

**TAIWAN LIPOSOME COMPANY AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2015 AND 2014**

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Taiwan Liposome Company

We have audited the accompanying consolidated balance sheets of Taiwan Liposome Company and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Liposome Company and subsidiaries as of December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission (FSC).

We have also audited the parent company only financial statements of Taiwan Liposome Company as of and for the years ended December 31, 2015 and 2014, and have expressed an unqualified opinion on such financial statements.

PricewaterhouseCoopers, Taipei, Taiwan

February 25, 2016

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

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2015 AND 2014
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	Notes	December 31, 2015		December 31, 2014		
		AMOUNT	%	AMOUNT	%	
Current Assets						
1100	Cash and cash equivalents	6(1)	\$ 2,384,527	87	\$ 2,958,467	91
1170	Accounts receivable, net	6(2)	25,530	1	5,818	-
1200	Other receivables		556	-	4,966	-
1220	Current income tax assets		4,456	-	3,395	-
1410	Prepayments	6(3)	35,269	1	23,879	1
1470	Other current assets	8	4,761	-	1,881	-
11XX	Total Current Assets		<u>2,455,099</u>	<u>89</u>	<u>2,998,406</u>	<u>92</u>
Non-current Assets						
1600	Property, plant and equipment	6(4) and 8	222,113	8	207,335	6
1780	Intangible assets	6(5)	18,875	1	22,622	1
1840	Deferred income tax assets	6(23)	75	-	-	-
1900	Other non-current assets	6(6) and 8	48,709	2	44,763	1
15XX	Total Non-current Assets		<u>289,772</u>	<u>11</u>	<u>274,720</u>	<u>8</u>
1XXX	Total Assets		<u>\$ 2,744,871</u>	<u>100</u>	<u>\$ 3,273,126</u>	<u>100</u>

(Continued)

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2015 AND 2014
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity	Notes	2015		2014		
		AMOUNT	%	AMOUNT	%	
Current Liabilities						
2100	Short-term borrowings	6(7)	\$ 46,000	2	\$ -	-
2150	Notes payable		750	-	251	-
2200	Other payables	6(8)(25)	71,847	2	79,946	3
2300	Other current liabilities	6(9)(10)	54,618	2	42,508	1
21XX	Total Current Liabilities		173,215	6	122,705	4
Non-current Liabilities						
2540	Long-term borrowings	6(9)	71,750	3	39,692	1
2550	Provisions for liabilities - non-current	6(13)	3,846	-	3,627	-
2600	Other non-current liabilities	6(10)(11)	10,590	-	35,898	1
25XX	Total Non-current Liabilities		86,186	3	79,217	2
2XXX	Total Liabilities		259,401	9	201,922	6
Equity						
Equity Attributable to Owners of Parent						
Share capital						
3110	Common stock	6(14)	556,203	20	554,033	17
Capital surplus						
3200	Capital surplus		2,652,969	97	3,194,719	98
Retained earnings						
3350	Accumulated deficit	6(16)	(673,562)	(24)	(638,726)	(20)
Other equity						
3400	Other equity interest		(13,247)	(1)	(38,822)	(1)
3500	Treasury shares	6(14)	(36,893)	(1)	-	-
31XX	Equity attributable to owners of parent		2,485,470	91	3,071,204	94
3XXX	Total equity		2,485,470	91	3,071,204	94
Significant contingent liabilities and unrecognised contract commitments						
	Subsequent events	11				
3X2X	Total liabilities and equity		\$ 2,744,871	100	\$ 3,273,126	100

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT LOSS PER SHARE AMOUNT)

