

**TAIWAN LIPOSOME COMPANY AND  
SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REVIEW REPORT OF INDEPENDENT  
ACCOUNTANTS  
SEPTEMBER 30, 2016 AND 2015**

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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.

## REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Taiwan Liposome Company

We have reviewed the accompanying consolidated balance sheets of Taiwan Liposome Company and subsidiaries as of September 30, 2016 and 2015, and the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine-month periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

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

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

PricewaterhouseCoopers, Taipei, Taiwan

November 3, 2016

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the review of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

**TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2016, DECEMBER 31, 2015 AND SEPTEMBER 30, 2015**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

(THE CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2016 AND 2015 WERE REVIEWED, NOT AUDITED)

Assets	Notes	September 30, 2016		December 31, 2015		September 30, 2015		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current Assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 1,955,913	86	\$ 2,384,527	87	\$ 2,519,187	87
1170	Accounts receivable, net	6(2)	15,740	1	25,530	1	24,084	1
1200	Other receivables		1,966	-	556	-	16,854	1
1220	Current income tax assets		4,802	-	4,456	-	4,015	-
1410	Prepayments	6(3)	36,076	2	35,269	1	31,115	1
1470	Other current assets	8	-	-	4,761	-	828	-
11XX	<b>Total Current Assets</b>		<u>2,014,497</u>	<u>89</u>	<u>2,455,099</u>	<u>89</u>	<u>2,596,083</u>	<u>90</u>
<b>Non-current Assets</b>								
1600	Property, plant and equipment, net	6(4) and 8	190,974	8	222,113	8	209,996	7
1780	Intangible assets	6(5)	13,750	1	18,875	1	19,451	1
1840	Deferred income tax assets		166	-	75	-	78	-
1900	Other non-current assets	6(6)	45,448	2	48,709	2	57,168	2
15XX	<b>Total Non-current Assets</b>		<u>250,338</u>	<u>11</u>	<u>289,772</u>	<u>11</u>	<u>286,693</u>	<u>10</u>
1XXX	<b>Total Assets</b>		<u>\$ 2,264,835</u>	<u>100</u>	<u>\$ 2,744,871</u>	<u>100</u>	<u>\$ 2,882,776</u>	<u>100</u>

(Continued)

**TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**SEPTEMBER 30, 2016, DECEMBER 31, 2015 AND SEPTEMBER 30, 2015**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

(THE CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2016 AND 2015 WERE REVIEWED, NOT AUDITED)

Liabilities and Equity	Notes	September 30, 2016		December 31, 2015		September 30, 2015		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current Liabilities</b>								
2100	Short-term borrowings	6(7)	\$ 46,000	2	\$ 46,000	2	\$ 20,000	-
2150	Notes payable		206	-	750	-	-	-
2200	Other payables	6(8)(25)	66,459	3	71,847	2	59,843	2
2300	Other current liabilities	6(9)(10)	17,303	1	54,618	2	51,242	2
21XX	<b>Total Current Liabilities</b>		<u>129,968</u>	<u>6</u>	<u>173,215</u>	<u>6</u>	<u>131,085</u>	<u>4</u>
<b>Non-current Liabilities</b>								
2540	Long-term borrowings	6(9)	71,750	3	71,750	3	71,750	3
2550	Provisions for liabilities - non-current	6(13)(25)	6,996	-	3,846	-	3,577	-
2600	Other non-current liabilities	6(10)	4,797	-	10,590	-	30,021	1
25XX	<b>Total Non-current Liabilities</b>		<u>83,543</u>	<u>3</u>	<u>86,186</u>	<u>3</u>	<u>105,348</u>	<u>4</u>
2XXX	<b>Total Liabilities</b>		<u>213,511</u>	<u>9</u>	<u>259,401</u>	<u>9</u>	<u>236,433</u>	<u>8</u>
<b>Equity</b>								
<b>Equity Attributable to Owners of Parent</b>								
<b>Share capital</b>								
3110	Common stock	6(14)	557,256	25	556,203	20	555,866	19
<b>Capital surplus</b>								
3200	Capital surplus		2,057,966	90	2,652,969	97	2,651,879	92
<b>Retained earnings</b>								
3350	Accumulated deficit	6(16)(23)	( 554,546)( 24)	( 673,562)( 24)	( 528,524)( 18)			
<b>Other equity</b>								
3400	Other equity interest		( 9,352)	-	( 13,247)( 1)	( 16,817)( 1)		
3500	Treasury shares	6(14)	-	-	( 36,893)( 1)	( 16,061)	-	
31XX	<b>Equity attributable to owners of parent</b>		<u>2,051,324</u>	<u>91</u>	<u>2,485,470</u>	<u>91</u>	<u>2,646,343</u>	<u>92</u>
3XXX	<b>Total Equity</b>		<u>2,051,324</u>	<u>91</u>	<u>2,485,470</u>	<u>91</u>	<u>2,646,343</u>	<u>92</u>
<b>Significant contingent liabilities and unrecognised contract commitments</b>								
3X2X	<b>Total Liabilities and Equity</b>		<u>\$ 2,264,835</u>	<u>100</u>	<u>\$ 2,744,871</u>	<u>100</u>	<u>\$ 2,882,776</u>	<u>100</u>

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

**TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT LOSS PER SHARE AMOUNT)**  
**(UNAUDITED)**

Items	Notes	Three-month periods ended September 30				Nine-month periods ended September 30			
		2016		2015		2016		2015	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000 <b>Operating revenue</b>	6(17)	\$ 9,819	100	\$ 9,992	100	\$ 29,033	100	\$ 48,362	100
<b>Operating expenses</b>	6(12)(21)(22)								
6200 General and administrative expenses		( 41,898)	( 427)	( 34,533)	( 346)	( 107,783)	( 371)	( 106,889)	( 221)
6300 Research and development expenses		( 207,485)	( 2113)	( 171,461)	( 1716)	( 486,838)	( 1677)	( 501,344)	( 1037)
6000 <b>Total operating expenses</b>		( 249,383)	( 2540)	( 205,994)	( 2062)	( 594,621)	( 2048)	( 608,233)	( 1258)
6900 <b>Operating loss</b>		( 239,564)	( 2440)	( 196,002)	( 1962)	( 565,588)	( 1948)	( 559,871)	( 1158)
<b>Non-operating income and expenses</b>									
7010 Other income	6(18)	2,929	30	10,194	102	13,694	47	32,961	68
7020 Other gains and losses	6(19)	936	10	688	7	7	-	694	2
7050 Finance costs	6(20)	( 692)	( 7)	( 685)	( 7)	( 2,246)	( 8)	( 1,864)	( 4)
7000 <b>Total non-operating income and expenses</b>		3,173	33	10,197	102	11,455	39	31,791	66
7900 <b>Loss before income tax</b>		( 236,391)	( 2407)	( 185,805)	( 1860)	( 554,133)	( 1909)	( 528,080)	( 1092)
7950 Income tax expense	6(23)	( 75)	( 1)	( 131)	( 1)	( 413)	( 1)	( 444)	( 1)
8200 <b>Loss for the period</b>		( \$ 236,466)	( 2408)	( \$ 185,936)	( 1861)	( \$ 554,546)	( 1910)	( \$ 528,524)	( 1093)
<b>Other comprehensive income (loss)</b>									
<b>Items that may be subsequently reclassified to profit or loss</b>									
8361 Financial statement translation differences of foreign operations		( \$ 1,163)	( 12)	\$ 2,284	23	( \$ 1,389)	( 5)	\$ 1,271	3
8300 <b>Total other comprehensive income (loss) for the period</b>		( \$ 1,163)	( 12)	\$ 2,284	23	( \$ 1,389)	( 5)	\$ 1,271	3
8500 <b>Total comprehensive loss for the period</b>		( \$ 237,629)	( 2420)	( \$ 183,652)	( 1838)	( \$ 555,935)	( 1915)	( \$ 527,253)	( 1090)
<b>Loss attributable to:</b>									
8610 Owners of the parent		( \$ 236,466)	( 2408)	( \$ 185,936)	( 1861)	( \$ 554,546)	( 1910)	( \$ 528,524)	( 1093)
<b>Total comprehensive loss attributable to:</b>									
8710 Owners of the parent		( \$ 237,629)	( 2420)	( \$ 183,652)	( 1838)	( \$ 555,935)	( 1915)	( \$ 527,253)	( 1090)
<b>Loss Per Share of Common Stock</b>	6(24)								
9750 <b>Basic Loss Per Share (in dollars)</b>		( \$ 4.24)		( \$ 3.37)		( \$ 10.02)		( \$ 9.59)	
9850 <b>Diluted Loss Per Share (in dollars)</b>		( \$ 4.24)		( \$ 3.37)		( \$ 10.02)		( \$ 9.59)	

