collateral	March 31, 2013
Taiwan Business Bank secured borrowings	Note 1	2.495%	Land and buildings	\$ 42,959
Taiwan Business Bank secured borrowings	Note 2	3.29%	Demand deposits	17,478
Taiwan Business Bank secured borrowings	Note 3	1%	Demand deposits	17,940
Taiwan Business Bank secured borrowings	Note 4	1%	Time deposits	<u>6,072</u>
				84,449
Less: current portion (recorded as other current liabilities)				(<u>19,441</u>)
				<u>\$ 65,008</u>

Note 1: The Company entered into a loan contract with Taiwan Business Bank in 2009 in the amount of \$43,650 for the purchase of land and building. The contract period is from November 2009 to November 2029. The principal and interest of the loan is payable monthly from the third year after the drawdown date.

Note 2: The Company entered into a “Synergistic Dual - Function Anticancer Lipotecan Development Project” and signed the loan contract with the Industrial Development Bureau in 2009 in the amount of \$31,080 (the bank: Taiwan Business Bank). The contract period is from December 2009 to April 2015. The principal of the loan is payable quarterly from July 15, 2011.

Note 3: The Company entered into a “Synergistic Dual - Function Anticancer Me - Too New Chemical Entity (ME-TOO NCE) Development Project” and signed the loan contract with the Industrial Development Bureau in 2007 in the amount of \$40,000 (the bank: Taiwan Business Bank). The original contract period is from June 2007 to April 2013. In 2009, the Company requested for the extension of the maturity date to April 2016. The loan is payable in quarterly capital installments of \$1,380 (first quarter: \$2,500; second quarter: \$1,620), with a moratorium until July 2009 and maturing in April 2016.

Note 4: The Company entered into a “Development of Level NanoVNB” and signed the loan contract with the Industrial Development Bureau in 2005 in the amount of \$38,000 (the bank: Taiwan Business Bank). The original contract period is from October 2005 to July 2011. In 2009, the Company requested for the extension of the maturity date to July 2014. The loan is payable in quarterly capital installments of \$1,012 (first quarter: \$2,580; second to seventh quarter: \$2,530 each quarter), with a moratorium until January 2008 and maturing in July 2014.

As of March 31, 2014, December 31, 2013 and March 31, 2013, the Group had no undrawn loan facilities. The information about the Group’s liquidity risk is provided in Note 12 (2) C (c).

(8) Pensions

- A. a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee.
- b) For the aforementioned pension plan, the Group recognised pension costs of \$60 and \$55 for the three-month periods ended March 31, 2014 and 2013, respectively.

Details of expenses recognised in statements of comprehensive income are as follows:

	For the three-month periods ended March 31,	
	2014	2013
General and administrative expenses	\$ 5	\$ 4
Research and development expenses	55	51
	<u>\$ 60</u>	<u>\$ 55</u>

- (c) Expected contributions to the defined benefit pension plans of the Group within one year from March 31, 2014 are \$236.
- B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plans of the Company for the three-month periods ended March 31, 2014 and 2013 were \$1,322 and \$924, respectively.
- C. The subsidiaries have defined contribution plans in accordance with the local regulations, and contributions are based on a certain percentage of employees' salaries and wages. Other than the yearly contributions, the Group has no further obligations. The pension costs of the subsidiaries for the three-month periods ended March 31, 2014 and 2013 were \$105 and \$75, respectively.

(9) Share-based payment

A. As of March 31, 2014 and 2013, the Company's equity-settled share-based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted (in thousands)</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Employee stock options	2009.10.29	788.0	5 years	1 year service vested immediately (Note 1)
"	2010.01.21	200.0	5 years	1 year service vested immediately (Note 1)
"	2010.07.22	108.0	5 years	1 year service vested immediately (Note 1)
"	2011.07.14	1,200.0	5 years	2 years service vested immediately (Note 2)
"	2011.12.23	168.0	5 years	2 years service vested immediately (Note 2)
"	2012.05.08	132.0	5 years	2 years service vested immediately (Note 2)
"	2013.11.14	1365.0	5 years	2 years service vested immediately (Note 2)
"	2014.03.20	250.0	5 years	2 years service vested immediately (Note 2)
Cash capital increase reserved for employee preemption	2012.12.14	693.0	None	Vested immediately
"	2013.07.14	1,500.0	None	Vested immediately

(Note 1) Employees with 1 year service are entitled to 25%; after one year expiration, the ratio will increase by 1/48 every month for the following 36 months; and employees with 4 years service are entitled to 100%.

