

**TAIWAN LIPOSOME COMPANY**

**FINANCIAL STATEMENTS AND**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**DECEMBER 31, 2013 AND 2012**

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

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Taiwan Liposome Company

We have audited the accompanying balance sheets of Taiwan Liposome Company as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related statements of comprehensive income, of changes in equity and of cash flows for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Liposome Company as of December 31, 2013, December 31, 2012 and January 1, 2012, and their financial performance and cash flows for the years ended December 31, 2013 and 2012 in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

PricewaterhouseCoopers, Taipei, Taiwan

March 20, 2014

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The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and 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  
BALANCE SHEETS  
DECEMBER 31, 2013, DECEMBER 31, 2012 AND JANUARY 1, 2012  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	Notes	December 31, 2013		December 31, 2012		January 1, 2012		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current Assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 3,430,560	92	\$ 901,856	80	\$ 300,222	59
1170	Accounts receivable, net	6(2)	5,963	-	35,065	3	5,251	1
1200	Other receivables		1,839	-	639	-	8,888	2
1220	Current income tax assets		995	-	121	-	76	-
1410	Prepayments	6(3)	35,116	1	4,722	1	36,043	7
1470	Other current assets	8	6,458	-	2,658	-	4,326	1
11XX	<b>Total Current Assets</b>		<u>3,480,931</u>	<u>93</u>	<u>945,061</u>	<u>84</u>	<u>354,806</u>	<u>70</u>
<b>Non-current Assets</b>								
1550	Investments accounted for under equity method	6(4)	43,780	1	45,461	4	48,296	9
1600	Property, plant and equipment	6(5) and 8	180,378	5	113,807	10	86,801	17
1780	Intangible assets		2,817	-	1,198	-	962	-
1900	Other non-current assets	6(6) and 8	42,380	1	24,573	2	19,175	4
15XX	<b>Total Non-current Assets</b>		<u>269,355</u>	<u>7</u>	<u>185,039</u>	<u>16</u>	<u>155,234</u>	<u>30</u>
1XXX	<b>Total Assets</b>		<u>\$ 3,750,286</u>	<u>100</u>	<u>\$ 1,130,100</u>	<u>100</u>	<u>\$ 510,040</u>	<u>100</u>

(Continued)

**TAIWAN LIPOSOME COMPANY**  
**BALANCE SHEETS (CONTINUED)**  
**DECEMBER 31, 2013, DECEMBER 31, 2012 AND JANUARY 1, 2012**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

Liabilities and Equity	Notes	December 31, 2013		December 31, 2012		January 1, 2012	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current Liabilities</b>							
2150	Notes payable	\$ 2,791	-	\$ 12,952	1	\$ 2,462	-
2200	Other payables	6(7)(23) 70,853	2	121,426	11	38,230	8
2250	Provisions for liabilities - current	6(11) -	-	1,050	-	-	-
2300	Other current liabilities	6(8) 27,275	1	23,129	2	25,400	5
21XX	<b>Total Current Liabilities</b>	100,919	3	158,557	14	66,092	13
<b>Non-current Liabilities</b>							
2540	Long-term borrowings	6(8) 51,331	1	69,874	6	89,305	17
2550	Provisions for liabilities - non-current	6(11) 3,087	-	3,087	1	3,853	1
2600	Other non-current liabilities	6(9) 6,677	-	2,207	-	2,593	1
25XX	<b>Total Non-current Liabilities</b>	61,095	1	75,168	7	95,751	19
2XXX	<b>Total Liabilities</b>	162,014	4	233,725	21	161,843	32
<b>Equity</b>							
<b>Share capital</b>							
	6(12)						
3110	Common stock	546,288	15	439,930	39	391,006	77
3140	Advance receipts for share capital	-	-	2,146	-	-	-
<b>Capital surplus</b>							
	6(13)						
3200	Capital surplus	3,448,175	92	690,233	61	425,202	83
<b>Retained earnings</b>							
3350	Accumulated deficit	6(14) ( 405,977)( 11)	( 235,165)( 21)	( 468,011)( 92)			
<b>Other equity</b>							
3400	Other equity	6(15) ( 214)	-	( 769)	-	-	-
3XXX	<b>Total equity</b>	3,588,272	96	896,375	79	348,197	68
<b>Significant contingent liabilities and 9 unrecognised contract commitments</b>							
<b>Subsequent events</b>							
	11						
<b>Total liabilities and equity</b>		<u>\$ 3,750,286</u>	<u>100</u>	<u>\$ 1,130,100</u>	<u>100</u>	<u>\$ 510,040</u>	<u>100</u>

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

**TAIWAN LIPOSOME COMPANY**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT LOSS PER SHARE AMOUNT)

Items	Notes	2013		2012	
		AMOUNT	%	AMOUNT	%
4000 <b>Sales revenue</b>	6(16)	\$ 158,644	100	\$ 240,656	100
<b>Operating expenses</b>	6(19)(20)				
6200 General and administrative expenses		( 96,217)	( 61)	( 54,925)	( 23)
6300 Research and development expenses		( 470,285)	( 296)	( 374,730)	( 155)
6000 <b>Total operating expenses</b>		( 566,502)	( 357)	( 429,655)	( 178)
6900 <b>Operating loss</b>		( 407,858)	( 257)	( 188,999)	( 78)
<b>Non-operating income and expenses</b>					
7010 Other income	6(17)	11,419	7	5,523	2
7020 Other gains and losses	6(18)	( 661)	( 1)	( 502)	-
7050 Finance costs		( 1,634)	( 1)	( 2,139)	( 1)
7070 Share of loss of subsidiaries, associates and joint ventures accounted for under equity method	6(4)	( 2,236)	( 1)	( 2,066)	( 1)
7000 <b>Total non-operating income and expenses</b>		6,888	4	816	-
8200 <b>Net loss</b>		( \$ 400,970)	( 253)	( \$ 188,183)	( 78)
<b>Other comprehensive income</b>					
8310 Financial statements translation differences of foreign operations	6(15)	\$ 555	1	( \$ 769)	( 1)
8360 Actuarial gain (loss) on defined benefit plan	6(9)	184	-	( 425)	-
8300 <b>Total other comprehensive income (loss)</b>		\$ 739	1	( \$ 1,194)	( 1)
8500 <b>Total comprehensive loss</b>		( \$ 400,231)	( 252)	( \$ 189,377)	( 79)
9750 <b>Basic Loss Per Share (in dollars)</b>	6(22)		8.22		4.78
9850 <b>Diluted Loss Per Share (in dollars)</b>	6(22)		8.22		4.78

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

TAIWAN LIPOSOME COMPANY  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Share Capital		Capital Surplus		Retained Earnings	Other Equity	Total equity
	Common stock	Advance receipts for share capital	Additional paid-in capital	Share options	Accumulated deficit	Exchange difference on translation of foreign financial statements	
<u>2012</u>							
Balance at January 1, 2012	\$ 391,006	\$ -	\$ 421,454	\$ 3,748	(\$ 468,011)	\$ -	\$ 348,197
Share-based payments	-	-	-	1,634	-	-	1,634
Employee stock options	2,704	-	4,902	( 1,107)	-	-	6,499
Capital surplus used to cover accumulated deficit	-	-	( 421,454)	-	421,454	-	-
Issuance of common stock for cash	46,220	-	681,056	-	-	-	727,276
Stock subscriptions received in advance	-	2,146	-	-	-	-	2,146
Net loss	-	-	-	-	( 188,183)	-	( 188,183)
Other comprehensive loss	-	-	-	-	( 425)	( 769)	( 1,194)
Balance at December 31, 2012	<u>\$ 439,930</u>	<u>\$ 2,146</u>	<u>\$ 685,958</u>	<u>\$ 4,275</u>	<u>(\$ 235,165)</u>	<u>(\$ 769)</u>	<u>\$ 896,375</u>
<u>2013</u>							
Balance at January 1, 2013	\$ 439,930	\$ 2,146	\$ 685,958	\$ 4,275	(\$ 235,165)	(\$ 769)	\$ 896,375
Share-based payments	-	-	86,820	10,329	-	-	97,149
Employee stock options	6,358	( 2,146)	18,000	( 2,233)	-	-	19,979
Capital surplus used to cover accumulated deficit	-	-	( 229,974)	-	229,974	-	-
Issuance of common stock for cash	100,000	-	2,875,000	-	-	-	2,975,000
Net loss	-	-	-	-	( 400,970)	-	( 400,970)
Other comprehensive income	-	-	-	-	184	555	739
Balance at December 31, 2013	<u>\$ 546,288</u>	<u>\$ -</u>	<u>\$ 3,435,804</u>	<u>\$ 12,371</u>	<u>(\$ 405,977)</u>	<u>(\$ 214)</u>	<u>\$ 3,588,272</u>