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

**TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**  
**(UNAUDITED)**

Equity attributable to owners of the parent										
	Capital Surplus						Other Equity			
Notes	Common stock	Additional paid-in capital	Treasury stock transactions	Share options	Restricted stock	Accumulated deficit	Exchange difference on translation of foreign financial statements	Unearned compensation	Treasury stocks	Total equity
<b>2015</b>										
	\$ 554,033	\$ 3,054,569	\$ -	\$ 89,385	\$ 50,765	(\$ 638,726)	\$ 1,424	(\$ 40,246)	\$ -	\$ 3,071,204
6(12)	-	-	-	95,111	-	-	-	15,633	-	110,744
	2,123	25,864	-	( 19,563 )	-	-	-	-	-	8,424
	( 290 )	-	-	-	290	-	-	-	-	-
	-	-	-	-	( 249 )	-	-	-	-	( 249 )
	-	12,757	-	-	( 12,757 )	-	-	-	-	-
	-	-	-	-	( 5,567 )	-	-	5,101	-	( 466 )
6(16)	-	( 638,726 )	-	-	-	638,726	-	-	-	-
	-	-	-	-	-	-	-	-	( 16,061 )	( 16,061 )
	-	-	-	-	-	( 528,524 )	-	-	-	( 528,524 )
	-	-	-	-	-	-	1,271	-	-	1,271
	<u>\$ 555,866</u>	<u>\$ 2,454,464</u>	<u>\$ -</u>	<u>\$ 164,933</u>	<u>\$ 32,482</u>	<u>(\$ 528,524)</u>	<u>\$ 2,695</u>	<u>(\$ 19,512)</u>	<u>(\$ 16,061)</u>	<u>\$ 2,646,343</u>
<b>2016</b>										
	\$ 556,203	\$ 2,465,421	\$ -	\$ 156,053	\$ 31,495	(\$ 673,562)	\$ 2,541	(\$ 15,788)	(\$ 36,893)	\$ 2,485,470
6(12)	-	-	-	73,931	-	-	-	5,284	-	79,215
	1,399	29,373	-	( 25,116 )	-	-	-	-	-	5,656
	( 346 )	-	-	-	346	-	-	-	-	-
	-	-	7,009	( 6,984 )	-	-	-	-	36,893	36,918
6(16)	-	( 673,562 )	-	-	-	673,562	-	-	-	-
	-	-	-	-	-	( 554,546 )	-	-	-	( 554,546 )
	-	-	-	-	-	-	( 1,389 )	-	-	( 1,389 )
	<u>\$ 557,256</u>	<u>\$ 1,821,232</u>	<u>\$ 7,009</u>	<u>\$ 197,884</u>	<u>\$ 31,841</u>	<u>(\$ 554,546)</u>	<u>\$ 1,152</u>	<u>(\$ 10,504)</u>	<u>\$ -</u>	<u>\$ 2,051,324</u>

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(UNAUDITED)

	Notes	Nine-month periods ended September 30	
		2016	2015
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Loss before tax		(\$ 554,133 )	(\$ 528,080 )
Adjustments			
Adjustments to reconcile profit (loss)			
Provision for doubtful accounts	6(2)	9,067	-
Share-based payments	6(12)	79,215	110,744
Deferred revenue (including current portion)		( 852 )	-
Depreciation	6(21)	47,660	36,928
Amortization	6(21)	9,266	6,260
Interest expense	6(20)	2,246	1,864
Interest income	6(18)	( 7,945 )	( 15,344 )
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable, net		723	( 18,266 )
Other receivables		( 1,660 )	( 12,313 )
Prepayments		( 787 )	( 7,236 )
Changes in operating liabilities			
Notes payable		( 544 )	( 251 )
Other payables		( 3,770 )	( 9,064 )
Other current liabilities		797	( 3,762 )
Provisions for liabilities - non-current		-	( 50 )
Other non-current liabilities		( 3,293 )	( 1,877 )
Cash outflow generated from operations		( 424,010 )	( 440,447 )
Interest received		8,195	15,769
Interest paid		( 2,252 )	( 1,818 )
Income tax paid		( 850 )	( 1,142 )
Net cash flows used in operating activities		( 418,917 )	( 427,638 )

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TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)  
(UNAUDITED)

	Notes	Nine-month periods ended September 30	
		2016	2015
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Decrease in other financial assets		\$ 4,761	\$ 1,605
Acquisition of property, plant and equipment	6(25)	( 15,156 )	( 50,857 )
Increase in other non-current assets		( 2,281 )	( 2,688 )
Increase in intangible assets	6(25)	( 3,372 )	( 2,537 )
Decrease (Increase) in refundable deposits		4,950	( 721 )
Net cash flows used in investing activities		( 11,098 )	( 55,198 )
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Increase in short-term borrowings		-	20,000
Proceeds from long-term borrowings		-	71,750
Payment of long-term borrowings		( 2,760 )	( 47,191 )
Increase in lease payable		-	38,537
Decrease in lease payable		( 37,000 )	( 32,542 )
Employee stock options exercised		5,656	8,424
Cancellation of restricted stocks		( 346 )	( 290 )
Recall of restricted stocks		-	( 64 )
Treasury shares sold to employees	6(14)	36,918	-
Acquisition of treasury shares		-	( 16,061 )
Net cash flows provided by financing activities		2,468	42,563
Effect due to changes in exchange rate		( 1,067 )	993
Net decrease in cash and cash equivalents		( 428,614 )	( 439,280 )
Cash and cash equivalents at beginning of period		2,384,527	2,958,467
Cash and cash equivalents at end of period		\$ 1,955,913	\$ 2,519,187

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



TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016 AND 2015  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,  
EXCEPT AS OTHERWISE INDICATED)  
(UNAUDITED)

1. HISTORY AND ORGANIZATION

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on November 3, 2016.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

None.

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating results based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

A. Amendments to IAS 1, 'Disclosure initiative'

This amendment clarifies the presentation of materiality, aggregation and subtotals, the framework of financial report, and the guide for accounting disclosure.

B. Amendments to IAS 36, 'Recoverable amount disclosures for non-financial assets'

The amendments remove the requirement to disclose recoverable amount when a cash generating unit (CGU) contains goodwill or indefinite lived intangible assets but there has been no impairment. When a material impairment loss has been recognised or reversed for an individual asset, including goodwill, or a CGU, it is required to disclose the recoverable amount of the asset or CGU. If the recoverable amount is fair value less costs of disposal, it is required to disclose the level of the fair value hierarchy, the valuation techniques(s) used and key assumptions.

C. Annual improvements to IFRSs 2010-2012 cycle

(a) IFRS 2, 'Share-based payment'

The amendment clarifies the definition of a 'vesting condition' includes only service condition and performance condition. The amendment revises the definition of 'service condition',

‘performance condition’ and ‘market condition’.

(b) IFRS 13, ‘Fair value measurement’

When issuing IFRS 13 ‘fair value measurement’, the IASB removed the guidance that an entity could measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial. The amendment clarifies the deletion was made by IASB noting that paragraph 8 of IAS 8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial. The IASB did not intend to change the aforementioned measurement requirements, thus, entities can still apply above standard.

D. Annual improvements to IFRSs 2011-2013 cycle

IFRS 13, ‘Fair value measurement’

The amendment clarifies that the exception of measuring the fair value of a group of financial assets and financial liabilities (portfolio exception) applies to all financial assets, financial liabilities and other contracts within the scope of IFRS 9 or IAS 39.

E. Annual improvements to IFRSs 2012-2014 cycle

(a) IFRS 7, ‘Financial instruments: Disclosures’

The amendment provides additional guidance to determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement and thus the disclosure requirement of transferred financial assets applies. This amendment also clarifies that disclosure of offsetting is not required for all interim periods.