	Items	Notes	2015		2014	
			AMOUNT	%	AMOUNT	%
4000	Operating revenue	6(17)	\$ 59,771	100	\$ 95,922	100
	Operating expenses	6(21)(22)				
6200	General and administrative expenses		(138,324)	(231)	(102,985)	(107)
6300	Research and development expenses		(634,845)	(1062)	(664,449)	(693)
6000	Total operating expenses		(773,169)	(1293)	(767,434)	(800)
6900	Operating loss		(713,398)	(1193)	(671,512)	(700)
	Non-operating income and expenses					
7010	Other income	6(18)	40,074	67	35,250	37
7020	Other gains and losses	6(19)	679	1	5,002	5
7050	Finance costs	6(20)	(2,590)	(4)	(1,308)	(2)
7000	Total non-operating income and expenses		38,163	64	38,944	40
7900	Loss before income tax		(675,235)	(1129)	(632,568)	(660)
7950	Income tax expense	6(23)	(450)	(1)	(292)	-
8200	Net loss		(\$ 675,685)	(1130)	(\$ 632,860)	(660)
	Other comprehensive income (loss)					
	Items that will not be reclassified to profit or loss					
8311	Remeasurement arising on defined benefit plans	6(11)	\$ 2,123	3	(\$ 5,866)	(6)
	Items that may be subsequently reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations		1,117	2	1,638	2
8300	Total other comprehensive income (loss)		\$ 3,240	5	(\$ 4,228)	(4)
8500	Total comprehensive loss		(\$ 672,445)	(1125)	(\$ 637,088)	(664)
	Loss attributable to:					
8610	Owners of the parent		(\$ 675,685)	(1130)	(\$ 632,860)	(660)
	Total comprehensive loss attributable to:					
8710	Owners of the parent		(\$ 672,445)	(1125)	(\$ 637,088)	(664)
	Loss Per Share of Common Stock	6(24)				
9750	Basic Loss Per Share (in dollars)		(\$ 12.25)		(\$ 11.54)	
9850	Diluted Loss Per Share (in dollars)		(\$ 12.25)		(\$ 11.54)	

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Equity attributable to owners of the parent									
	Share Capital	Capital Surplus			Retained Earnings	Other Equity			
	Common stock	Additional paid-in capital	Share options	Restricted stock	Accumulated deficit	Exchange difference on translation of foreign financial statements	Unearned compensation	Treasury share	Total equity
Notes									
<u>2014</u>									
	\$ 546,288	\$ 3,435,804	\$ 12,371	\$ -	(\$ 405,977)	(\$ 214)	\$ -	\$ -	\$ 3,588,272
Share-based payments	-	-	87,612	-	-	-	10,624	-	98,236
Employee stock options	4,245	24,742	(10,598)	-	-	-	-	-	18,389
Issuance of restricted stocks	3,500	-	-	50,765	-	-	(50,870)	-	3,395
Capital surplus used to cover accumulated deficit	-	(405,977)	-	-	405,977	-	-	-	-
Net loss	-	-	-	-	(632,860)	-	-	-	(632,860)
Other comprehensive (loss) income	-	-	-	-	(5,866)	1,638	-	-	(4,228)
Balance at December 31, 2014	<u>\$ 554,033</u>	<u>\$ 3,054,569</u>	<u>\$ 89,385</u>	<u>\$ 50,765</u>	<u>(\$ 638,726)</u>	<u>\$ 1,424</u>	<u>(\$ 40,246)</u>	<u>\$ -</u>	<u>\$ 3,071,204</u>
<u>2015</u>									
	\$ 554,033	\$ 3,054,569	\$ 89,385	\$ 50,765	(\$ 638,726)	\$ 1,424	(\$ 40,246)	\$ -	\$ 3,071,204
Share-based payments	-	-	94,341	-	-	-	19,357	-	113,698
Employee stock options	2,629	35,665	(27,673)	-	-	-	-	-	10,621
Cancellation of restricted stocks	(459)	-	-	459	-	-	-	-	-
Recall of restricted stocks	-	-	-	(249)	-	-	-	-	(249)
Restricted stocks vested	-	13,913	-	(13,913)	-	-	-	-	-
Adjustment of restricted stocks due to employee turnover rate change	-	-	-	(5,567)	-	-	5,101	-	(466)
Capital surplus used to cover accumulated deficit	-	(638,726)	-	-	638,726	-	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-	(36,893)	(36,893)
Net loss	-	-	-	-	(675,685)	-	-	-	(675,685)
Other comprehensive income	-	-	-	-	2,123	1,117	-	-	3,240
Balance at December 31, 2015	<u>\$ 556,203</u>	<u>\$ 2,465,421</u>	<u>\$ 156,053</u>	<u>\$ 31,495</u>	<u>(\$ 673,562)</u>	<u>\$ 2,541</u>	<u>(\$ 15,788)</u>	<u>(\$ 36,893)</u>	<u>\$ 2,485,470</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 YEARS ENDED DECEMBER 31, 2015 AND 2014
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	2015	2014
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Consolidated loss before tax for the year		(\$ 675,235)	(\$ 632,568)
Adjustments to reconcile consolidated loss to net cash used			
In operating activities			
Income and expenses having no effect on cash flows			
Share-based payments	6(12)	113,698	98,236
Depreciation	6(21)	52,111	44,398
Amortization	6(21)	8,819	7,113
Interest expense	6(20)	2,590	1,308
Interest income	6(18)	(19,742)	(24,258)
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable, net		(19,712)	145
Other receivables		3,953	(3,333)
Prepayments		(11,390)	11,405
Changes in operating liabilities			
Notes payable		499	(2,540)
Other payables		4,094	15,626
Other current liabilities		(4,506)	(1,040)
Provisions for liabilities		(219)	-
Other non-current liabilities		(1,685)	(1,545)
Cash outflow generated from operations		(546,725)	(487,053)
Interest received		20,199	24,500
Interest paid		(2,541)	(1,325)
Income tax paid		(1,586)	(2,692)
Net cash flows used in operating activities		(530,653)	(466,570)