(Note 2) Employees with 2 service years are entitled to 50%; after one year expiration, the ratio will increase by 1/48 every month for the following 24 months; and employees with 4 years service are entitled to 100%.

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

	For the three-month periods ended March 31,			
	2014		2013	
	No. of units (in thousands)	Weighted- average exercise price (in dollars)	No. of units (in thousands)	Weighted- average exercise price (in dollars)
Options outstanding at beginning of the period	2,299.2	\$ 242	1,543.3	\$ 44
Options granted	250.0	272	-	-
Options exercised	(126.5)	38	-	-
Options revoked	(29.8)	127	-	-
Options outstanding at end of the period	<u>2,392.9</u>	258	<u>1,543.3</u>	44
Options exercisable at end of the period	<u>304.4</u>	28~69.9	<u>95.2</u>	28
Options permitted but not yet outstanding at end of year	<u>145</u>	272~379	<u>-</u>	

C. The weighted-average stock price of stock options at exercise dates for the three-month periods ended March 31, 2014 and 2013 was \$302.78 (in dollars) and \$347.2 (in dollars), respectively.

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

March 31, 2014					
Options outstanding at end of period			Options exercisable at end of period		
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)
\$ 28	34.5	0.73	\$ 28	31.2	\$ 28
35	569.4	2.29	35	254.3	35
69.9	84.0	2.73	69.9	18.9	69.9
117.3	112.0	3.11	117.3	-	-
379	1,343.0	4.63	379	-	-
272	250.0	4.97	272	-	-
	<u>2,392.9</u>			<u>304.4</u>	

December 31, 2013						
			Options outstanding at end of period		Options exercisable at end of period	
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)	
\$ 28	50.6	0.98	\$ 28	41.5	\$ 28	
35	687.8	2.54	35	292.3	35	
69.9	97.8	2.98	69.9	27.7	69.9	
117.3	112.0	3.36	117.3	-	-	
379	1,351.0	4.87	379	-	-	
	<u>2,299.2</u>			<u>361.5</u>		

March 31, 2013						
			Options outstanding at end of period		Options exercisable at end of period	
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)	
\$ 28	247.3	1.71	\$ 28	95.2	\$ 28	
35	1,025.0	3.29	35	-	-	
69.9	149.0	3.73	69.9	-	-	
117.3	122.0	4.11	117.3	-	-	
	<u>1,543.3</u>			<u>95.2</u>		

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

Employee stock options

	<u>March 20, 2014</u>	<u>November 14, 2013</u>	<u>May 8, 2012</u>
Grant date			
Dividend yield rate	-	-	-
Exercise price volatility	46.06%	48.51%	42.44%
Risk-free interest rate	0.92%~1.10%	1.00%~1.18%	1.00%
Expected vesting period (years)	3.5~4.5	3.5~4.5	3.875
Per share exercise price (in dollars) \$	272	\$ 379	\$ 117.3
Weighted stock options average			
fair value (in dollars)	94~106	137~155	5.18~7.29
Grant date	<u>December 23, 2011</u>	<u>July 14, 2011</u>	<u>July 22, 2010</u>
Dividend yield rate	-	-	-
Exercise price volatility	43.92%	44.70%	41.66%
Risk-free interest rate	1.00%	1.14%	0.64%
Expected vesting period (years)	3.875	3.875	3.75
Per share exercise price (in dollars) \$	69.9	\$ 35	\$ 28
Weighted stock options average			
fair value (in dollars)	1.36~2.14	2.05~2.80	1.76~2.81
Grant date	<u>January 21, 2010</u>	<u>October 29, 2009</u>	
Dividend yield rate	-	-	
Exercise price volatility	42.23%	48.10%	
Risk-free interest rate	0.65%	0.76%	
Expected vesting period (years)	3.75	3.75	
Per share exercise price (in dollars) \$	28	\$ 28	
Weighted stock options average			
fair value (in dollars)	2.52~3.75	3.16~3.88	
<u>Cash capital increase reserved for employee preemption</u>			
Grant date	<u>July 14, 2013</u>	<u>December 14, 2012</u>	
Dividend yield rate	-	-	
Exercise price volatility	50.57%	45.84%	
Risk-free interest rate	0.60%	0.67%	
Expected vesting period (years)	0.14	0.01	
Per share exercise price (in dollars) \$	298	\$ 158	
Weighted stock options average			
fair value (in dollars)	57.88	-	