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

TAIWAN LIPOSOME COMPANY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2013	2012
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Loss before tax for the year	(\$ 400,970 )	(\$ 188,183 )
Adjustments to reconcile net loss to net cash used in operating activities		
Income and expenses having no effect on cash flows		
Share-based payments	97,149	1,634
Depreciation	23,078	18,552
Amortization	615	969
Share of loss of subsidiaries, associates and joint ventures accounted for under the equity method	2,236	2,066
Loss on disposal of property, plant and equipment	-	205
Interest expense	1,634	2,139
Interest income	( 10,760 )	( 471 )
Changes in assets/liabilities relating to operating activities		
Net changes in assets relating to operating activities		
Accounts receivable, net	29,102	( 29,814 )
Other receivables	16	8,249
Prepayments	( 30,394 )	31,321
Other non-current assets	( 20,000 )	-
Net changes in liabilities relating to operating activities		
Notes payable	( 10,161 )	10,490
Other payables	( 59,554 )	83,920
Other current liabilities	5,064	( 4,194 )
Provisions for liabilities	( 1,050 )	284
Other non-current liabilities	4,654	( 811 )
Cash used in operations	( 369,341 )	( 63,644 )
Interest received	9,544	471
Interest paid	( 1,665 )	( 2,154 )
Income tax paid	( 874 )	( 45 )
Net cash used in operating activities	( 362,336 )	( 65,372 )

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TAIWAN LIPOSOME COMPANY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2013	2012
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Decrease in other financial assets	\$ 2,658	\$ 4,326
Acquisition of property, plant and equipment	( 69,154 )	( 41,163 )
Increase in other non-current assets	( 16,230 )	( 11,053 )
Proceeds from disposal of property, plant and equipment	-	137
Increase in intangible assets	( 2,234 )	( 1,205 )
Decrease (increase) in refundable deposits	482	( 2,449 )
Net cash used in investing activities	( 84,478 )	( 51,407 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payment of long-term borrowings	( 19,461 )	( 17,508 )
Employee stock options	19,979	6,499
Issuance of common stock for cash	2,975,000	727,276
Stock subscriptions received in advance	-	2,146
Net cash provided by financing activities	2,975,518	718,413
Increase in cash and cash equivalents	2,528,704	601,634
Cash and cash equivalents at beginning of year	901,856	300,222
Cash and cash equivalents at end of year	\$ 3,430,560	\$ 901,856

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



TAIWAN LIPOSOME COMPANY  
NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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

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 is 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 FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These financial statements were authorized for issuance by the Board of Directors on March 20, 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”)

Not applicable as it is the first-time adoption of IFRSs by the Company this year.

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

IFRS 9, ‘Financial Instruments: Classification and measurement of financial assets’

The International Accounting Standards Board (“IASB”) published IFRS 9, ‘Financial Instruments’, in November 2009, which will take effect on January 1, 2013 with early application permitted (through the amendments to IFRS 9 published on November 19, 2013, the IASB has removed the previous mandatory effective date, but the standard is available for immediate application). Although the FSC has endorsed IFRS 9, FSC does not permit early application of IFRS 9 when IFRSs are adopted in R.O.C. in 2013. Instead, enterprises should apply International Accounting Standard No. 39 (“IAS 39”), ‘Financial Instruments: Recognition and Measurement’ reissued in 2009. IFRS 9 was issued as the first step to replace IAS 39. IFRS 9 outlines the new classification and measurement requirements for financial instruments. However, based on preliminary evaluation, there might have no significant effect.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

The following are the assessment of new standards, interpretations and amendments issued by IASB but not yet endorsed by the FSC (application of the new standards and amendments should follow the regulations of the FSC):

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendment to IFRS 1)	The amendment provides first-time adopters of IFRSs with the same transition relief that existing IFRS preparer received in IFRS 7, 'Financial Instruments: Disclosures' and exempts first-time adopters from providing the additional comparative disclosures.	July 1, 2010
Improvements to IFRSs 2010	Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 34 and IFRIC 13.	January 1, 2011
IFRS 9, 'Financial instruments: Classification and measurement of financial liabilities'	IFRS 9 requires gains and losses on financial liabilities designated at fair value through profit or loss to be split into the amount of change in the fair value that is attributable to changes in the credit risk of the liability, which shall be presented in other comprehensive income, and cannot be reclassified to profit or loss when derecognising the liabilities; all other changes in fair value are recognised in profit or loss. The new guidance allows the recognition of the full amount of change in the fair value in the profit or loss only if there is reasonable evidence showing on initial recognition that the recognition of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch (inconsistency) in profit or loss. (That determination is made at initial recognition and is not reassessed subsequently.)	November 19, 2013 (Not mandatory)
Disclosures - transfers of financial assets (amendment to IFRS 7)	The amendment enhances qualitative and quantitative disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in transferred assets, existing at the reporting date.	July 1, 2011

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
Severe hyperinflation and removal of fixed dates for first-time adopters (amendment to IFRS 1)	When an entity's date of transition to IFRSs is on, or after, the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date at fair value on the date of transition to IFRSs. First-time adopters shall apply the derecognition requirements in IAS 39, 'Financial instruments: Recognition and measurement', prospectively from the date of transition to IFRSs, and they are allowed not to retrospectively recognise related gains on the date of transition to IFRSs.	July 1, 2011
Deferred tax: recovery of underlying assets (amendment to IAS 12)	The amendment gives a rebuttable presumption that the carrying amount of investment properties measured at fair value is recovered entirely by sale, unless there exists any evidence that could rebut this presumption. The amendment also replaces SIC 21, 'Income taxes - recovery of revalued non-depreciable assets'.	January 1, 2012
IFRS 10, 'Consolidated financial statements'	The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where it is difficult to assess.	January 1, 2013
IFRS 11, 'Joint arrangements'	Judgments applied when assessing the types of joint arrangements-joint operations and joint ventures, the entity should assess the contractual rights and obligations instead of the legal form only. The standard also prohibits the proportional consolidation for joint ventures.	January 1, 2013
IFRS 12, 'Disclosure of interests in other entities'	The standard requires the disclosure of interests in other entities including subsidiaries, joint arrangements, associates and unconsolidated structured entities.	January 1, 2013
IAS 27, 'Separate financial statements' (as amended in 2011)	The standard removes the requirements of consolidated financial statements from IAS 27 and those requirements are addressed in IFRS 10, 'Consolidated financial statements'.	January 1, 2013

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
IAS 28, 'Investments in Associates and Joint Ventures' (as amended in 2011)	As consequential amendments resulting from the issuance of IFRS 11, 'Joint arrangements', IAS 28 (revised) sets out the requirements for the application of the equity method when accounting for investments in joint ventures.	January 1, 2013
IFRS 13, 'Fair value measurement'	IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.	January 1, 2013
IAS 19 revised, 'Employee benefits' (as amended in 2011)	The revised standard eliminates corridor approach and requires actuarial gains and losses to be recognised immediately in other comprehensive income. Past service costs will be recognised immediately in the period incurred. Net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability, replace the finance charge and expected return on plan assets. The return of plan assets, excluding net interest expense, is recognised in other comprehensive income.	January 1, 2013
Presentation of items of other comprehensive income (amendment to IAS 1)	The amendment requires profit or loss and other comprehensive income (OCI) to be presented separately in the statement of comprehensive income. Also, the amendment requires entities to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss subsequently.	July 1, 2012
IFRIC 20, 'Stripping costs in the production phase of a surface mine'	Stripping costs that meet certain criteria should be recognised as the 'stripping activity asset'. To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with IAS 2, 'Inventories'.	January 1, 2013
Disclosures-Offsetting financial assets and financial liabilities (amendment to IFRS 7)	The amendment requires disclosures to include quantitative information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements.	January 1, 2013