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TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	2015	2014
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
(Increase) decrease in other financial assets		(\$ 2,328)	\$ 6,457
Acquisition of property, plant and equipment	6(25)	(78,608)	(49,875)
Decrease (increase) in other non-current assets		5,770	(5,391)
Increase in intangible assets	6(25)	(4,637)	(2,035)
Increase in refundable deposits		(720)	(13,908)
Net cash flows used in investing activities		(80,523)	(64,752)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings		46,000	-
Proceeds from long-term borrowings		71,750	-
Payment of long-term borrowings		(48,571)	(18,510)
Increase in lease payable		38,537	48,005
Decrease in lease payable		(44,542)	-
Employee stock options		10,621	18,389
Issuance of restricted stocks		-	3,395
Cancellation of restricted stocks		(459)	-
Recall of restricted stocks		(88)	-
Payments to acquire treasury shares		(36,893)	-
Net cash flows from financing activities		36,355	51,279
Effect due to changes in exchange rate		881	1,292
Decrease in cash and cash equivalents		(573,940)	(478,751)
Cash and cash equivalents at beginning of year		2,958,467	3,437,218
Cash and cash equivalents at end of year		<u>\$ 2,384,527</u>	<u>\$ 2,958,467</u>

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

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Taiwan Liposome Company (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) and was listed on the Taipei Exchange 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 February 25, 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”)

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued by FSC on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taipei Exchange or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, ‘Financial instruments’) as endorsed by the FSC and Regulations Governing the Preparation of Financial Reports by Securities Issuers effective January 1, 2015 (collectively referred herein as “the 2013 version of IFRSs”) in preparing the consolidated financial statements. The impact of adopting the 2013 version of IFRS is listed below:

A. IAS 19 (revised), ‘Employee benefits’

Additional disclosures are required for defined benefit plans.

B. IAS 1, ‘Presentation of financial statements’

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

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

None.

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

New standards, interpretations and amendments issued by IASB but not yet included in the 2013 version of IFRSs as endorsed by the FSC:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
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
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
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
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

The Group is assessing the potential impact of the new standards, interpretations and amendments above. The impact will be disclosed when the assessment is complete.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

- A. 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 IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group’s consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		Description
			December 31, 2015	December 31, 2014	
Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	Research on new anti-cancer drugs and biotechnology services	100	100	
Taiwan Liposome Company	TLC Biopharmaceuticals, B.V.	Technical authorization and product development	100	100	
Taiwan Liposome Company	TLC Biopharmaceuticals, (H.K.) Limited	Biotechnology services and reinvestment	100	100	
Taiwan Liposome Company	TLC Biopharmaceuticals, Pty Ltd.	Technical authorization and product development	100	100	
Taiwan Liposome Company	TLC Biopharmaceuticals, Japan Co., Ltd.	Technical authorization and product development	100	-	Note
TLC Biopharmaceuticals, (H.K.) Limited	TLC Biopharmaceuticals, (Shanghai) Limited	Consulting and technical service of medication	100	100	

Note: The company was newly established in January 2015.