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

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Equity-settled	<u>\$ 18,859</u>	<u>\$ -</u>

(10) Provisions (Decommissioning liabilities)

	For the three-month periods ended March 31,	
	2014	2013
At January 1	\$ 3,087	\$ 4,137
Used during the period	-	(1,050)
At March 31	<u>\$ 3,087</u>	<u>\$ 3,087</u>

Analysis of total provisions:

	March 31, 2014	December 31, 2013	March 31, 2013
Non-current	<u>\$ 3,087</u>	<u>\$ 3,087</u>	<u>\$ 3,087</u>

In accordance with the requirements specified in the agreement, the Group bears the obligation for the costs of dismantling, removing the asset and restoring the site of its rented office in the future. A provision is recognised for the present value of costs to be incurred for dismantling, removing the asset and restoring the site. It is expected that the provision will be used in 4 years.

(11) Share capital

A. As of March 31, 2014, the Company's authorized capital was \$600,000, and the paid-in capital was \$547,552, with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows (Unit: thousand shares):

	For the three-month periods ended March 31,	
	2014	2013
At January 1	54,629	43,993
Employee stock options exercised	126	77
At March 31	<u>54,755</u>	<u>44,070</u>

B. To increase the Company's working capital, the stockholders at their extraordinary stockholders' meeting on March 10, 2011 adopted a resolution to raise additional cash through private placement with the effective date set on March 25, 2011. The maximum number of shares to be issued through the private placement is 4,711 thousand shares at an estimated subscription price of \$42.45 (in dollars) per share. The amount of capital raised through the private placement was \$200,000 which had been registered. Pursuant to the Securities and Exchange Law, the ordinary shares raised through the private placement are subject to certain transfer restrictions and cannot be listed on the stock exchange until three years after they have been issued and have been offered publicly. Other than these restrictions, the rights and obligations of the ordinary shares raised through the private placement are the same as other issued ordinary shares.

(12) Capital surplus

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

(13) Accumulated deficit

A. Under the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:

- a. Payment of taxes and duties.
- b. Cover prior years' accumulated deficit, if any.
- c. After deducting items a and b, set aside 10% of the remaining amount as legal reserve.
- d. After deducting items a to c, appropriating 2% of remaining earnings as remuneration to directors and supervisors.
- e. After deducting items a to c, appropriating 2%~8% of remaining earnings as employees' bonuses.

B. The Company's dividend policy is summarized below:

As the Company operates in a volatile business environment and is in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans. According to the dividend policy adopted by the Board of Directors, cash dividends shall account for at least 10% of the total dividends distributed.

C. Under the R.O.C. Company Law, when the accumulated deficit exceeds 50% of the capital, the directors should convene a meeting of the stockholders and report the situation.

D. (a) The stockholders during their meeting on June 28, 2013 adopted a resolution to use capital reserve amounting to \$229,974 to cover accumulated deficit.

(b) The Board of Directors during its meeting on March 20, 2014 proposed to cover accumulated losses of \$405,977 with capital reserve, but as of March 20, 2014, the proposal has not yet been resolved by the stockholders.

Information on the above as proposed by the Board of Directors and resolved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

E. As of March 31, 2014, the Company had an accumulated deficit. Therefore, the earnings distribution information disclosure is not applicable.

(14) Other equity items

The Group's other equity items are exchange differences on translation of foreign financial statements. The movement in other equity items during the period is as follows:

	For the three-month periods ended March 31,	
	2014	2013
At January 1	(\$ 214)	(\$ 769)
Currency translation differences-group	556	524
At March 31	<u>\$ 342</u>	<u>(\$ 245)</u>

(15) Operating revenue

	For the three-month periods ended March 31,	
	2014	2013
Co-development revenue	\$ 27,370	\$ 68,562
Royalty payment revenue	8,617	8,646
	<u>\$ 35,987</u>	<u>\$ 77,208</u>

A. Co-development revenue is the revenue arising from authorized co-development generic drugs.

The details are as follows:

- a) The Company, TEVA Pharmaceuticals, Curacao, NV. (TEVA) and TWI Pharmaceuticals, Inc. (TWI) signed an agreement to co-develop generic drugs in March 2012. This agreement authorizes TEVA to sell anti-cancer drugs developed by the Company in USA. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched to the market, a royalty fee will be received by the Company, which is equal to a certain percentage of its net sales revenue. However, the Company signed a new cooperation agreement with TEVA and TWI separately in September and November 2013, respectively. Under the agreement, the Company will lead the future development of the product strategy, and the Company will no longer receive milestone payments from TEVA and TWI. After the new drug is launched in the market, the royalty fee to be received by the Company based on the net sales revenue will be raised.
- b) The Company and YUNGSHIN PHARM IND. CO. LTD. (YSP) signed an agreement to co-develop, produce and promote generic drugs. This agreement authorizes YSP the exclusive right in Taiwan to produce and promote. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched to the market, a royalty fee will be received by the Company, which is equal to a certain percentage of its net sales revenue. The Company acquired the drug permit license from the Ministry of Health and Welfare, Executive Yuan, on July 1, 2013.
- c) The Company signed new injections/new medicine cooperative development agreement

with SciClone Pharmaceuticals International China Holding Ltd. (“SciClone”). Under the agreement, the Company authorized SciClone to sell related products in China, Hong Kong and Macau. The Company recognizes up-front payment revenue during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, the Company will receive a royalty fee based on a fixed amount depending on the amount of net sales revenue achieved, but not to exceed the maximum amount set in the agreement.

- d) The Company authorized SamChunDang Pharm Co., Ltd. (“SamChunDang”) to sell special generic products in Korea. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, a royalty fee will be received by the Company, which is equal to a certain amount depending on the sales volume subject to a certain ceiling.
 - e) The Company and Sandoz AG. (“Sandoz”) signed an agreement to sell special generic products in Europe and USA. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, a royalty fee will be received by the Company. The Company also recognizes performance-based milestone payment revenue upon entering the local market in Europe and USA, and if net sales reached a certain sales volume for the first time within five years.
- B. The details of royalty payment revenue are as follows:
- a) The Company granted TTY Biopharm Company Limited (TTY) the exclusive right in Taiwan to produce and promote LIPO-DOX, a medicinal product developed by the Company. Under the contract, royalty payments are based on 12% of the sales from the products sold.
 - b) The Company authorizes YSP the exclusive right in Taiwan to produce and promote generic drugs. Under the contract, the Company will receive a royalty fee based on a certain percentage of the net sales revenue.

(16) Other income

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Interest income	\$ 5,891	\$ 1,067
Others	926	36
	<u>\$ 6,817</u>	<u>\$ 1,103</u>

(17) Other gains and losses

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Net currency exchange gain (loss)	<u>\$ 2,067</u>	<u>(\$ 2,861)</u>

(18) Expenses by nature (Recorded in operating expenses)

	For the three month periods ended March 31,	
	2014	2013
Employee benefit expense	\$ 60,745	\$ 26,993
Depreciation charges on property, plant and equipment	10,650	5,588
Amortization charges on intangible assets	1,704	1,370
Research expenses	38,177	26,653
Research medicine expenses	38,452	3,442
Service expenses	7,729	2,821
Operating lease payments	4,915	4,255
Transportation expenses	697	1,288
Other expenses	11,135	8,657
	<u>\$ 174,204</u>	<u>\$ 81,067</u>

(19) Employee benefit expense

	For the three-month periods ended March 31,	
	2014	2013
Wages and salaries	\$ 36,354	\$ 23,081
Employee stock options	18,859	-
Labor and health insurance fees	2,482	1,830
Pension costs	1,487	1,054
Other personnel expenses	1,563	1,028
	<u>\$ 60,745</u>	<u>\$ 26,993</u>

(20) Income tax

A. Components of income tax expense:

	For the three-month periods ended March 31,	
	2014	2013
Current tax:		
Current tax on profits for the period	<u>\$ 40</u>	<u>\$ -</u>

B. The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority.

C. As of March 31, 2014, December 31, 2013 and March 31, 2013, the balance of the imputation tax credit account was \$0, and there was no distributable earnings. The creditable tax rate was not applicable.