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
Offsetting financial assets and financial liabilities (amendment to IAS 32)	The amendment clarifies the requirements for offsetting financial instruments on the statement of financial position: (i) the meaning of 'currently has a legally enforceable right to set off the recognised amounts'; and (ii) that some gross settlement mechanisms with certain features may be considered equivalent to net settlement.	January 1, 2014
Government loans (amendment to IFRS 1)	The amendment provides exception to first-time adopters to apply the requirements in IFRS 9, 'Financial instruments', and IAS 20, 'Accounting for government grants and disclosure of government assistance', prospectively to government loans that exist at the date of transition to IFRS; and first-time adopters should not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant.	January 1, 2013
Improvements to IFRSs 2009-2011	Amendments to IFRS 1 and IAS 1, IAS 16, IAS 32 and IAS 34.	January 1, 2013
Consolidated financial statements, joint arrangements and disclosure of interests in other entities: transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12)	The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10, 11 and 12 is adopted.	January 1, 2013
Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)	The amendments define 'Investment Entities' and their characteristics. The parent company that meets the definition of investment entities should measure its subsidiaries using fair value through profit or loss instead of consolidating them.	January 1, 2014
IFRIC 21, 'Levies'	The interpretation addresses the accounting for levies imposed by governments in accordance with legislation (other than income tax). A liability to pay a levy shall be recognised in accordance with IAS 37, 'Provisions, contingent liabilities and contingent assets'.	January 1, 2014

New Standards, Interpretations and Amendments	Main Amendments	IASB Effective Date
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	The amendments remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or intangible assets with indefinite useful lives that were not impaired.	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	The amendment states that the novation of a hedging instrument would not be considered an expiration or termination giving rise to the discontinuation of hedge accounting when the hedging instrument that is being novated complies with specified criteria.	January 1, 2014
IFRS 9, 'Financial assets: hedge accounting' and admendments to IFRS 9, IFRS 7 and IAS 39	1. IFRS 9 relaxes the requirements for hedged items and hedging instruments and removes the bright line of effectiveness to better align hedge accounting with the risk management activities of an entity. 2. An entity can elect to early adopt the requirement to recognise the changes in fair value attributable to changes in an entity's own credit risk from financial liabilities that are designated under the fair value option in 'other comprehensive income'.	November 19, 2013 (Not mandatory)
Services related contributions from employees or third parties (admendments to IAS 19R)	The amendment allows contributions from employees or third parties that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.	July 1, 2014
Improvements to IFRSs 2010- 2012	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.	July 1, 2014
Improvements to IFRSs 2011- 2013	Amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.	July 1, 2014

The Company 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 financial statements.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

- A. These financial statements are the first financial statements prepared by the Company in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”.
- B. In the preparation of the balance sheet as of January 1, 2012 (the Company’s date of transition to IFRSs) (“the opening IFRSs balance sheet”), the Company has adjusted the amounts that were reported in the financial statements in accordance with previous R.O.C. GAAP. Please refer to Note 15 for the impact of transitioning from R.O.C. GAAP to IFRSs on the Company’s financial position, financial performance and cash flows.

(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 financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the non-consolidated financial statements are disclosed in Note 5.

(3) Foreign currency translation

The Company is measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in New Taiwan Dollars, which is the Company’s functional and 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 Company 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.

#### (4) 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.

#### (5) 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.

#### (6) 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 recognised 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.

(7) Impairment of financial assets

- A. The Company 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 Company 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 Company, 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 Company 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.

(8) Derecognition of financial assets

The Company 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 Company 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 Company has not retained control of the financial asset.

(9) Investments accounted for under equity method

- A. Subsidiaries are all entities that the Company has control over their financial and operating policies directly or indirectly 50 percent or more of the voting power of the investee. Investments in subsidiaries are accounted for under equity method.
- B. Unrealised profit (loss) on transactions between the Company and its subsidiaries are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognize losses proportionate to its ownership.
- D. Pursuant to the "Rules Governing the Preparation of Financial Statements by Securities Issuers", profit (loss) of the current period and other comprehensive income in the financial statements shall equal to the amount attributable to owners of the parent in the financial statements. Owners' equity in the financial statements shall equal to equity attributable to owners of the parent in the financial statements.

(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 Company 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

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

(13) Impairment of non-financial assets

The Company 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 Company 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 Company 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 recognised in other comprehensive income.

(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. 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 income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income 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 income 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income 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 income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported on the balance sheet when the entity has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures 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.

(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 Company 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 Company recognises expenses for the related costs for which the grants are intended to compensate.

5. CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ASSUMPTION  
UNCERTAINTY

The preparation of these financial statements requires management to make critical judgements in applying the Company'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.

(1) Impairment assessment of tangible and intangible assets

The Company 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 Company strategy might cause material impairment on assets in the future.

(2) Realisability of deferred income tax assets

Deferred income 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 income 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 income tax assets.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Cash on hand	\$ 70	\$ 55	\$ 55
Checking and demand deposits	761,045	901,801	300,167
Time deposits	2,669,445	-	-
	<u>\$ 3,430,560</u>	<u>\$ 901,856</u>	<u>\$ 300,222</u>

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

B. Details of the Company'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>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Accounts receivable	\$ 5,963	\$ 35,065	\$ 5,251

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

B. The credit quality of accounts receivable was neither past due nor impaired as the counterparties of the Company are corporate pharmaceutical companies with high credit quality. The Company 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 December 31, 2013, December 31, 2012, and January 1, 2012 was the carrying amount of accounts receivable.

### (3) Prepayments

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Prepaid expense for medicines research	\$ 18,885	\$ -	\$ 25,282
Net input VAT	8,687	2,500	5,059
Prepaid rent	2,909	2	1,842
Prepaid repair expense	2,543	503	1,452
Others	2,092	1,717	2,408
	<u>\$ 35,116</u>	<u>\$ 4,722</u>	<u>\$ 36,043</u>

(4) Investments accounted for under equity method

	<u>2013</u>	<u>2012</u>
At January 1	\$ 45,461	\$ 48,296
Share of loss - subsidiaries	( 2,236)	( 2,066)
Other equity movements (Note 6(15))	555	( 769)
At December 31	<u>\$ 43,780</u>	<u>\$ 45,461</u>

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
TLC Biopharmaceuticals, Inc.	\$ 43,139	\$ 45,060	\$ 48,008
TLC Biopharmaceuticals, B.V.	641	401	288
	<u>\$ 43,780</u>	<u>\$ 45,461</u>	<u>\$ 48,296</u>

Information about the subsidiaries is provided in Note 4(3) of the 2013 consolidated financial statements.



(5) 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, 2013</u>						
Cost	\$ 14,962	\$ 29,532	\$ 76,720	\$ 8,032	\$ 26,839	\$ 156,085
Accumulated depreciation	-	( 2,078)	( 35,643)	( 2,149)	( 2,408)	( 42,278)
	<u>\$ 14,962</u>	<u>\$ 27,454</u>	<u>\$ 41,077</u>	<u>\$ 5,883</u>	<u>\$ 24,431</u>	<u>\$ 113,807</u>
<u>2013</u>						
Opening net book amount	\$ 14,962	\$ 27,454	\$ 41,077	\$ 5,883	\$ 24,431	\$ 113,807
Additions	-	-	77,292	441	433	78,166
Transfer (Note)	-	-	11,483	-	-	11,483
Depreciation charge	-	( 656)	( 14,942)	( 1,687)	( 5,793)	( 23,078)
Closing net book amonut	<u>\$ 14,962</u>	<u>\$ 26,798</u>	<u>\$114,910</u>	<u>\$ 4,637</u>	<u>\$ 19,071</u>	<u>\$ 180,378</u>
<u>At December 31, 2013</u>						
Cost	\$ 14,962	\$ 29,532	\$164,061	\$ 8,379	\$ 27,272	\$ 244,206
Accumulated depreciation	-	( 2,734)	( 49,151)	( 3,742)	( 8,201)	( 63,828)
	<u>\$ 14,962</u>	<u>\$ 26,798</u>	<u>\$114,910</u>	<u>\$ 4,637</u>	<u>\$ 19,071</u>	<u>\$ 180,378</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, 2012</u>						
Cost	\$ 14,962	\$ 29,532	\$ 66,413	\$ 2,951	\$ 9,859	\$ 123,717
Accumulated depreciation	-	( 1,422)	( 28,298)	( 1,283)	( 5,913)	( 36,916)
	<u>\$ 14,962</u>	<u>\$ 28,110</u>	<u>\$ 38,115</u>	<u>\$ 1,668</u>	<u>\$ 3,946</u>	<u>\$ 86,801</u>
<u>2012</u>						
Opening net book amount	\$ 14,962	\$ 28,110	\$ 38,115	\$ 1,668	\$ 3,946	\$ 86,801
Additions	-	-	10,264	5,375	24,815	40,454
Transfer (Note)	-	-	( 260)	( 82)	-	( 342)
Depreciation charge	-	-	5,446	-	-	5,446
Closing net book amount	-	( 656)	( 12,488)	( 1,078)	( 4,330)	( 18,552)
	<u>\$ 14,962</u>	<u>\$ 27,454</u>	<u>\$ 41,077</u>	<u>\$ 5,883</u>	<u>\$ 24,431</u>	<u>\$ 113,807</u>
<u>At December 31, 2012</u>						
Cost	\$ 14,962	\$ 29,532	\$ 76,720	\$ 8,032	\$ 26,839	\$ 156,085
Accumulated depreciation	-	( 2,078)	( 35,643)	( 2,149)	( 2,408)	( 42,278)
	<u>\$ 14,962</u>	<u>\$ 27,454</u>	<u>\$ 41,077</u>	<u>\$ 5,883</u>	<u>\$ 24,431</u>	<u>\$ 113,807</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(23).
- C. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(6) Other non-current assets