(b) IAS 19, ‘Employee benefits’

The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds or not is based on corporate bonds in that currency, and not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

(c) IAS 34, ‘Interim financial reporting’

The amendment clarifies what is meant by the reference in the standard to “information disclosed elsewhere in the interim financial report”. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and operating results based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

- A. Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'
- The amendment clarifies that the fair value of a cash-settled award is determined on a basis consistent with that used for equity-settled awards. The amendment also clarifies the accounting for modifications that change an award from cash-settled to equity-settled. Besides, the amendment introduces an exception that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.
- B. IFRS 9, 'Financial instruments'
- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant

increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses ('ECL') or lifetime ECL (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance).

C. IFRS 15, "Revenue from contracts with customers"

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

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

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

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

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

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

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

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

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

E. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

F. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

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

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for the compliance statement, basis of preparation, basis of consolidation and additional descriptions that are set out below, the rest of the principal accounting policies applied in the preparation of these consolidated financial statements are the same as those disclosed in Note 4 to the consolidated

financial statements as of and for the year ended December 31, 2015. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

- A. The consolidated financial statements of the Group have been prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and IAS 34, “Interim Financial Reporting” as endorsed by the FSC.
- B. The consolidated financial statements as of and for the nine-month period ended September 30, 2016 should be read together with the consolidated financial statements as of and for the year ended December 31, 2015.

(2) Basis of preparation

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

(3) Basis of consolidation

- A. Basis for preparation of consolidated financial statements:  
Basis for preparation of consolidated financial statements are the same as those disclosed to the consolidated financial statements as of and for the year ended December 31, 2015.
- B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		
			September 30, 2016	December 31, 2015	September 30, 2015
Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	Research on new anti-cancer drugs and biotechnology services	100	100	100
Taiwan Liposome Company	TLC Biopharmaceuticals, B.V.	Technical authorization and product development	100	100	100
Taiwan Liposome Company	TLC Biopharmaceuticals, (H.K.) Limited	Biotechnology services and reinvestment	100	100	100
Taiwan Liposome Company	TLC Biopharmaceuticals, Pty Ltd.	Technical authorization and product development	100	100	100
Taiwan Liposome Company	TLC Biopharmaceuticals, Japan Co., Ltd.	Technical authorization and product development	100	100	100
TLC Biopharmaceuticals, (H.K.) Limited	TLC Biopharmaceuticals, (Shanghai) Limited	Consulting and technical service of medication	100	100	100

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

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

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group



in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. 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) of a currency and term consistent with the currency and term of the employment benefit obligations.

- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. Also, the related information is disclosed accordingly.

(5) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures and employees' training costs to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.
- G. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

## 5. CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

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

### Impairment assessment of tangible and intangible assets

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

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Cash on hand	\$ 156	\$ 63	\$ 67
Checking and demand deposits	841,957	832,567	617,137
Time deposits	1,113,800	1,551,897	1,901,983
	<u>\$ 1,955,913</u>	<u>\$ 2,384,527</u>	<u>\$ 2,519,187</u>

- A. The Group transacts with a variety of financial institutions with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.
- B. Details of the Group's bank deposits pledged to others as collateral are provided in Note 8, and these bank deposits are not accounted for as cash and cash equivalents.

(2) Accounts receivable

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Accounts receivable	\$ 24,807	\$ 25,530	\$ 24,084
Less: allowance for bad debts	( 9,067)	-	-
	<u>\$ 15,740</u>	<u>\$ 25,530</u>	<u>\$ 24,084</u>

- A. The Group's accounts receivable that were neither past due nor impaired were fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability. As of September 30, 2016, December 31, 2015 and September 30, 2015, the Group's accounts receivable that were neither past due nor impaired amounted to \$6,675, \$7,398 and \$5,952, respectively. The Group has lower significant concentrations of credit risk and has policies in place to ensure that customers have an appropriate credit history when signing the contract.
- B. The ageing analysis of accounts receivable that were past due but not impaired is as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Up to 30 days	\$ -	\$ -	\$ -
31 to 90 days	-	-	-
91 to 180 days	-	-	-
Over 181 days	<u>9,065</u>	<u>18,132</u>	<u>18,132</u>
	<u>\$ 9,065</u>	<u>\$ 18,132</u>	<u>\$ 18,132</u>

The above ageing analysis was based on past due date.

- C. Movement analysis of accounts receivable that were impaired is as follows:

(a) As of September 30, 2016 and 2015, the Group's accounts receivable that were individually determined to be impaired amounted to \$9,067 and \$0, respectively.

(b) Movements on the Group's provision for impairment of accounts receivable are as follows:

	<u>2016</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ -	\$ -	\$ -
Provision for impairment	<u>9,067</u>	-	<u>9,067</u>
At September 30	<u>\$ 9,067</u>	<u>\$ -</u>	<u>\$ 9,067</u>

In 2015: None.

- D. The Group does not hold any collateral as security.

(3) Prepayments

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Net input VAT	\$ 28,398	\$ 24,916	\$ 22,429
Prepaid repair expense	3,323	5,445	251
Prepaid rent	232	979	219
Prepaid expense for medicines research	427	1,005	129
Prepaid banking charges	338	1,375	1,713
Prepaid service expenses	203	108	3,002
Others	3,155	1,441	3,372
	<u>\$ 36,076</u>	<u>\$ 35,269</u>	<u>\$ 31,115</u>

(4) 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 assets</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2016</u>							
Cost	\$ 14,962	\$ 29,532	\$ 106,643	\$ 15,938	\$ 100,020	\$ 65,514	\$ 332,609
Accumulated depreciation	-	( 4,047)	( 47,232)	( 5,912)	( 27,887)	( 25,418)	( 110,496)
	<u>\$ 14,962</u>	<u>\$ 25,485</u>	<u>\$ 59,411</u>	<u>\$ 10,026</u>	<u>\$ 72,133</u>	<u>\$ 40,096</u>	<u>\$ 222,113</u>
<u>Nine months ended September 30, 2016</u>							
Opening net book amount	\$ 14,962	\$ 25,485	\$ 59,411	\$ 10,026	\$ 72,133	\$ 40,096	\$ 222,113
Additions	-	-	9,556	209	-	7,038	16,803
Depreciation charge	-	( 492)	( 13,768)	( 2,670)	( 18,957)	( 11,773)	( 47,660)
Net exchange differences	-	-	( 229)	( 14)	-	( 39)	( 282)
Closing net book amount	<u>\$ 14,962</u>	<u>\$ 24,993</u>	<u>\$ 54,970</u>	<u>\$ 7,551</u>	<u>\$ 53,176</u>	<u>\$ 35,322</u>	<u>\$ 190,974</u>
<u>At September 30, 2016</u>							
Cost	\$ 14,962	\$ 29,532	\$ 100,656	\$ 16,091	\$ 100,020	\$ 72,421	\$ 333,682
Accumulated depreciation	-	( 4,539)	( 45,686)	( 8,540)	( 46,844)	( 37,099)	( 142,708)
	<u>\$ 14,962</u>	<u>\$ 24,993</u>	<u>\$ 54,970</u>	<u>\$ 7,551</u>	<u>\$ 53,176</u>	<u>\$ 35,322</u>	<u>\$ 190,974</u>

	Land	Buildings	Testing equipment	Office equipment	Leasehold assets	Leasehold improvements	Construction in progress and equipment to be inspected	Total
<u>At January 1, 2015</u>								
Cost	\$ 14,962	\$ 29,532	\$ 142,028	\$ 7,700	\$ 50,000	\$ 33,011	\$ 12,300	\$ 289,533
Accumulated depreciation	-	( 3,391)	( 58,160)	( 3,404)	( 2,019)	( 15,224)	-	( 82,198)
	<u>\$ 14,962</u>	<u>\$ 26,141</u>	<u>\$ 83,868</u>	<u>\$ 4,296</u>	<u>\$ 47,981</u>	<u>\$ 17,787</u>	<u>\$ 12,300</u>	<u>\$ 207,335</u>
<u>Nine months ended September 30, 2015</u>								
Opening net book amount	\$ 14,962	\$ 26,141	\$ 83,868	\$ 4,296	\$ 47,981	\$ 17,787	\$ 12,300	\$ 207,335
Additions	-	-	10,765	4,300	-	5,346	18,840	39,251
Disposals (Note 1)	-	-	-	-	-	( 38)	-	( 38)
Transfer (Note 2)	-	-	2,360	472	-	9,613	( 12,300)	145
Reclassifications	-	-	( 50,624)	604	50,020	-	-	-
Depreciation charge	-	( 492)	( 8,617)	( 1,647)	( 19,401)	( 6,771)	-	( 36,928)
Net exchange differences	-	-	184	12	-	35	-	231
Closing net book amount	<u>\$ 14,962</u>	<u>\$ 25,649</u>	<u>\$ 37,936</u>	<u>\$ 8,037</u>	<u>\$ 78,600</u>	<u>\$ 25,972</u>	<u>\$ 18,840</u>	<u>\$ 209,996</u>
<u>At September 30, 2015</u>								
Cost	\$ 14,962	\$ 29,532	\$ 80,828	\$ 13,101	\$ 100,020	\$ 48,017	\$ 18,840	\$ 305,300
Accumulated depreciation	-	( 3,883)	( 42,892)	( 5,064)	( 21,420)	( 22,045)	-	( 95,304)
	<u>\$ 14,962</u>	<u>\$ 25,649</u>	<u>\$ 37,936</u>	<u>\$ 8,037</u>	<u>\$ 78,600</u>	<u>\$ 25,972</u>	<u>\$ 18,840</u>	<u>\$ 209,996</u>

Note 1: Net value written off for decommissioning liabilities was caused by termination of contracts.