(21) Loss per share

	<u>For the three-month period ended March 31, 2014</u>		
	<u>Amount</u>	<u>Weighted average</u>	<u>Loss per share</u>
	<u>after tax</u>	<u>number of ordinary</u>	<u>(in dollars)</u>
		<u>shares outstanding</u>	
		<u>(shares in thousands)</u>	
<u>Basic loss per share</u>			
Loss attributable to ordinary shareholders of the Company	(\$ 129,716)	54,755	<u>(\$ 2.37)</u>
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(Note)	
<u>Diluted loss per share</u>			
Loss attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	<u>(\$ 129,716)</u>	<u>54,755</u>	<u>(\$ 2.37)</u>

	<u>For the three-month period ended March 31, 2013</u>		
	<u>Amount</u>	<u>Weighted average</u>	<u>Loss per share</u>
	<u>after tax</u>	<u>number of ordinary</u>	<u>(in dollars)</u>
		<u>shares outstanding</u>	
		<u>(shares in thousands)</u>	
<u>Basic loss per share</u>			
Loss attributable to ordinary shareholders of the Company	(\$ 6,094)	44,062	<u>(\$ 0.14)</u>
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(Note)	
<u>Diluted loss per share</u>			
Loss attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	<u>(\$ 6,094)</u>	<u>44,062</u>	<u>(\$ 0.14)</u>

(Note) Since the shares have anti-dilutive effect when using the treasury method, such shares shall not be included.

(22) Non-cash transactions

Investing activities with partial cash payments

	For the three-month periods ended March 31,	
	2014	2013
Purchases of fixed assets	\$ 5,587	\$ 1,384
Add: Opening balance of payable on equipment	13,333	4,321
Less: Ending balance of payable on equipment	(4,579)	(4,321)
Cash paid	<u>\$ 14,341</u>	<u>\$ 1,384</u>

	For the three-month periods ended March 31,	
	2014	2013
Purchases of intangible assets	\$ 2,038	\$ -
Add: Opening balance of payable on intangible assets	-	-
Less: Ending balance of payable on intangible assets	(443)	-
Cash paid	<u>\$ 1,595</u>	<u>\$ -</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

There is no ultimate parent and ultimate controlling party since the Company is publicly held.

(2) Significant transactions and balances with related parties

The Company's Chairman provided guarantees for the Company's long-term loans with the Industrial Development Bureau. As of March 31, 2014, December 31, 2013, and March 31, 2013, details of loans are described in Note 6(7).

(3) Key management compensation

	For the three-month periods ended March 31,	
	2014	2013
Salaries and other short-term employee benefits	\$ 4,392	\$ 4,173
Share-based payments	791	-
Post-employment benefits	27	27
	<u>\$ 5,210</u>	<u>\$ 4,200</u>

8. PLEDGED ASSETS

<u>Assets Pledged</u>	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>	<u>Pledge purpose</u>
Shown as other current assets				
Demand deposits	\$ 2,658	\$ 2,658	\$ 2,658	Note 1
Time deposits	3,800	3,800	-	Note 1
	<u>\$ 6,458</u>	<u>\$ 6,458</u>	<u>\$ 2,658</u>	
Shown as other non-current assets				
Demand deposits	\$ 1,768	\$ 2,432	\$ 4,426	Note 1
Time deposits	-	-	3,800	Note 1
	<u>\$ 1,768</u>	<u>\$ 2,432</u>	<u>\$ 8,226</u>	
Shown as property, plant and equipment				
Land	\$ 14,962	\$ 14,962	\$ 14,962	Note 2
Buildings	26,633	26,798	27,290	Note 2
	<u>\$ 41,595</u>	<u>\$ 41,760</u>	<u>\$ 42,252</u>	

Note 1: The Company provided collaterals for loans and government subsidies.

Note 2: The Company provided collaterals for loans.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

Under a certain special generic products agreement, the Company is required to have a certain market supply capacity before the launch of the products in the market. Otherwise, the Company is obligated to pay a certain amount as compensation.