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Prepaid expense for medicines research - over one year	\$ 20,000	\$ -	\$ -
Prepayments for business facilities	16,230	11,483	5,876
Other financial assets - non-current	2,432	8,890	11,548
Refundable deposits	3,718	4,200	1,751
	<u>\$ 42,380</u>	<u>\$ 24,573</u>	<u>\$ 19,175</u>

(7) Other payables

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Research expenses	\$ 23,424	\$ 92,961	\$ 16,680
Salaries and bonuses	16,512	12,539	9,967
Payables on machinery and equipment	10,246	1,234	1,177
Service expenses	6,341	3,883	2,992
Research medicine expenses	6,100	1,821	1,926
Accrued payables	8,230	8,988	5,488
	<u>\$ 70,853</u>	<u>\$ 121,426</u>	<u>\$ 38,230</u>

(8) Long-term borrowings

<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	3,036
				<u>69,841</u>
Less: current portion (recorded as other current liabilities)				( 18,510)
				<u>\$ 51,331</u>

<u>Type of loans</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>December 31, 2012</u>
Taiwan Business Bank secured borrowings	Note 1	2.495%	Land and buildings	\$ 43,478
Taiwan Business Bank secured borrowings	Note 2	3.29%	Demand deposits	19,420
Taiwan Business Bank secured borrowings	Note 3	1%	Demand deposits	19,320
Taiwan Business Bank secured borrowings	Note 4	1%	Time deposits	7,084
				<u>89,302</u>
Less: current portion (recorded as other current liabilities)				( 19,428)
				<u>\$ 69,874</u>

Type of loans	Borrowing period and repayment term	Interest rate	Collateral	January 1, 2012
Taiwan Business Bank secured borrowings	Note 1	2.495%	Land and buildings	\$ 43,650
Taiwan Business Bank secured borrowings	Note 2	3.29%	Demand deposits	27,188
Taiwan Business Bank secured borrowings	Note 3	1%	Demand deposits	24,840
Taiwan Business Bank secured borrowings	Note 4	1%	Time deposits	<u>11,132</u>
				106,810
Less: current portion (recorded as other current liabilities)				( <u>17,505</u> )
				<u>\$ 89,305</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-TOONCE) 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 December 31, 2013, December 31, 2012 and January 1, 2012, the Company had no undrawn loan facilities. The information about the Company’s liquidity risk is provided in Note 12 (2) C (c).

(9) 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) The amounts recognised in the balance sheet are determined as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Present value of funded obligations	\$ 3,391	\$ 3,526	\$ 3,057
Fair value of plan assets	( 1,554)	( 1,319)	( 1,099)
Net liability in the balance sheet (recorded as other non-current liabilities)	<u>\$ 1,837</u>	<u>\$ 2,207</u>	<u>\$ 1,958</u>

c) Changes in present value of funded obligations are as follows:

	<u>2013</u>	<u>2012</u>
Present value of funded obligations		
At January 1	\$ 3,526	\$ 3,057
Interest expense	53	54
Actuarial profit and loss	( 188)	415
At December 31	<u>\$ 3,391</u>	<u>\$ 3,526</u>

d) Changes in fair value of plan assets are as follows:

	<u>2013</u>	<u>2012</u>
Fair value of plan assets		
At January 1	\$ 1,319	\$ 1,099
Expected return on plan assets	20	20
Actuarial profit and loss	( 4)	( 10)
Employer contributions	219	210
At December 31	<u>\$ 1,554</u>	<u>\$ 1,319</u>

e) Amounts of expenses recognised in statement of comprehensive income are as follows:

	<u>2013</u>	<u>2012</u>
Interest cost	\$ 53	\$ 54
Expected return on plan assets	( 20)	( 20)
Current pension costs	<u>\$ 33</u>	<u>\$ 34</u>

Details of cost and expenses recognised in statement of comprehensive income are as follows:

	<u>2013</u>	<u>2012</u>
General and administrative expenses	\$ 2	\$ 2
Research and development expenses	31	32
	<u>\$ 33</u>	<u>\$ 34</u>

f) Amounts recognised under other comprehensive income are as follows:

	<u>2013</u>	<u>2012</u>
Recognition for current period	\$ 184	(\$ 425)
Accumulated amount	<u>(\$ 241)</u>	<u>(\$ 425)</u>

g) The Bank of Taiwan was commissioned to manage the Fund of the Company's subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The constitution of fair value of plan assets as of December 31, 2013 and 2012 is given in the Annual Labor Retirement Fund Utilisation Report published by the government. Expected return on plan assets was a projection of overall return for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilisation by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

h) The principal actuarial assumptions used were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rate	2.00%	1.50%	1.75%
Future salary increases	2.00%	2.00%	2.00%
Expected return on plan assets	<u>2.00%</u>	<u>1.50%</u>	<u>1.75%</u>

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with the 5th version and 4th version of Taiwan Standard Ordinary Experience Mortality Tables.

i) Historical information of experience adjustments was as follows:

	2013	2012
Present value of defined benefit obligation	\$ 3,391	\$ 3,526
Fair value of plan assets	( 1,554)	( 1,319)
Deficit in the plan	<u>\$ 1,837</u>	<u>\$ 2,207</u>
Experience adjustments on plan liabilities	<u>\$ 104</u>	<u>\$ 235</u>
Experience adjustments on plan assets	<u>(\$ 4)</u>	<u>(\$ 10)</u>

j) Expected contributions to the defined benefit pension plans of the Company within one year from December 31, 2013 are \$210.

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 plan of the Company for the years ended December 31, 2013 and 2012 were \$4,316 and \$3,485, respectively.

(10) Share-based payment

A. As of December 31, 2013 and 2012, the Company's equity-settled share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions
Employee stock options	2007.06.01	97.5	5 years	1 month service vested immediately
"	2007.06.01	313.9	5 years	1 year service vested immediately
"	2007.12.31	186.0	5 years	1 year service vested immediately
"	2008.12.31	112.0	5 years	1 year service vested immediately
"	2009.04.13	102.5	3 years	1 month service vested
"	2009.04.13	188.2	3 years	1 year service vested immediately
"	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	1,365.0	5 years	2 years service vested immediately (Note 2)
Cash capital increase reserved for employees	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 one month following 36 months; and employees with 4 years service are entitled to 100%.

(Note 2) Employees with 2 years service are entitled to 50%; after one year expiration, the ratio will increase by 1/48 one month 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 years ended December 31,			
	2013		2012	
	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	1,543.3	\$ 44	1,937.1	\$ 35
Options granted	1,365.0	379	132.0	117
Options exercised	( 559.1)	36	( 347.0)	25
Options revoked	( 50.0)	75	( 178.8)	43
Options outstanding at end of the period	<u>2,299.2</u>	242	<u>1,543.3</u>	44
Options exercisable at end of period	<u>361.5</u>	28~69.9	<u>37.5</u>	28
Options permitted but not yet outstanding at end of period	<u>395</u>	379	<u>-</u>	

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2013 and 2012 was \$344.65 (in dollars) and \$204.44 (in dollars), respectively.