Note 2: 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(25).

C. Information about the leasehold assets is provided in Note 6(10).

D. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(5) Intangible assets

A. The details of intangible assets are as follows:

	<u>Professional technology</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1, 2016</u>			
Cost	\$ 49,259	\$ 11,463	\$ 60,722
Accumulated amortisation	( 36,167)	( 5,680)	( 41,847)
	<u>\$ 13,092</u>	<u>\$ 5,783</u>	<u>\$ 18,875</u>
<u>Nine months ended September 30, 2016</u>			
Opening net book amount	\$ 13,092	\$ 5,783	\$ 18,875
Addition-acquired separately	-	3,589	3,589
Transfer (Note)	-	591	591
Amortisation charge	( 3,852)	( 5,414)	( 9,266)
Net exchange differences	( 39)	-	( 39)
Closing net book amount	<u>\$ 9,201</u>	<u>\$ 4,549</u>	<u>\$ 13,750</u>
<u>At September 30, 2016</u>			
Cost	\$ 49,220	\$ 15,643	\$ 64,863
Accumulated amortisation	( 40,019)	( 11,094)	( 51,113)
	<u>\$ 9,201</u>	<u>\$ 4,549</u>	<u>\$ 13,750</u>
	<u>Professional technology</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1, 2015</u>			
Cost	\$ 49,216	\$ 7,352	\$ 56,568
Accumulated amortisation	( 31,044)	( 2,902)	( 33,946)
	<u>\$ 18,172</u>	<u>\$ 4,450</u>	<u>\$ 22,622</u>
<u>Nine months ended September 30, 2015</u>			
Opening net book amount	\$ 18,172	\$ 4,450	\$ 22,622
Addition-acquired separately	-	2,735	2,735
Transfer (Note)	-	307	307
Amortisation charge	( 3,840)	( 2,420)	( 6,260)
Net exchange differences	47	-	47
Closing net book amount	<u>\$ 14,379</u>	<u>\$ 5,072</u>	<u>\$ 19,451</u>
<u>At September 30, 2015</u>			
Cost	\$ 49,263	\$ 10,394	\$ 59,657
Accumulated amortisation	( 34,884)	( 5,322)	( 40,206)
	<u>\$ 14,379</u>	<u>\$ 5,072</u>	<u>\$ 19,451</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(25).

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

	Three months ended September 30,	
	2016	2015
General and administrative expenses	\$ 817	\$ 815
Research and development expenses	1,830	1,537
	<u>\$ 2,647</u>	<u>\$ 2,352</u>

  

	Nine months ended September 30,	
	2016	2015
General and administrative expenses	\$ 2,712	\$ 1,768
Research and development expenses	6,554	4,492
	<u>\$ 9,266</u>	<u>\$ 6,260</u>

(6) Other non-current assets

	September 30, 2016	December 31, 2015	September 30, 2015
Refundable deposits	\$ 23,689	\$ 28,639	\$ 28,640
Prepaid expense for medicines research - over one year	20,000	20,000	20,000
Prepayments for business facilities	1,759	70	8,528
	<u>\$ 45,448</u>	<u>\$ 48,709</u>	<u>\$ 57,168</u>

(7) Short-term borrowings

Type of borrowings	September 30, 2016	December 31, 2015	September 30, 2015
Bank unsecured borrowings	\$ 46,000	\$ 46,000	\$ 20,000
Interest rate	1.95%~2.10%	2.13%~2.33%	2.20%
Credit line	\$ 46,000	\$ 46,000	\$ 36,000

(8) Other payables

	September 30, 2016	December 31, 2015	September 30, 2015
Salaries and bonuses	\$ 22,803	\$ 26,656	\$ 22,941
Research expenses	17,164	11,081	11,340
Service expenses	7,287	5,269	3,366
Research medicine expenses	5,531	10,281	4,962
Repair expense	3,160	4,833	528
Payables on machinery and equipment	2,624	5,010	6,645
Labor and health insurance fees payable	2,001	1,950	1,936
Other accrued expenses	5,889	6,767	8,125
	<u>\$ 66,459</u>	<u>\$ 71,847</u>	<u>\$ 59,843</u>



(9) Long-term borrowings

<u>Type of loans</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>September 30, 2016</u>
Taiwan Cooperative Bank - secured borrowings	Note 1	1.95%	Land and buildings	\$ 37,750
Taiwan Cooperative Bank - secured borrowings	Note 2	1.95%	Land and buildings	34,000
				<u>\$ 71,750</u>

<u>Type of loans</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>December 31, 2015</u>
Taiwan Cooperative Bank - secured borrowings	Note 1	1.95%	Land and buildings	\$ 37,750
Taiwan Cooperative Bank - secured borrowings	Note 2	1.98%	Land and buildings	34,000
Taiwan Business Bank - secured borrowings	Note 3	1.00%	Demand deposits	2,760
Less: current portion (recorded as other current liabilities)				74,510
				<u>( 2,760)</u>
				<u>\$ 71,750</u>

<u>Type of loans</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>September 30, 2015</u>
Taiwan Cooperative Bank - secured borrowings	Note 1	1.95%	Land and buildings	\$ 37,750
Taiwan Cooperative Bank - secured borrowings	Note 2	1.98%	Land and buildings	34,000
Taiwan Business Bank - secured borrowings	Note 3	1.00%	Demand deposits	4,140
Less: current portion (recorded as other current liabilities)				75,890
				<u>( 4,140)</u>
				<u>\$ 71,750</u>

Note 1: The Company entered into a long-term loan contract with Taiwan Cooperative Bank on September 1, 2015 in the amount of \$37,750. The contract period is from September 2015 to September 2035. The interest is payable monthly for the first 3 years and payable monthly along with the same amount of principal starting from the fourth year.

Note 2: The Company entered into a mid-term loan contract with Taiwan Cooperative Bank on September 4, 2015 in the amount of \$34,000. The contract period is from September 2015 to

September 2022. The interest is payable monthly for the first 2 years and payable semi-annually along with 5% of the principal starting from September 2017. The remaining 50% of principal will be repaid at maturity.

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

As of September 30, 2016, December 31, 2015 and September 30, 2015, the undrawn loan facilities amounted to \$1,050, \$1,050 and \$1,050, respectively. The information about the Group’s liquidity risk is provided in Note 12 (2) C (c).

(10) Finance lease liabilities

The Group leases testing equipment assets under finance lease. Based on the terms of the lease contracts, ownership of all leased equipment will transfer to the Group at no consideration when the leases expire. Future minimum lease payments and their present values as at September 30, 2016, December 31, 2015 and September 30, 2015 are as follows:

	September 30, 2016		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
Not later than one year (Note)	\$ 15,046	(\$ 46)	\$ 15,000
	December 31, 2015		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
Not later than one year (Note)	\$ 50,000	(\$ 500)	\$ 49,500
<u>Non-current</u>			
Later than one year but not later than two years (Note)	2,504	( 4)	2,500
	\$ 52,504	(\$ 504)	\$ 52,000

	September 30, 2015		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
Not later than one year (Note)	\$ 44,688	(\$ 688)	\$ 44,000
<u>Non-current</u>			
Later than one year but not later than two years (Note)	20,071	( 71)	20,000
	<u>\$ 64,759</u>	<u>(\$ 759)</u>	<u>\$ 64,000</u>

Note: Recorded as other current liabilities and other non-current liabilities, respectively.