(2) Commitments

A. Capital expenditures contracted for at the balance sheet date but not yet incurred are as follows:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Property, plant and equipment	\$ 590	\$ 8,816	\$ 22,638

B. Operating lease commitments

The Group leases offices with lease terms between 1 and 4 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The future aggregate minimum lease payments are as follows:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Not later than one year	\$ 15,611	\$ 15,474	\$ 15,800
Later than one year but not later than five years	<u>21,827</u>	<u>27,631</u>	<u>36,706</u>
Total	<u>\$ 37,438</u>	<u>\$ 43,105</u>	<u>\$ 52,506</u>

C. The Company had outstanding commitments on purchase contracts for the research of medicines as follows:

<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
<u>\$ 82,927</u>	<u>\$ 83,192</u>	<u>\$ 26,033</u>

D. The Company had outstanding commitments on research and development as follows:

<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
<u>\$ 334,469</u>	<u>\$ 361,782</u>	<u>\$ 200,638</u>

E. The Company has signed a licensing technology transition contract with TWI and charges royalties of USD 5,000,000 maximum according to its R&D achievement rate. Once the new drug is launched in the market, the Company will pay a royalty fee based on a certain percentage of the net sales revenue.

F. The Company's subsidiary entered into a synthesis technology of novel camptothecin derivative transfer agreement with California Pacific Medical Center (CPMC). Under the agreement, CPMC charges the Company's subsidiary a patent usage fee of USD 10,000 per annum and charges royalties of USD 300,000 maximum according to its R&D achievement rate and charges royalties equal to a certain percentage of relevant sales volume in the future. As of March 31, 2014, it had paid USD 100,000 in royalty.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In order to attract and retain highly qualified employees, the Board of Directors during its meeting on May 8, 2014 proposed to issue 350 thousand shares of employee restricted ordinary shares with a par value of \$10 (in dollars) per share. The proposal will be effective upon approval by the shareholders.

12. OTHERS

(1) Capital risk 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. In order to improve the Group's capital structure, the Group may issue new shares or sell assets to reduce debt rate. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital.

As of March 31, 2014, December 31, 2013 and March 31, 2013, the Group's debt ratios are as follows:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Total debt	\$ 130,634	\$ 152,666	\$ 143,097
Total capital	\$ 547,552	\$ 546,288	\$ 440,696
Debt ratio	<u>23.86%</u>	<u>27.95%</u>	<u>32.47%</u>

(2) Financial instruments

A. Fair value information of financial instruments

- (a) The book value of financial instruments measured at amortized cost (including cash and cash equivalents, accounts receivable, other receivables, notes payable and other payables) are approximate to their fair values.
- (b) Other financial assets (shown as other current assets and other non-current assets) are pledged demand deposits. Their book value is the reasonable basis for fair value estimation under the assumption that the amounts of those financial instruments are expected to be received by the Company at the balance sheet date.
- (c) The fair value of long-term loans is based on the present value of their expected cash flows. The effect of discounting is minor, thus, the book value is a reasonable basis for fair value estimation.

B. Financial risk management policies

- (a) The Group's activities expose the Group to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.
- (b) Risk management is carried out by a central treasury department (Group Treasury) in accordance with the policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and the investment of excess liquidity.
- (c) To meet its risk management objectives, the Group's procedure of hedge focus on market risk and cash flow interest rate risk.

C. Significant financial risks and degree of financial risks

(a) Market risk

i. Foreign exchange risk

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

(Foreign currency: functional currency)	March 31, 2014		
	Foreign Currency Amount (In thousands)	Exchange Rate	Book Value (NTD) (In thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ 3,351	30.470	\$ 102,105
GBP : NTD	177	50.710	8,976
RMB : NTD	598	4.900	2,930
<u>Non-monetary items</u>			
USD : NTD	1,418	30.470	43,205
EUR : NTD	18	41.930	743
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	364	30.470	11,091
EUR : NTD	15	41.930	629
GBP : NTD	20	50.710	1,014

December 31, 2013			
(Foreign currency: functional currency)	Foreign Currency Amount (In thousands)	Exchange Rate	Book Value (NTD) (In thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ 3,077	29.815	\$ 91,741
GBP : NTD	268	49.280	13,207
<u>Non-monetary items</u>			
USD : NTD	1,447	29.805	43,139
EUR : NTD	16	41.090	641
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	439	29.815	13,089
EUR : NTD	172	41.090	7,067
GBP : NTD	36	49.280	1,774
AUD : NTD	105	26.585	2,791
March 31, 2013			
(Foreign currency: functional currency)	Foreign Currency Amount (In thousands)	Exchange Rate	Book Value (NTD) (In thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ 926	29.825	\$ 27,618
GBP : NTD	412	45.320	18,672
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	222	29.825	6,621
AUD : NTD	200	31.075	6,215