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

December 31, 2013					
Options outstanding at end of year			Options exercisable at end of year		
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	70
117.3	112.0	3.36	117.3	-	-
379	1,351.0	4.87	379	-	-
	<u>2,299.2</u>			<u>361.5</u>	

December 31, 2012						
			Options outstanding at end of year		Options exercisable at end of year	
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	1.96	\$ 28	37.5	\$ 28	
35	1,025.0	3.54	35	-	-	
69.9	149.0	3.98	69.9	-	-	
117.3	122.0	4.35	117.3	-	-	
	<u>1,543.3</u>			<u>37.5</u>		
January 1, 2012						
			Options outstanding at end of year		Options exercisable at end of year	
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)	
\$ 18	30.5	1.11	\$ 18	30.5	\$ 18	
18	76.8	0.29	18	42.1	18	
28	495.8	2.94	28	12.1	28	
35	1,166.0	4.54	35	-	-	
69.9	168.0	4.98	69.9	-	-	
	<u>1,937.1</u>			<u>84.7</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

Grant date	<u>November 14, 2013</u>	<u>May 8, 2012</u>	<u>December 23, 2011</u>
Dividend yield rate	-	-	-
Exercise price volatility	48.51%	42.44%	43.92%
Risk-free interest rate	1.00%~1.18%	1.00%	1.00%
Expected vesting period (years)	3.5~4.5	3.875	3.875
Per share exercise price (in dollars) \$	379	\$ 117.3	\$ 69.9
Weighted stock options average fair value (in dollars)	137~155	5.18~7.29	1.36~2.14
Grant date	<u>July 14, 2011</u>	<u>July 22, 2010</u>	<u>January 21, 2010</u>
Dividend yield rate	-	-	-
Exercise price volatility	44.70%	41.66%	42.23%
Risk-free interest rate	1.14%	0.64%	0.65%
Expected vesting period (years)	3.875	3.75	3.75
Per share exercise price (in dollars) \$	35	\$ 28	\$ 28
Weighted stock options average fair value (in dollars)	2.05~2.80	1.76~2.81	2.52~3.75
Grant date	<u>October 29, 2009</u>	<u>April 13, 2009 (A)</u>	<u>April 13, 2009 (B)</u>
Dividend yield rate	-	-	-
Exercise price volatility	48.10%	53.21%	52.88%
Risk-free interest rate	0.76%	0.30%	0.52%
Expected vesting period (years)	3.75	1.61	2.615
Per share exercise price (in dollars) \$	28	\$ 18	\$ 18
Weighted stock options average fair value (in dollars)	3.16~3.88	0.824	1.47
Grant date	<u>December 31, 2008</u>	<u>December 31, 2007</u>	<u>June 1, 2007 (A)</u>
Dividend yield rate	-	-	-
Exercise price volatility	52.87%	44.81%	42.04%
Risk-free interest rate	0.25%	2.43%	2.44%
Expected vesting period (years)	2.55	3.55	2.54
Per share exercise price (in dollars) \$	18	\$ 18	\$ 18
Weighted stock options average fair value (in dollars)	1.41	3.29	4.04

Employee stock options

Grant date	<u>June 1, 2007 (B)</u>
Dividend yield rate	-
Exercise price volatility	41.79%
Risk-free interest rate	2.44%
Expected vesting period (years)	3.55
Per share exercise price (in dollars) \$	18
Weighted stock options average fair value (in dollars)	4.91

Cash capital increase reserved for employee preemption

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 years ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
Equity-settled	<u>\$ 97,149</u>	<u>\$ 1,634</u>

(11) Provisions (Decommissioning liabilities)

	<u>For the years ended December 31,</u>	
	<u>2013</u>	<u>2012</u>
At January 1	\$ 4,137	\$ 3,853
Additional provisions	-	2,625
Used during the period	( 1,050)	( 2,341)
At December 31	<u>\$ 3,087</u>	<u>\$ 4,137</u>

Analysis of total provisions:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Current	<u>\$ -</u>	<u>\$ 1,050</u>	<u>\$ -</u>
Non-current	<u>\$ 3,087</u>	<u>\$ 3,087</u>	<u>\$ 3,853</u>

In accordance with the requirements specified in the agreement, the Company 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.

(12) Share capital

A. As of December 31, 2013, the Company's authorized capital was \$600,000, and the paid-in capital was \$546,288, 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 years ended December 31,	
	2013	2012
At January 1	43,993	39,101
Cash capital increase	10,000	4,622
Employee stock options exercised	636	270
At December 31	<u>54,629</u>	<u>43,993</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.

(13) 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.

(14) Accumulated deficit

- A. Under the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:
- Payment of taxes and duties.
  - Cover prior years' accumulated deficit, if any.
  - After deducting items a and b, set aside 10% of the remaining amount as legal reserve.
  - After deducting items a to c, appropriating 2% of remaining earnings as remuneration to directors and supervisors.
  - 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 and June 26, 2012 adopted a resolution to use capital reserve amounting to \$229,974 and \$421,454, respectively, to cover accumulated deficit.

(b) The Board of Directors during its meeting on March 20, 2014 has proposed to cover accumulated losses of \$405,977 with capital reserve, but as of March 20, 2014, the proposal has not been resolved by 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 December 31, 2013, the Company had an accumulated deficit. Therefore, the earnings distribution information disclosure is not applicable.

(15) Other equity items

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

	For the years ended December 31,	
	2013	2012
At January 1	(\$ 769)	\$ -
Currency translation differences-group	555	( 769)
At December 31	(\$ 214)	(\$ 769)

(16) Operating revenue

	For the years ended December 31,	
	2013	2012
Co-development revenue	\$ 119,808	\$ 207,144
Royalty payment revenue	38,836	33,512
	\$ 158,644	\$ 240,656

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. (“SamChumDang”) 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.
- 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.

(17) Other income

	For the years ended December 31,	
	2013	2012
Interest income	\$ 10,760	\$ 471
Government subsidy income (Notes 1 and 2)	70	3,553
Others	589	1,499
	<u>\$ 11,419</u>	<u>\$ 5,523</u>

(Note 1) The Company entered into a “A Lipid-based Sustained Release Ophthalmicdrug” contract with the Institute for Information Industry in 2011, and the Company is entitled to receive \$12,800 in subsidy as approved by the (100) Zi-An-Zi Letter No. 1001000462. For the years ended December 31, 2013 and 2012, the Company recognised government subsidy income of \$70 and \$3,509, respectively, in accordance with the progress of execution. For the years ended December 31, 2013 and 2012, the amount of unearned government subsidy income was \$0 and \$632 (recorded as other receivables), respectively.

(Note 2) The Company has applied for financing interest and subsidies and labor vocational training subsidies in accordance with “Taipei Municipal Self-Governance Ordinance for Encouraging Private Investment” in 2012 and received \$44 as subsidy.

(18) Other gains and losses

	For the years ended December 31,	
	2013	2012
Net currency exchange loss	(\$ 661)	(\$ 297)
Loss on disposal of property, plant and equipment	-	( 205)
	<u>(\$ 661)</u>	<u>(\$ 502)</u>

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

	For the years ended December 31,	
	2013	2012
Employee benefit expense	\$ 203,290	\$ 87,478
Depreciation charges on property, plant and equipment	23,078	18,552
Amortization charges on intangible assets	615	969
Research expenses	186,873	204,045
Research medicine expenses	49,405	54,406
Service expenses	28,156	16,982
Operating lease payments	15,083	12,434
Transportation expenses	2,995	5,175
Royalty payment	23,107	-
Other expenses	33,900	29,614
	<u>\$ 566,502</u>	<u>\$ 429,655</u>



(20) Employee benefit expense

	For the years ended December 31,	
	2013	2012
Wages and salaries	\$ 90,837	\$ 73,422
Employee stock options	97,149	1,634
Labor and health insurance fees	7,199	5,667
Pension costs	4,349	3,519
Other personnel expenses	3,756	3,236
	<u>\$ 203,290</u>	<u>\$ 87,478</u>

(21) Income tax

A. Components of income tax expense:

	For the years ended December 31,	
	2013	2012
Current tax:		
Current tax on profits for the period	\$ -	\$ -

B. The Company had incurred net loss for the years ended December 31, 2013 and 2012. As the probability of deferred tax assets caused by the temporary difference to offset the future income tax expense is low, deferred tax assets are not recognized. Therefore, reconciliation between income tax expense and accounting profit is not applicable.