(11) Pensions

A. Defined benefit plan

- (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. Also, the Company would assess the balance in the aforementioned labor pension reserve account by March 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned methods to the employees expected to qualify for retirement in the following year, the Company will make contributions to cover for the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$55, \$64, \$163 and \$195 for the three months and nine months ended September 30, 2016 and 2015, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2017 amounts to \$221.

B. Defined contribution plans

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 three months and nine months ended September 30, 2016 and 2015 were \$1,993 and \$1,850, \$5,908 and \$5,390, respectively.

- C. The subsidiaries have defined contribution plans in accordance with the local regulations, and contributions are based on a certain percentage of employees' salaries and wages. Other than the yearly contributions, the subsidiaries have no further obligations. The pension costs of the subsidiaries for the three months and nine months ended September 30, 2016 and 2015 were \$313 and \$210, \$972 and \$637, respectively.

(12) Share-based payment

A. For the nine months ended September 30, 2016 and 2015, the Company's equity-settled share-based payment arrangements were as follows:

<u>Type of arrangement</u>	<u>Grant date</u>	<u>Quantity granted (in thousands)</u>	<u>Contract period</u>	<u>Vesting conditions</u>
Employee stock options	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)
"	2014.03.20	250.0	5 years	2 years service vested immediately (Note 2)
"	2014.08.15	145.0	5 years	2 years service vested immediately (Note 2)
"	2015.02.26	1,463.0	5 years	2 years service vested immediately (Note 2)
"	2015.04.30	16.0	5 years	2 years service vested immediately (Note 2)
"	2015.05.04	35.0	5 years	2 years service vested immediately (Note 2)
"	2015.07.30	70.0	5 years	2 years service vested immediately (Note 2)
"	2015.10.29	216.0	5 years	2 years service vested immediately (Note 2)
"	2016.02.25	1,579.0	5 years	2 years service vested immediately (Note 2)
"	2016.08.11	148.0	5 years	2 years service vested immediately (Note 2)
Restricted stocks to employees (Note 3)	2014.08.15	307.0	3 years	Achievement of performance condition (Note 4)
"	2014.11.14	43.0	3 years	Achievement of performance condition (Note 4)
Treasury stocks transferred to employees	2016.02.25	276.0	N/A	Vested immediately

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

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

(Note 3) The restricted stocks issued by the Company cannot be transferred within the vesting period, but voting rights and dividend rights are not restricted on these stocks. Employees are required to return the stocks but not required to return the dividends received if they resign during the vesting period.

(Note 4) For the employees who are currently working in the Company and whose services have reached 1 year, 2 years and 3 years while their performance has reached the target performance and they have made certain contribution, the applicable accumulated maximum vested share ratio is 30%, 60% and 100%, respectively.

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

(a) Employee stock options

	2016		2015	
	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	3,148.3	\$ 267	2,049.3	\$ 264
Options granted	1,727.0	156	1,584.0	241.5
Options exercised	( 139.8)	40	( 212.3)	40
Options revoked	( 529.5)	233	( 325.9)	301
Options outstanding at end of the period	4,206.0	-	3,095.1	-
Options exercisable at end of the period	877.4	69.9~379	236.5	35~117.3
Options permitted but not yet outstanding at end of the period	73		216	

(b) Restricted stocks to employees

	2016	2015
	Shares (in thousands)	Shares (in thousands)
At January 1	204	350
Expired for the period (Note)	( 26)	( 46)
Restrictions removed for the period	-	( 83)
At September 30	<u>178</u>	<u>221</u>

Note: Please refer to Note 6(14)C.

- C. The weighted-average stock price of stock options at exercise dates for the three months and nine months ended September 30, 2016 and 2015 were \$132.34 (in dollars), \$143.94 (in dollars), \$138.78 (in dollars) and \$196.25 (in dollars), respectively.
- D. The expiry date and exercise price of stock options outstanding at the balance sheet date are as follows:

September 30, 2016					
Options outstanding at end of period			Options exercisable at end of period		
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)
\$ 69.9	3.0	0.23	\$ 69.9	3.0	\$ 69.9
117.3	64.8	0.60	117.3	64.8	117.3
379	924.2	2.12	379	666.6	379
272	153.0	2.47	272	95.6	272
206	91.0	2.87	206	47.4	206
246.5	1,112.0	3.41	246.5	-	-
225	16.0	3.58	225	-	-
225	35.0	3.59	225	-	-
148	60.0	3.83	148	-	-
141	180.0	4.08	141	-	-
159	1,419.0	4.41	159	-	-
128.5	148.0	4.87	128.5	-	-
	<u>4,206.0</u>			<u>877.4</u>	

December 31, 2015						
			Options outstanding at end of period		Options exercisable at end of period	
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)	
						\$ 35
69.9	12.2	0.98	69.9	12.2	69.9	
117.3	70.8	1.36	117.3	61.6	117.3	
379	1,022.0	2.87	379	537.4	379	
272	183.0	3.22	272	-	-	
206	135.0	3.62	206	-	-	
246.5	1,263.0	4.16	246.5	-	-	
225	16.0	4.31	225	-	-	
225	35.0	4.34	225	-	-	
148	70.0	4.59	148	-	-	
141	216.0	4.83	141	-	-	
	<u>3,148.3</u>			<u>736.5</u>		

September 30, 2015						
			Options outstanding at end of period		Options exercisable at end of period	
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)	
						\$ 35
69.9	24.6	1.23	69.9	16.7	69.9	
117.3	70.8	1.61	117.3	56.0	117.3	
379	1,070.0	3.13	379	-	-	
272	183.0	3.47	272	-	-	
206	135.0	3.87	206	-	-	
246.5	1,327.0	4.41	246.5	-	-	
225	16.0	4.59	225	-	-	
225	35.0	4.60	225	-	-	
148	70.0	4.84	148	-	-	
	<u>3,095.1</u>			<u>236.5</u>		



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

Employee stock options

	<u>August 11, 2016</u>	<u>February 25, 2016</u>	<u>October 29, 2015</u>
Grant date			
Dividend yield rate	-	-	-
Exercise price volatility	48.77%	51.62%	50.18%
Risk-free interest rate	0.47%~0.52%	0.54%~0.61%	0.68%~0.81%
Expected vesting period (years)	3.5~4.5	3.5~4.5	3.5~4.5
Per share exercise price (in dollars)	\$ 128.5	\$ 159	\$ 141
Weighted stock options average fair value (in dollars)	\$ 45~53	\$ 61~66	\$ 52~59

	<u>July 30, 2015</u>	<u>May 4, 2015</u>	<u>April 30, 2015</u>
Grant date			
Dividend yield rate	-	-	-
Exercise price volatility	48.59%	49.17%	49.10%
Risk-free interest rate	0.86%~0.97%	0.91%~1.05%	0.91%~1.03%
Expected vesting period (years)	3.5~4.5	3.5~4.5	3.5~4.5
Per share exercise price (in dollars)	\$ 148	\$ 225	\$ 225
Weighted stock options average fair value (in dollars)	\$ 54~60	\$ 82~93	\$ 82~93

	<u>February 26, 2015</u>	<u>August 15, 2014</u>	<u>March 20, 2014</u>
Grant date			
Dividend yield rate	-	-	-
Exercise price volatility	46.68%	46.22%	46.06%
Risk-free interest rate	0.92%~1.04%	0.99~1.15%	0.92%~1.10%
Expected vesting period (years)	3.5~4.5	3.5~4.5	3.5~4.5
Per share exercise price (in dollars)	\$ 246.5	\$ 206	\$ 272
Weighted stock options average fair value (in dollars)	\$ 86~97	\$ 71~81	\$ 94~106

	<u>November 14, 2013</u>	<u>May 8, 2012</u>	<u>December 23, 2011</u>
Grant date			
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>
Dividend yield rate	-	-
Exercise price volatility	44.70%	41.66%
Risk-free interest rate	1.14%	0.64%
Expected vesting period (years)	3.875	3.75
Per share exercise price (in dollars)	\$ 35	\$ 28
Weighted stock options average fair value (in dollars)	\$ 2.05~2.80	\$ 1.76~2.81