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

(Foreign currency: functional currency)	For the three-month period ended March 31, 2014		
	Sensitivity Analysis		
	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	1%	\$ 1,021	\$ -
GBP : NTD	1%	90	-
RMB : NTD	1%	29	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	111	-
EUR : NTD	1%	6	-
GBP : NTD	1%	10	-
(Foreign currency: functional currency)	For the three-month period ended March 31, 2013		
	Sensitivity Analysis		
	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	1%	\$ 276	\$ -
GBP : NTD	1%	187	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	66	-
AUD : NTD	1%	62	-

ii. Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the years ended March 31, 2014 and 2013, the Group's loans at variable rate were denominated in the NTD.

At March 31, 2014 and 2013, if interest rates had been 0.2% higher/lower with all other conditions held constant, net loss for the three-month periods ended March 31, 2014 and 2013 would have been \$25 and \$30 higher/lower, respectively.

(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, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before signing the license agreement. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Credit risk arises from cash and deposits with banks and financial institutions, as well as credit exposures to corporate pharmaceutical factories, including outstanding receivables. For banks and financial institutions, only rated parties with a good rating are accepted.
- ii. The Group's deposits with banks and credit quality of accounts receivable are provided in Notes 6.(1) and 6.(2), respectively.

(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 table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	March 31, 2014				
	<u>1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Notes payable	\$ 205	\$ -	\$ -	\$ -	\$ -
Other payables	45,504	-	-	-	-
Long-term borrowings (including current portion)	18,633	10,619	4,477	6,187	32,996

	December 31, 2013				
	<u>1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Notes payable	\$ 2,791	\$ -	\$ -	\$ -	\$ -
Other payables	61,466	-	-	-	-
Long-term borrowings (including current portion)	19,707	12,605	5,864	6,186	33,770

	March 31, 2013				
	<u>1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Other payables	\$44,679	\$ -	\$ -	\$ -	\$ -
Long-term borrowings (including current portion)	19,441	17,553	9,710	6,030	31,715

(3) Fair value estimation

The Group had no financial instruments measured at fair value, by valuation method as of March 31, 2014, December 31, 2013 and March 31, 2013.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

All the transactions with subsidiaries disclosed below had been eliminated when preparing consolidated financial statements. The disclosure information as follows is for reference only.

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- D. Aggregate purchases or sales of the same securities reaching \$300 million or 20% of paid-in capital or more: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Derivative financial instruments undertaken during the three-month period ended March 31, 2014: None.
- J. Significant inter-company transactions during the three-month period ended March 31, 2014:

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount (Thousands) (Note 5)	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company	2	Operating revenue	\$ 9,556	(Note 4)	26.55%
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company	2	Accounts receivable	9,746	(Note 4)	0.27%

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

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

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries or between subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other is not required to disclose the transaction.):

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

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

Note 4: Transaction items follow the agreement.

Note 5: Only related party transactions in excess of \$1,000 are disclosed.

(2) Information on investees (not including investees in Mainland China)

All the transactions with subsidiaries disclosed below had been eliminated when preparing consolidated financial statements. The disclosure information as follows is for reference only. Information related to investee companies' investment income or loss was translated at the average exchange rate for the three-month period ended March 31, 2014 while others were translated at the rate of exchange prevailing on March 31, 2014.

Information on investee companies:

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as of March 31, 2014			Net income of the investee for the three-month period ended March 31, 2014	Investment income (loss) recognised by the Company for the three-month period ended March 31, 2014	Note
				Balance as of March 31, 2014	Balance as of December 31, 2013	Number of shares	Ownership (%)	Book value			
Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	USA	Research on new anti-cancer drugs and biotechnology	\$ 55,433	\$ 55,433	3,100,000	100	\$ 43,205	\$ 704	(\$ 449)	
Taiwan Liposome Company	TLC Biopharmaceuticals, B.V.	Netherlands	Technical authorization and product development	4,410	4,410	1,000,000	100	743	61	61	

(3) Information on investments in Mainland China:

None.

14. SEGMENT INFORMATION

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