C. a) Under the Statute for Upgrading Industries (before its abolishment), details of investment tax credits and unrecognised deferred tax assets are as follows:

Qualifying items	December 31, 2012		
	Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due
Research and development	\$ 20,281	\$ 20,281	2013
Employees' training	101	101	2013

  

Qualifying items	January 1, 2012		
	Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due
Research and development	\$ 32,841	\$ 32,841	2012~2013
Employees' training	117	117	2012~2013

b) Under the Statute for Development of Biotech and New Pharmaceuticals Industry, details of investment tax credits and unrecognised deferred tax assets are as follows:

December 31, 2013				
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due	
Research and development	\$ 69,351	\$ 69,351		Note
Employees' training	116	116		"
December 31, 2012				
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due	
Research and development	\$ 62,872	\$ 62,872		Note
Employees' training	133	133		"
January 1, 2012				
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due	
Research and development	\$ 49,302	\$ 49,302		Note
Employees' training	126	126		"

Note: In accordance with the Ministry of Economic Affairs (MOEA) Jing-Shou-Gong-Zi Letter No. 09720410630 dated August 6, 2008 and Letter No. 10020409420 dated June 10, 2011, the Company was approved as a biotech pharmaceuticals company. Accordingly, the Company and its stockholders are eligible for investment tax credits under the Statute for Development of New Biotech Pharmaceuticals Industry. Relevant investment tax credits can be used to offset against the Company's income tax within five years from the year in which the Company starts to have income tax payable.

D. Expiration dates of unused net operating loss carryforward and amounts of unrecognised deferred tax assets are as follows:

December 31, 2013					
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Usable until year	
2004	\$ 29,265	\$ 29,265	\$ 29,265		2014
2005	29,290	29,290	29,290		2015
2006	46,092	46,092	46,092		2016
2007	98,714	98,714	98,714		2017
2008	200,442	200,442	200,442		2018
2009	136,642	136,642	136,642		2019
2010	196,215	196,215	196,215		2020
2011	212,903	212,903	212,903		2021
2012	187,946	187,946	187,946		2022
2013	408,025	408,025	408,025		2023
	<u>\$ 1,545,534</u>	<u>\$ 1,545,534</u>	<u>\$ 1,545,534</u>		

December 31, 2012

Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Usable until year
2003	\$ 16,079	\$ 16,079	\$ 16,079	2013
2004	29,265	29,265	29,265	2014
2005	29,290	29,290	29,290	2015
2006	46,092	46,092	46,092	2016
2007	98,714	98,714	98,714	2017
2008	200,442	200,442	200,442	2018
2009	136,642	136,642	136,642	2019
2010	196,215	196,215	196,215	2020
2011	212,903	212,903	212,903	2021
2012	192,312	192,312	192,312	2022
	<u>\$ 1,157,954</u>	<u>\$ 1,157,954</u>	<u>\$ 1,157,954</u>	

January 1, 2012

Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Usable until year
2003	\$ 16,079	\$ 16,079	\$ 16,079	2013
2004	29,265	29,265	29,265	2014
2005	29,290	29,290	29,290	2015
2006	46,092	46,092	46,092	2016
2007	98,714	98,714	98,714	2017
2008	200,442	200,442	200,442	2018
2009	136,642	136,642	136,642	2019
2010	196,215	196,215	196,215	2020
2011	221,683	221,683	221,683	2021
	<u>\$ 974,422</u>	<u>\$ 974,422</u>	<u>\$ 974,422</u>	

E. The amounts of deductible temporary differences that are not recognised as deferred tax assets are as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Deductible temporary differences	<u>\$ 105,237</u>	<u>\$ 107,631</u>	<u>\$ 112,942</u>

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

G. As of December 31, 2013, December 31, 2012 and January 1, 2012, the balance of the imputation tax credit account was \$0, and there was no distributable earnings. The creditable tax rate was not applicable.

(22) Loss per share

	<u>For the year ended December 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	(\$ 400,970)	48,776	<u>(\$ 8.22)</u>
Dilutive effect of common stock equivalents:			
Employees' stock options	<u>-</u>	<u>(Note)</u>	
<u>Diluted loss per share</u>			
Loss attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	<u>(\$ 400,970)</u>	<u>48,776</u>	<u>(\$ 8.22)</u>

	<u>For the year ended December 31, 2012</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	(\$ 188,183)	39,392	<u>(\$ 4.78)</u>
Dilutive effect of common stock equivalents:			
Employees' stock options	<u>-</u>	<u>(Note)</u>	
<u>Diluted loss per share</u>			
Loss attributable to ordinary shareholders of the Company plus assumed conversion of all dilutive potential ordinary shares	<u>(\$ 188,183)</u>	<u>39,392</u>	<u>(\$ 4.78)</u>

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

(23) Non-cash transactions

Investing activities with partial cash payments

	For the years ended December 31,	
	2013	2012
Purchases of fixed assets	\$ 78,166	\$ 40,454
Add: Opening balance of payable on equipment	4,321	5,030
Less: Ending balance of payable on equipment	( 13,333)	( 4,321)
Cash paid for the period	<u>\$ 69,154</u>	<u>\$ 41,163</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

#### A. Operating expenses - research expenses

	For the years ended December 31,	
	2013	2012
Subsidiaries	<u>\$ 32,499</u>	<u>\$ 31,989</u>

The Company paid subsidiaries for product research and development under the contract.

#### B. Accrued expenses (shown as other payables)

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Subsidiaries	<u>\$ 10,000</u>	<u>\$ 7,895</u>	<u>\$ 6,371</u>

C. The Company's Chairman provided guarantees for the Company's long-term loans with the Industrial Development Bureau. As of December 31, 2013, December 31, 2012 and January 1, 2012, details of loans are described in Note 6(9).

### (3) Key management compensation

	For the years ended December 31,	
	2013	2012
Salaries and other short-term employee benefits	\$ 8,695	\$ 8,996
Share-based payments	12,050	270
Post-employment benefits	108	108
	<u>\$ 20,853</u>	<u>\$ 9,374</u>

## 8. PLEDGED ASSETS

<u>Assets Pledged</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>	<u>Pledge purpose</u>
Shown as other current assets				
Demand deposits	\$ 2,658	\$ 2,658	\$ 4,326	Note 1
Time deposits	3,800	-	-	Note 1
	<u>\$ 6,458</u>	<u>\$ 2,658</u>	<u>\$ 4,326</u>	
Shown as other non-current assets				
Demand deposits	\$ 2,432	\$ 5,090	\$ 7,748	Note 1
Time deposits	-	3,800	3,800	Note 1
	<u>\$ 2,432</u>	<u>\$ 8,890</u>	<u>\$ 11,548</u>	
Shown as property, plant and equipment				
Land	\$ 14,962	\$ 14,962	\$ 14,962	Note 2
Buildings	26,798	27,454	28,110	Note 2
	<u>\$ 41,760</u>	<u>\$ 42,416</u>	<u>\$ 43,072</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

None.

### (2) Commitments

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Property, plant and equipment	\$ 8,816	\$ 10,578	\$ 5,174

B. Operating lease commitments

The Company 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>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Not later than one year	\$ 12,475	\$ 13,735	\$ 8,370
Later than one year but not later than five years	24,669	34,692	7,633
Total	<u>\$ 37,144</u>	<u>\$ 48,427</u>	<u>\$ 16,003</u>

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
	\$ 83,192	\$ 23,032	\$ 13,565

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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
\$	361,782	\$ 216,708	\$ 131,540

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.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Details of the proposal to cover accumulated deficit as proposed during the Board of Directors' meeting on March 20, 2014 are stated in Note 6 (14) D. (b).

12. OTHERS

(1) Capital risk management

The Company's objectives when managing capital are to safeguard the Company'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 Company's capital structure, the Company may issue new shares or sell assets to reduce debt rate. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital.