Restricted stocks to employees

Grant date	<u>November 14, 2014</u>	<u>August 15, 2014</u>
Dividend yield rate	-	-
Exercise price volatility	44.51%~46.32%	44.28%~46.10%
Risk-free interest rate	0.58%~0.92%	0.56%~0.90%
Expected vesting period (years)	1~3	1~3
Stock price (in dollars)	\$ 191	\$ 206
Per share exercise price (in dollars)	10	10
Weighted stock options average fair value (in dollars)	\$ 128.47~151.99	\$ 139.28~164.58

Treasury stock transferred to employees

Grant date	<u>February 25, 2016</u>
Dividend yield rate	-
Exercise price volatility	55.10%
Risk-free interest rate	0.73%
Expected vesting period (years)	0.02
Per share exercise price (in dollars)	\$ 133.76
Weighted stock options average fair value (in dollars)	\$ 25.304

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

	<u>Three months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Equity-settled	<u>\$ 26,113</u>	<u>\$ 34,498</u>
	<u>Nine months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Equity-settled	<u>\$ 79,215</u>	<u>\$ 110,744</u>

(13) Provisions (Decommissioning liabilities)

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
At January 1, 2016	\$ 3,846	\$ 3,846	\$ 3,627
Additions	3,150	-	-
Used during the period	-	-	( 50)
At September 30, 2016	<u>\$ 6,996</u>	<u>\$ 3,846</u>	<u>\$ 3,577</u>

Analysis of total provisions is shown below:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Non-current	<u>\$ 6,996</u>	<u>\$ 3,846</u>	<u>\$ 3,577</u>

In accordance with the requirements specified in the agreement, the Group bears the obligation for the costs of dismantling, removing the asset and restoring the site of its rented office in the future. A provision is recognised for the present value of costs to be incurred for dismantling, removing the asset and restoring the site. It is expected that the provision will be used in 2~6 years.

(14) Share capital

A. As of September 30, 2016, the Company's authorized capital was \$600,000, and the paid-in capital was \$557,256 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):

	<u>2016</u>	<u>2015</u>
At January 1	55,620	55,403
Employee stock options exercised	140	213
Cancellation of restricted stocks	( 35)	( 29)
At September 30	<u>55,725</u>	<u>55,587</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.

C. Employee restricted stocks

(a) The Board of Directors during its meeting on June 18, 2014 adopted a resolution to issue employee restricted ordinary shares (see Note 6(12)) with the effective date set on August

21, 2014 and November 20, 2014, respectively. The subscription price is \$10 (in dollars) per share. The employee restricted ordinary shares issued are subject to certain restrictions on selling, pledging as collateral, transfer, donation or other methods to dispose before their vesting conditions are met. Other than these restrictions, the rights and obligations of these shares issued are the same as other issued ordinary shares.

- (b) As employee restricted stocks of 4,000 shares distributed to certain employees in December 2014 did not meet the vesting conditions in accordance with the terms of restricted shares, the Board of Directors has resolved on February 26, 2015 to buy back the restricted shares to retire for capital reduction. The registration was completed on March 20, 2015.
- (c) As employee restricted shares of 25,000 shares distributed to certain employees in April and July 2015 did not meet the vesting conditions in accordance with the terms of restricted stocks, the Board of Directors has resolved on October 29, 2015 to buy back the restricted shares to retire for capital reduction. The registration was completed on August 14, 2015.
- (d) As employee restricted stocks of 17,000 shares distributed to certain employees in August and September 2015 did not meet the vesting conditions in accordance with the terms of restricted shares, the Board of Directors has resolved on October 29, 2015 to buy back the restricted shares to retire for capital reduction. The registration was completed on November 11, 2015.
- (e) As employee restricted stocks of 9,000 shares distributed to certain employees in November 2015 did not meet the vesting conditions in accordance with the terms of restricted shares, the Board of Directors has resolved on February 25, 2016 to buy back the restricted shares to retire for capital reduction. The registration was completed on April 22, 2016.
- (f) As employee restricted stocks of 14,000 shares distributed to certain employees in April 2016 did not meet the vesting conditions in accordance with the terms of restricted shares, the Board of Directors has resolved on May 5, 2016 to buy back the restricted shares to retire for capital reduction. The registration was completed on July 18, 2016.
- (g) As employee restricted stocks of 12,000 shares distributed to certain employees in July and August 2016 did not meet the vesting conditions in accordance with the terms of restricted shares, the Board of Directors has resolved on August 11, 2016 to buy back the restricted shares to retire for capital reduction. The registration was completed on October 11, 2016.

#### D. Treasury stock

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

Reason for reacquisition	2016			
	January 1	Additions	Disposal	September 30
To be reissued to employees				
—Number of shares (in thousands)	276	-	(276)	-
—Carrying amount	\$ 36,893	\$ -	(\$ 36,893)	\$ -

Reason for reacquisition	2015			
	January 1	Additions	Disposal	September 30
To be reissued to employees				
—Number of shares (in thousands)	-	127	-	127
—Carrying amount	\$ -	\$ 16,061	\$ -	\$ 16,061

- (b) Pursuant to the R.O.C. Securities and Exchange Law, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (c) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (d) Pursuant to the R.O.C. Securities and Exchange Law, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired.

(15) 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.

(16) Retained earnings

- 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.
  - Appropriate or reverse special reserve in accordance with the relevant laws and regulations, if necessary;

(e) After deducting items a to d, the remainder, if any, to be retained or to be appropriated shall be resolved by the stockholders at the stockholders' meeting.

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. The stockholders during their meeting on June 21, 2016 and June 23, 2015 adopted a resolution to use capital surplus amounting to \$673,562 and \$638,726 to cover accumulated deficit, respectively.

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 September 30, 2016, the Company had an accumulated deficit. Therefore, the earnings distribution information disclosure is not applicable.

F. For the information relating to employees' remuneration (bonuses) and directors' and supervisors' remuneration, please refer to Note 6(22).

(17) Operating revenue

	Three months ended September 30,	
	2016	2015
Co-development revenue	\$ 250	\$ 1,452
Royalty payment revenue	9,569	8,540
	<u>\$ 9,819</u>	<u>\$ 9,992</u>

  

	Nine months ended September 30,	
	2016	2015
Co-development revenue	\$ 852	\$ 22,489
Royalty payment revenue	28,181	25,873
	<u>\$ 29,033</u>	<u>\$ 48,362</u>

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

The details are as follows:

(a) The Company signed a 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.

- (b) 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.
- (c) The Company and Sandoz AG. (“Sandoz”) signed an agreement to sell special generic products in Europe and USA. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, a royalty fee will be received by the Company. The Company also recognizes performance-based milestone payment revenue upon entering the local market in Europe and USA, and if net sales reached a certain sales volume for the first time within five years.

B. The details of royalty payment revenue are as follows:

- (a) The Company granted TTY Biopharm Company Limited (TTY) the exclusive right in Taiwan to produce and promote LIPO-DOX, a medicinal product developed by the Company. Under the contract, royalty payments are based on 12% of the sales from the products sold.
- (b) The Company authorizes YSP the exclusive right in Taiwan to produce and promote generic drugs. Under the contract, the Company will receive a royalty fee based on a certain percentage of the net sales revenue.

(18) Other income

	Three months ended September 30,	
	2016	2015
Interest income	\$ 2,069	\$ 4,726
Government subsidy income (Note)	358	4,111
Others	502	1,357
	<u>\$ 2,929</u>	<u>\$ 10,194</u>
	Nine months ended September 30,	
	2016	2015
Interest income	\$ 7,945	\$ 15,344
Government subsidy income (Note)	859	15,749
Others	4,890	1,868
	<u>\$ 13,694</u>	<u>\$ 32,961</u>

Note: The Company has entered into a contract of “Phase I/II trial plan of TLC399 (ProDex®) in

Patients with Macular Edema Due to Retinal Vein Occlusion (RVO)” and “Phase II trial plan of TLC388 (Lipotecan)” with the Institute for Information Industry in 2014. The Company recognised government subsidy income in accordance with the progress of execution of ProDex® trial plan and Lipotecan trial plan. As of September 30, 2016, the amount of unreceived government subsidy income was \$859 (recorded as other receivables). Abovementioned “Phase II trial plan of TLC388 (Lipotecan)” has been completed in 2015.