As of December 31, 2013, December 31, 2012 and January 1, 2012, the Company's debt ratios are as follows:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	<u>January 1, 2012</u>
Total debt	\$ 162,014	\$ 233,725	\$ 161,843
Total capital	\$ 546,288	\$ 442,076	\$ 391,006
Debt ratio	29.66%	52.87%	41.39%

(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 value.
- (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 Company's activities expose the Company to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures.
- (b) Risk management is carried out by a central treasury department (Company Treasury) in accordance with the policies approved by the Board of Directors. Company Treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, 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 Company'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 Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

(Foreign currency: functional currency)	December 31, 2013		
	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	29.815	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



December 31, 2012			
(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	\$ 1,503	29.040	\$ 43,647
GBP : NTD	422	46.830	19,762
<u>Non-monetary items</u>			
USD : NTD	1,552	29.040	45,060
EUR : NTD	11	38.490	401
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	594	29.040	17,250
AUD : NTD	338	30.165	10,196
January 1, 2012			
(Foreign currency: functional currency)	Foreign Currency Amount (In thousands)	Exchange Rate	Book Value (NTD) (In thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
GBP : NTD	\$ 248	46.730	\$ 11,589
<u>Non-monetary items</u>			
USD : NTD	1,586	30.275	48,008
EUR : NTD	7	39.180	288
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	315	30.275	9,537

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

For the year ended December 31, 2013			
Sensitivity Analysis			
(Foreign currency: functional currency)	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	1%	\$ 917	\$ -
GBP : NTD	1%	132	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	131	-
EUR : NTD	1%	71	-
GBP : NTD	1%	18	-
AUD : NTD	1%	28	-

For the year ended December 31, 2012			
Sensitivity Analysis			
(Foreign currency: functional currency)	Extent of Variation	Effect on Profit or Loss	Effect on Other Comprehensive Income
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	1%	\$ 436	\$ -
GBP : NTD	1%	198	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	173	-
AUD : NTD	1%	102	-

ii. Interest rate risk

The Company's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. During the years ended December 31, 2013 and 2012, the Company's loans at variable rate were denominated in the NTD.

At December 31, 2013 and 2012, if interest rates had been 0.2% higher/lower with all other conditions held constant, net loss for the years ended December 31, 2013 and 2012 would have been \$106 and \$126 higher/lower, respectively.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Company arising from default by the

clients on the contract obligations. According to the Company's credit policy, each local entity in the Company 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 Company's deposits with banks and credit quality of accounts receivable are provided in Notes 6.(1) and 6.(2), respectively.

(c) Liquidity risk

- i. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Company'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.

	December 31, 2013				
	1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
	<u>1 year</u>	<u>and 2 years</u>	<u>and 3 years</u>	<u>and 5 years</u>	<u>5 years</u>
Notes payable	\$ 2,791	\$ -	\$ -	\$ -	\$ -
Other payables	70,853	-	-	-	-
Long-term borrowings (including current portion)	19,707	12,605	5,864	6,186	33,770

	December 31, 2012				
	1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
	<u>1 year</u>	<u>and 2 years</u>	<u>and 3 years</u>	<u>and 5 years</u>	<u>5 years</u>
Notes payable	\$ 12,952	\$ -	\$ -	\$ -	\$ -
Other payables	121,426	-	-	-	-
Long-term borrowings (including current portion)	21,183	19,871	12,607	8,957	36,863

	January 1, 2012				
	1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
	<u>1 year</u>	<u>and 2 years</u>	<u>and 3 years</u>	<u>and 5 years</u>	<u>5 years</u>
Notes payable	\$ 2,462	\$ -	\$ -	\$ -	\$ -
Other payables	38,230	-	-	-	-
Long-term borrowings (including current portion)	18,718	21,218	19,838	18,471	39,957

(3) Fair value estimation

The Company had no financial instruments measured at fair value, by valuation method as of

December 31, 2013, December 31, 2012 and January 1, 2012.

### 13. SUPPLEMENTARY DISCLOSURES

#### (1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- D. 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 year ended December 31, 2013: None.
- J. Significant inter-company transactions during the year ended December 31, 2013:

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	\$ 29,737	(Note 4)	18.74%
2	TLC Biopharmaceuticals, B.V.	Taiwan Liposome Company	2	Operating revenue	2,762	(Note 4)	1.74%
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company	2	Accounts receivable	9,516	(Note 4)	0.25%

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 non-consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to non-consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to non-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)

Information related to investee companies' investment income or loss was translated at the average exchange rate for the year ended December 31, 2013 while others were translated at the rate of exchange prevailing on December 31, 2013.

Information on investee companies:

Investor	Investee	Location	Main business activities	Initial investment		Shares held as of December 31, 2013			Net income of the investee for the year ended December 31, 2013	Investment income (loss) recognised by the Company for the year ended December 31,	Note
				Balance as of December 31, 2013	Balance as of December 31, 2012	Number of shares	Ownership (%)	Book value			
Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	USA	Research on new anti-cancer drugs and biotechnology services	\$ 55,433	\$ 55,433	3,100,000	100	\$ 43,139	\$ 2,176	(\$ 2,438)	
Taiwan Liposome Company	TLC Biopharmaceuticals, B.V.	Netherlands	Technical authorization and product development	4,410	4,410	1,000,000	100	641	202	202	

(3) Information on investments in Mainland China:

None.

#### 14. SEGMENT INFORMATION

None.

#### 15. INITIAL APPLICATION OF IFRSs

These financial statements are the first financial statements prepared by the Company in accordance with the IFRSs. The Company has adjusted the amounts as appropriate that are reported in the previous R.O.C. GAAP financial statements to those amounts that should be presented under IFRSs in the preparation of the opening IFRS balance sheet. Information about exemptions elected by the Company, exceptions to the retrospective application of IFRSs in relation to initial application of IFRSs, and how it affects the Company's financial position, operating results and cash flows in transition from R.O.C. GAAP to the IFRSs is set out below:

##### (1) Exemptions elected by the Company

###### A. Business combinations

The Company has elected not to apply the requirements in IFRS 3, 'Business Combinations', retrospectively to business combinations that occurred prior to the date of transition to IFRSs ("the transition date").

###### B. Employee benefits

The Company has elected to recognise all cumulative actuarial gains and losses relating to all employee benefit plans in 'accumulated deficit' at the transition date, and to disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments under the requirements of paragraph 120A (P), IAS 19, 'Employee Benefits', based on their prospective amounts for financial periods from the transition date.

###### C. Cumulative translation differences

The Company has elected to reset the cumulative translation differences arising on the translation of the financial statements of foreign operations under R.O.C. GAAP to zero at the transition date, and to deal with translation differences arising subsequent to the transition date in accordance with IAS 21, 'The Effects of Changes in Foreign Exchange Rates'.

##### (2) Except hedge accounting and non-controlling interest to which exceptions to the retrospective application of IFRSs specified in IFRS 1 are not applied as they have no relation with the Company, other exceptions to the retrospective application are set out below:

###### A. Accounting estimates

Accounting estimates made under IFRSs on January 1, 2012 are consistent with those made under R.O.C. GAAP on that day.

###### B. Derecognition of financial assets and financial liabilities

The derecognition requirements in IAS 39, 'Financial Instruments: Recognition and Measurement' shall be applied prospectively to transactions occurring on or after January 1, 2004.

##### (3) Requirement to reconcile from R.O.C. GAAP to IFRSs at the time of initial application



IFRS 1 requires that entity on should make reconciliation for equity, comprehensive income and cash flows for the comparative periods. The Company's initial application of IFRSs has no significant effect on cash flows from operating activities, investing activities and financing activities. Reconciliation for equity and comprehensive income for the comparative periods as to transition from R.O.C. GAAP to IFRSs is shown below:

A. Reconciliation for equity on January 1, 2012:

	ROC GAAP	Effect of transition from R.O.C GAAP to IFRSs	IFRSs	Remark
<u>Current assets</u>				
Cash and cash equivalents	\$ 300,222	\$ -	\$ 300,222	
Accounts receivable	5,251	-	5,251	
Other receivables	8,888	-	8,888	
Current income tax assets	76	-	76	
Prepayments	36,043	-	36,043	
Other current assets	4,326	-	4,326	
Total current assets	<u>354,806</u>	<u>-</u>	<u>354,806</u>	
<u>Non-current assets</u>				
Investments accounted for under equity method	48,397	( 101)	48,296	(3)
Property, plant and equipment	90,418	( 3,617)	86,801	(1)(5)
Intangible assets	1,965	( 1,003)	962	(2)
Other non-current assets	15,558	3,617	19,175	(1)(5)
Total non-current assets	<u>156,338</u>	<u>( 1,104)</u>	<u>155,234</u>	
Total assets	<u>\$ 511,144</u>	<u>(\$ 1,104)</u>	<u>\$ 510,040</u>	
<u>Current liabilities</u>				
Notes payable	\$ 2,462	\$ -	\$ 2,462	
Other payables	37,644	586	38,230	(3)
Other current liabilities	25,400	-	25,400	
Total current liabilities	<u>65,506</u>	<u>586</u>	<u>66,092</u>	
<u>Non-current liabilities</u>				
Long-term borrowings	89,305	-	89,305	
Provision for liabilities- non-current	3,853	-	3,853	
Other non-current liabilities	1,630	963	2,593	(2)
Total non-current liabilities	<u>94,788</u>	<u>963</u>	<u>95,751</u>	
Total liabilities	<u>160,294</u>	<u>1,549</u>	<u>161,843</u>	

	Effect of transition			Remark
	ROC GAAP	from R.O.C GAAP to IFRSs	IFRSs	
<u>Equity</u>				
Share capital				
Common stock	\$ 391,006	\$ -	\$ 391,006	
Capital surplus	425,202	-	425,202	
Retained earnings				
Accumulated deficit	( 464,300)	( 3,711)	( 468,011)	(2)(3)(4)
Other equity	( 1,058)	1,058	-	(2)(4)
Total equity	<u>350,850</u>	<u>( 2,653)</u>	<u>348,197</u>	
Total liabilities and equity	<u>\$ 511,144</u>	<u>(\$ 1,104)</u>	<u>\$ 510,040</u>	

Reasons for reconciliation are outlined below:

- (1) The Company's prepayments for the acquisition of property, plant and equipment are classified as "property, plant and equipment" in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers". However, under IFRSs, it should be classified as "other non-current assets". Therefore, the Company reclassified property, plant and equipment, net of \$5,876 to other non-current assets.
- (2) Pensions
  - a. The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields at the end of the reporting period on high quality corporate bonds of a currency and term consistent with the currency and term of the benefit obligation; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end of the reporting period) instead.
  - b. In accordance with generally accepted accounting principles in the Republic of China, actuarial pension gain or loss of the Company is recognised in net pension cost of current period using the 'corridor' method. However, in accordance with IAS 19, "Employee Benefits", actuarial pension gain or loss are recognised immediately in other comprehensive income.
- (3) The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Company recognizes such costs as expenses upon actual payment. However, IAS 19, "Employee Benefits", requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. Therefore, the Company recognized accrued expenses of \$586 and decreased retained earnings of \$687, decreased retained earnings of subsidiaries of \$101, and the Company decreased investments accounted for under equity method and retained

earnings of \$101, respectively.

- (4) The Company selected the exemption in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards”, and recognized cumulative translation adjustment as zero at the date of transition to IFRSs. Therefore, the Company increased the cumulative translation adjustments by \$912 and decreased retained earnings by \$912.
- (5) The Company reclassified the related accounts of deferred expenses in accordance with the International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins that are ratified by FSC and “Rules Governing the Preparation of Financial Statements by Securities Issuers”. Therefore, the Company reclassified other non-current assets of \$2,259 to property, plant and equipment, net.

B. Reconciliation for equity on December 31, 2012:

	Effect of transition			Remark
	ROC GAAP	from R.O.C GAAP to IFRSs	IFRSs	
<u>Current assets</u>				
Cash and cash equivalents	\$ 901,856	\$ -	\$ 901,856	
Accounts receivable	35,065	-	35,065	
Other receivables	639	-	639	
Current income tax assets	121	-	121	
Prepayments	4,722	-	4,722	
Other current assets	<u>2,658</u>	<u>-</u>	<u>2,658</u>	
Total current assets	<u>945,061</u>	<u>-</u>	<u>945,061</u>	
<u>Non-current assets</u>				
Investments accounted for under equity method	45,507	( 46)	45,461	(3)
Property, plant and equipment	125,290	( 11,483)	113,807	(1)
Intangible assets	2,118	( 920)	1,198	(2)
Other non-current assets	<u>13,090</u>	<u>11,483</u>	<u>24,573</u>	(1)
Total non-current assets	<u>186,005</u>	<u>( 966)</u>	<u>185,039</u>	
Total assets	<u>\$ 1,131,066</u>	<u>(\$ 966)</u>	<u>\$ 1,130,100</u>	
<u>Current liabilities</u>				
Notes payable	\$ 12,952	\$ -	\$ 12,952	
Other payables	119,593	1,833	121,426	(3)
Provision for liabilities-current	1,050	-	1,050	
Other current liabilities	<u>23,129</u>	<u>-</u>	<u>23,129</u>	
Total current liabilities	<u>156,724</u>	<u>1,833</u>	<u>158,557</u>	

	Effect of transition			Remark
	ROC GAAP	from R.O.C GAAP to IFRSs	IFRSs	
<u>Non-current liabilities</u>				
Long-term borrowings	\$ 69,874	\$ -	\$ 69,874	
Provision for liabilities- non-current	3,087	-	3,087	
Other non-current liabilities	1,098	1,109	2,207	(2)
Total non-current liabilities	74,059	1,109	75,168	
Total liabilities	230,783	2,942	233,725	
<u>Equity</u>				
Share capital				
Common stock	439,930	-	439,930	
Advance receipts for share capital	2,146	-	2,146	
Capital surplus	690,233	-	690,233	
Retained earnings				
Accumulated deficit	( 229,974)	( 5,191)	( 235,165)	(2)(3)(4)
Other equity	( 2,052)	1,283	( 769)	(2)(4)
Total equity	900,283	( 3,908)	896,375	
Total liabilities and equity	\$ 1,131,066	(\$ 966)	\$ 1,130,100	

C. Reconciliation for comprehensive income for the year ended December 31, 2012:

	Effect of transition			Remark
	ROC GAAP	from R.O.C GAAP to IFRSs	IFRSs	
Operating revenue	\$ 240,656	\$ -	\$ 240,656	
Operating expenses				
General and administrative expenses	( 54,603)	( 322)	( 54,925)	(2)(3)
Research and development expenses	( 373,942)	( 788)	( 374,730)	(2)(3)
Operating loss	( 187,889)	( 1,110)	( 188,999)	
Non-operating income and expenses				
Other income	5,523	-	5,523	
Other gains and losses	( 502)	-	( 502)	
Financial costs	( 2,139)	-	( 2,139)	
Share of loss of subsidiaries, associates and joint ventures accounted for under equity method	( 2,121)	55	( 2,066)	(3)
Net loss	( 187,128)	( 1,055)	( 188,183)	
Other comprehensive loss				
Financial statements translation differences of foreign operations	-	( 769)	( 769)	
Actuarial loss on defined benefit plan	-	( 425)	( 425)	(2)
Total other comprehensive loss for the year	-	( 1,194)	( 1,194)	
Total comprehensive loss for the year	<u>(\$ 187,128)</u>	<u>(\$ 2,249)</u>	<u>(\$ 189,377)</u>	

Reasons for reconciliation are outlined below:

- (1) The Company reclassified property, plant and equipment, net of \$11,483 to other non-current assets. Please refer to Note 15(3)A.(1) for the explanation of the adjustment.
- (2) The Company increased accrued pension liabilities by \$1,109, decreased deferred pension cost by \$920, decreased retained earnings by \$2,112, increased unrecognized pension cost by \$371, decreased operating expenses by \$137 and decreased other comprehensive income by \$425. Please refer to Note 15(3)A.(2) for the explanation of the adjustment.
- (3) The Company increased accrued expenses by \$1,833, decreased investments accounted for

under equity method by \$46, decreased retained earnings by \$687, increased operating expenses by \$1,247 and increase share of loss of subsidiaries, associates and joint ventures accounted for under equity method by \$55. Please refer to Note 15(3)A.(3) for the explanation of the adjustment.

(4) Please refer to Note 15(3)A.(4) for the explanation of the adjustment.

(4) Major adjustments for the statement of cash flows for the year ended December 31, 2012:

- A. The transition of R.O.C. GAAP to IFRSs has no effect on the Company's cash flows reported.
- B. The reconciliation between R.O.C. GAAP and IFRSs has no net effect on the Company's cash flows reported.