(19) Other gains and losses

	Three months ended September 30,	
	2016	2015
Net currency exchange gain	\$ 936	\$ 688
	Nine months ended September 30,	
	2016	2015
Net currency exchange gain	\$ 1,234	\$ 694
Other loss	( 1,227)	-
	\$ 7	\$ 694

(20) Finance cost

	Three months ended September 30,	
	2016	2015
Bank borrowings	\$ 592	\$ 380
Lease liabilities	100	305
	\$ 692	\$ 685
	Nine months ended September 30,	
	2016	2015
Bank borrowings	\$ 1,791	\$ 865
Lease liabilities	455	999
	\$ 2,246	\$ 1,864

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

	Three months ended September 30,	
	2016	2015
Employee benefit expense	\$ 89,917	\$ 89,230
Depreciation charges	\$ 16,083	\$ 11,749
Amortization charges	\$ 2,647	\$ 2,352
	Nine months ended September 30,	
	2016	2015
Employee benefit expense	\$ 261,333	\$ 275,287
Depreciation charges	\$ 47,660	\$ 36,928
Amortization charges	\$ 9,266	\$ 6,260



(22) Employee benefit expense

	Three months ended September 30,	
	2016	2015
Wages and salaries	\$ 54,382	\$ 47,688
Share-based payment compensation cost	26,113	34,498
Labor and health insurance fees	4,350	3,183
Pension costs	2,361	2,124
Other personnel expenses	2,711	1,737
	<u>\$ 89,917</u>	<u>\$ 89,230</u>

  

	Nine months ended September 30,	
	2016	2015
Wages and salaries	\$ 155,378	\$ 143,654
Share-based payment compensation cost	79,215	110,744
Labor and health insurance fees	12,546	9,179
Pension costs	7,043	6,222
Other personnel expenses	7,151	5,488
	<u>\$ 261,333</u>	<u>\$ 275,287</u>

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated profits and losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 2%~8% for employees' compensation and shall not be higher than 2% for directors' and supervisors' remuneration.
- B. As of September 30, 2016, the Company had an accumulated deficit and did not accrue employees' compensation (bonuses) and directors' and supervisors' remuneration. Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company 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.

(23) Income tax

A. Components of income tax expense:

	Three months ended September 30,	
	2016	2015
Current tax:		
Current tax on profits for the period	\$ 71	\$ 134
Adjustments in respect of prior years	( 2)	-
Total current tax	69	134
Deferred tax:		
Origination and reversal of temporary differences	6	( 3)
Income tax expense	<u>\$ 75</u>	<u>\$ 131</u>

	Nine months ended September 30,	
	2016	2015
Current tax:		
Current tax on profits for the period	\$ 387	\$ 522
Adjustments in respect of prior years	117	-
Total current tax	504	522
Deferred tax:		
Origination and reversal of temporary differences	( 91)	( 78)
Income tax expense	<u>\$ 413</u>	<u>\$ 444</u>

B. The Company's income tax returns through 2013 have been assessed and approved by the Tax Authority.

C. Unappropriated retained earnings(accumulated deficit):

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Losses incurred in and after 1998	<u>(\$ 554,546)</u>	<u>(\$ 673,562)</u>	<u>(\$ 528,524)</u>

D. As of September 30, 2016, December 31, 2015 and September 30, 2015, the balance of the imputation tax credit account was \$0, and there was no distributable earnings. The creditable tax rate was not applicable.



(25) Supplemental cash flow information

Investing activities with partial cash payments

	Nine months ended September 30,	
	2016	2015
Acquisition of property, plant and equipment	\$ 16,803	\$ 39,251
Add: Opening balance of payable on equipment	3,826	15,844
Less: Ending balance of payable on equipment	( 2,323)	( 4,238)
Less: Provisions	( 3,150)	-
Cash paid	<u>\$ 15,156</u>	<u>\$ 50,857</u>

	Nine months ended September 30,	
	2016	2015
Acquisition of intangible assets	\$ 3,589	\$ 2,735
Add: Opening balance of payable on equipment	84	-
Less: Ending balance of payable on equipment	( 301)	( 198)
Cash paid	<u>\$ 3,372</u>	<u>\$ 2,537</u>

7. RELATED PARTY TRANSACTIONS

(1) Significant transactions and balances with related parties

The Company's Chairman provided guarantees for the Company's long-term and short-term loans with Taiwan Cooperative Bank and guarantees for the Company's long-term loan with the Industrial Development Bureau. As of September 30, 2016, December 31, 2015 and September 30, 2015, details of loans are described in Notes 6(7) and 6(9).

(2) Key management compensation

	Three months ended September 30,	
	2016	2015
Salaries and other short-term employee benefits	\$ 6,408	\$ 6,370
Post-employment benefits	81	81
Share-based payments	3,275	3,769
	<u>\$ 9,764</u>	<u>\$ 10,220</u>

	Nine months ended September 30,	
	2016	2015
Salaries and other short-term employee benefits	\$ 19,866	\$ 18,868
Post-employment benefits	243	243
Share-based payments	13,161	15,290
	<u>\$ 33,270</u>	<u>\$ 34,401</u>

## 8. PLEDGED ASSETS

<u>Assets Pledged</u>	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>	<u>Pledge purpose</u>
Shown as other current assets				
Demand deposits	\$ -	\$ 552	\$ 828	Note 1
Demand deposits	-	4,209	-	Note 3
	<u>\$ -</u>	<u>\$ 4,761</u>	<u>\$ 828</u>	
Shown as property, plant and equipment				
Land	\$ 14,962	\$ 14,962	\$ 14,962	Note 2
Buildings	24,993	25,485	25,649	Note 2
	<u>\$ 39,955</u>	<u>\$ 40,447</u>	<u>\$ 40,611</u>	

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

Note 2: The Company provided collaterals for loans.

Note 3: The Company provided performance guarantee for government subsidy income.

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

### (1) Contingencies

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

### (2) Commitments

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

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Property, plant and equipment	\$ 145	\$ -	\$ 14,758

B. Operating lease commitments

The Group leases offices with lease terms between 1 and 6 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>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Not later than one year	\$ 21,307	\$ 28,496	\$ 22,678
Later than one year but not later than five years	41,428	60,858	46,573
Over five years	-	1,250	-
	<u>\$ 62,735</u>	<u>\$ 90,604</u>	<u>\$ 69,251</u>

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

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
	\$ 61,401	\$ 82,890	\$ 109,794

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

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
	\$ 381,149	\$ 301,276	\$ 300,308

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

F. The Company's subsidiary entered into a synthesis technology of novel camptothecin derivative transfer agreement with California Pacific Medical Center (CPMC). Under the agreement, CPMC charges the Company's subsidiary a patent usage fee of USD 10,000 per annum and charges royalties of USD 300,000 maximum according to its R&D achievement rate and charges royalties equal to a certain percentage of relevant sales volume in the future. As of September 30, 2016, it had paid USD 100,000 in royalty.

#### 10. SIGNIFICANT DISASTER LOSS

None.

#### 11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

#### 12. OTHERS

##### (1) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to improve the Group's capital structure, the Group may issue new shares or sell assets to reduce debt rate. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital.

As of September 30, 2016, December 31, 2015 and September 30, 2015, the Group's debt ratios are as follows:

	<u>September 30, 2016</u>	<u>December 31, 2015</u>	<u>September 30, 2015</u>
Total debt	\$ 213,511	\$ 259,401	\$ 236,433
Total capital	\$ 557,256	\$ 556,203	\$ 555,866
Debt ratio	<u>38.31%</u>	<u>46.64%</u>	<u>42.53%</u>

##### (2) Financial instruments

###### A. Fair value information of financial instruments

(a) The book value of financial instruments measured at amortized cost (including cash and cash

equivalents, accounts receivable, other receivables, short-term borrowings, notes payable and other payables) are approximate to their fair values.

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

#### B. Financial risk management policies

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

#### C. Significant financial risks and degree of financial risks

##### (a) Market risk

##### i. Foreign exchange risk

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

September 30, 2016

(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	\$ 576	31.36	\$ 18,063
RMB : NTD	570	4.69	2,673
AUD : NTD	23	23.84	548
<u>Non-monetary items</u>			
USD : NTD	1,381	31.36	43,302
EUR : NTD	33	35.08	1,160
HKD : NTD	810	4.04	3,275
AUD : NTD	13	23.84	319
JPY : NTD	11,386	0.311	3,540
RMB : HKD (Note)	565	1.16	2,650
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	862	31.36	27,032
RMB : NTD	50	4.69	235
EUR : NTD	14	35.08	491
GBP : NTD	12	40.63	488
JPY : NTD	1,538	0.311	478



December 31, 2015

(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	\$ 582	32.825	\$ 19,104
RMB : NTD	623	4.995	3,112
<u>Non-monetary items</u>			
USD : NTD	1,335	32.825	43,822
EUR : NTD	28	35.880	1,002
HKD : NTD	794	4.235	3,361
AUD : NTD	12	23.985	277
JPY : NTD	10,630	0.273	2,902
RMB : HKD (Note)	544	1.179	2,718
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	536	32.825	17,594
EUR : NTD	74	35.880	2,655
GBP : NTD	10	48.670	487
RMB : NTD	184	4.995	919
AUD : NTD	56	23.985	1,343
JPY : NTD	2,595	0.273	708
HKD : NTD	22	4.235	93

September 30, 2015

(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	\$ 1,271	32.870	\$ 41,778
RMB : NTD	620	5.176	3,209
<u>Non-monetary items</u>			
USD : NTD	1,335	32.870	43,895
EUR : NTD	27	36.920	981
HKD : NTD	800	4.241	3,394
AUD : NTD	11	23.025	257
JPY : NTD	10,395	0.274	2,848
RMB : HKD (Note)	531	1.220	2,750
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	580	32.870	19,065
EUR : NTD	161	36.920	5,944
RMB : NTD	133	5.176	688
HKD : NTD	30	4.241	127
JPY : NTD	1,395	0.274	382
GBP : NTD	5	49.830	249

(Note) The functional currencies of certain subsidiaries to the Group are not NTD.  
Thus, this information has to be considered when reporting.

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

Nine months ended September 30, 2016			
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%	\$ 181	\$ -
RMB : NTD	1%	27	-
AUD : NTD	1%	5	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	270	-
RMB : NTD	1%	2	-
EUR : NTD	1%	5	-
GBP : NTD	1%	5	-
JPY : NTD	1%	5	-
Nine months ended September 30, 2015			
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%	\$ 418	\$ -
RMB : NTD	1%	32	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	191	-
EUR : NTD	1%	59	-
RMB : NTD	1%	7	-
HKD : NTD	1%	1	-
JPY : NTD	1%	4	-
GBP : NTD	1%	2	-

(iii) The unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group for the three months and nine months ended September 30, 2016 and 2015 amounted to (\$185), \$3,010, (\$408) and \$2,014, respectively.

ii. Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the nine months ended September 30, 2016 and 2015, the Group's loans at variable rate were denominated in the NTD.

At September 30, 2016 and 2015, if interest rates had been 0.2% higher/lower with all other conditions held constant, net loss for the nine months ended September 30, 2016 and 2015 would have been \$177 and \$138 higher/lower, respectively.

(b) Credit risk

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

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Group's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	September 30, 2016				
	1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	\$46,707	\$ -	\$ -	\$ -	\$ -
Other payables	66,459	-	-	-	-
Finance lease liabilities (including current portion)	15,046	-	-	-	-
Long-term borrowings (including current portion)	3,109	4,922	6,681	13,172	56,349

	December 31, 2015				
	<u>1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$46,691	\$ -	\$ -	\$ -	\$ -
Notes payable	750	-	-	-	-
Other payables	71,847	-	-	-	-
Finance lease liabilities (including current portion)	50,000	2,504	-	-	-
Long-term borrowings (including current portion)	4,180	3,142	4,903	13,229	62,607
	September 30, 2015				
	<u>1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Short-term borrowings	\$20,330	\$ -	\$ -	\$ -	\$ -
Notes payable	-	-	-	-	-
Other payables	59,843	-	-	-	-
Finance lease liabilities (including current portion)	44,688	20,071	-	-	-
Long-term borrowings (including current portion)	5,591	3,109	4,922	13,287	62,915

(3) Fair value estimation

The Group had no financial instruments measured at fair value, by valuation method as of September 30, 2016, December 31, 2015 and September 30, 2015.

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 NT\$300 million or 20% of paid-in capital or more: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more:

None.

I. Derivative financial instruments undertaken during the nine months ended September 30, 2016:

None.

J. Significant inter-company transactions during the nine months ended September 30, 2016:

Please refer to table 1.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 2.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 3.

B. Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas: None.

14. SEGMENT INFORMATION

(1) General information

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

(2) Segment information

The Group has only one reportable operating segment. Therefore, the reportable segment information is the same as the financial statements.

(3) Reconciliation for segment income (loss)

The segment income (loss) reported to the chief operating decision-maker is measured in a manner consistent with that in the statement of comprehensive income. There is no reconciliation because the report provided to the chief operating decision-maker for business decisions has no difference to the segment statement of comprehensive income.

Taiwan Liposome Company and Subsidiaries  
Significant inter-company transactions  
Nine months ended September 30, 2016

Table 1

Expressed in thousands of NTD

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount (Note 5)	Transaction terms	
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company	2	Operating revenue	\$ 60,692	(Note 4)	209%
2	TLC Biopharmaceuticals Japan Co., Ltd.	Taiwan Liposome Company	2	Operating revenue	3,068	(Note 4)	11%
3	TLC Biopharmaceuticals, B.V.	Taiwan Liposome Company	2	Operating revenue	2,524	(Note 4)	9%
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company	2	Accounts receivable	23,022	(Note 4)	1%

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:

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

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

Note 4: Transaction items follow the agreement.

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

Note 6: The above transactions between the parent company and its subsidiaries had been eliminated when preparing consolidated financial statements. The disclosure information is for reference only.

Taiwan Liposome Company and Subsidiaries  
Names, locations and other information of investee companies (not including investee in Mainland China)  
Nine months ended September 30, 2016

Table 2

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as September 30, 2016			Income of the investee for the nine months ended September 30, 2016	Investment income (loss) recognised by the Company for the nine months ended September 30, 2016	Footnote
				Balance as of September 30, 2016	Balance as of December 31, 2015	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%	\$ 43,302	\$ 4,513	\$ 1,052	
Taiwan Liposome Company	TLC Biopharmaceuticals, B.V.	Netherlands	Technical authorization and product development	4,410	4,410	1,000,000	100%	1,160	187	187	
Taiwan Liposome Company	TLC Biopharmaceuticals, (H.K.) Limited	Hong Kong	Biological technology service and reinvestment	3,023	3,023	780,000	100%	3,275	112	112	
Taiwan Liposome Company	TLC Biopharmaceuticals Pty Ltd.	Australia	Technical authorization and product development	3	3	100	100%	319	44	44	
Taiwan Liposome Company	TLC Biopharmaceuticals Japan Co., Ltd.	Japan	Technical authorization and product development	2,670	2,670	1,000	100%	3,540	226	226	

Note: All the transactions with subsidiaries disclosed below had been eliminated when preparing consolidated financial statements.



Taiwan Liposome Company and Subsidiaries  
Information on investments in Mainland China - Basic information  
Nine months ended September 30, 2016

Table 3

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the nine months ended September 30, 2016		Accumulated	Income of	Ownership held by the Company (direct or indirect)	Investment income recognised by the Company for the nine months ended September 30, 2016 (Note 2(2)C)	Book value	Accumulated	Footnote
				amount of remittance from Taiwan to Mainland China as of January 1, 2016	Remitted to Mainland China	Remitted back to Taiwan	amount of remittance from Taiwan to Mainland China as of September 30, 2016	investee for the nine months ended September 30, 2016			of investments in Mainland China as of September 30, 2016	amount of investment income remitted back to Taiwan as of September 30, 2016	
TLC Biopharmaceuticals, (Shanghai) Limited	Consulting of medical related technology and technological service	\$ 2,347	Reinvestment in Mainland China through third region company	\$ 2,354	\$ -	\$ -	\$ 2,354	\$ 101	100	\$ 101	\$ 2,650	\$ -	

Note 1: Investment methods are classified into the following three categories:

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China
- (3) Others

Note 2: In the 'Investment income recognised by the Company for the nine months ended September 30, 2016' column:

- (1) It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.
- (2) Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:
  - A. The financial statements were audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.
  - B. The financial statements were audited and attested by R.O.C. parent company's CPA.
  - C. Others (The financial statements were reviewed by R.O.C. parent company's CPA.).

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2016	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)(Note)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA

(Note) The investment amount was approved by Jing-Shen-II-Zi No. 10300223010 of Ministry of Economic Affairs, R.O.C.