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 interest that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

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

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

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;

- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

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

(6) Cash equivalents

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

(7) Accounts receivable and other receivables

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

(8) Impairment of financial assets

A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:

- (a) Significant financial difficulty of the issuer or debtor;
- (b) A breach of contract, such as a default or delinquency in interest or principal payments;

- (c) The Group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
 - (e) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.
- C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred on financial assets measured at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(9) Derecognition of financial assets

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

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

(10) Property, plant and equipment

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

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

Buildings	44 years
Testing equipment	3 years ~ 10 years
Office equipment	2 years ~ 5 years
Leasehold assets	5 years
Leasehold improvements	1 years ~ 6 years

(11) Leased assets/ lessee

- A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Group assumes substantially all the risks and rewards incidental to ownership of the leased asset.
- (a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
- (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
- (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives.
- B. Payments made under an operating lease net of any incentives received from the lessor are recognised in profit or loss on a straight-line basis over the lease term.

(12) Intangible assets

- A. Professional technology is stated at cost and amortised on a straight-line basis over 10 years.
- B. Computer software is stated at cost and amortised on a straight-line basis over 1.5 ~ 5 years.

(13) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(14) Borrowings

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

(15) Notes payable

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

(16) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(17) Provisions

Provisions (decommissioning) are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(18) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. 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. Remeasurement arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

(19) Employee share-based payment

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

B. Restricted stocks

- (a) Restricted stocks issued to employees are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period. The Group has set the date when employees signed the agreement as the grant date of restricted stocks.
- (b) For restricted stocks where those stocks do not restrict distribution of dividends to employees and employees are not required to return the dividends received if they resign during the vesting period, the Group recognises the fair value of the dividends received by the employees who are expected to resign during the vesting period as compensation cost at the date of dividend declaration.

- (c) For restricted stocks where employees have to pay to acquire those stocks, if employees resign during the vesting period, they must return the stocks to the Group and the Group must refund their payments on the stocks, the Group recognises the payments from the employees who are expected to resign during the vesting period as liabilities at the grant date, and recognises the payments from the employees who are expected to be eventually vested with the stocks in ‘capital surplus – restricted stocks’.

(20) Income tax

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

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

(21) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(22) Revenue recognition

- A. Royalty revenues are recognised based on the contract when the earning process is substantially completed and are realised or realisable.
- B. Co-development revenue shall be recognised in a reasonable and systematic approach during the authorized period, and shall not be recognised in full one time, if the authorization contract of the Group does not meet all of the following criteria:
- (a) The amount of royalty is fixed or non-refundable.
 - (b) The contract is irrevocable.
 - (c) Relevant rights may be at the authorized party's own disposition.
 - (d) The party granting authority has no further obligations after passing on the rights to the authorized party.
- C. Milestone payment revenue is recognised upon each milestone achieved in the development stage.

(23) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Group will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses for the related costs for which the grants are intended to compensate.

(24) Operating segments

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

5. CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

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

(1) Impairment assessment of tangible and intangible assets

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

(2) Realisability of deferred tax assets

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Cash on hand	\$ 63	\$ 98
Checking and demand deposits	832,567	698,189
Time deposits	1,551,897	2,260,180
	<u>\$ 2,384,527</u>	<u>\$ 2,958,467</u>

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

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>December 31, 2015</u>	<u>December 31, 2014</u>
Accounts receivable	\$ 25,530	\$ 5,818

- 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 December 31, 2015 and 2014, the Group's accounts receivable that were neither past due nor impaired amounted to \$7,398 and \$5,818, 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>December 31, 2015</u>
Up to 30 days	\$ -
31 to 90 days	-
91 to 180 days	-
Over 181 days	18,132
	<u>\$ 18,132</u>

The above ageing analysis was based on invoice date.

(3) Prepayments

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Net input VAT	\$ 24,916	\$ 15,889
Prepaid repair expense	5,445	1,087
Prepaid banking charges	1,375	1,427
Prepaid expense for medicines research	1,005	200
Prepaid rent	979	564
Prepaid service expenses	108	3,002
Others	1,441	1,710
	<u>\$ 35,269</u>	<u>\$ 23,879</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>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<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>2015</u>								
Opening net book amount	\$ 14,962	\$ 26,141	\$ 83,868	\$ 4,296	\$ 47,981	\$ 17,787	\$ 12,300	\$ 207,335
Additions	-	-	36,606	7,137	-	22,847	-	66,590
Disposals (Note 1)	-	-	-	-	-	(38)	-	(38)
Transfer (Note 2)	-	-	2,360	471	-	9,613	(12,300)	144
Reclassifications	-	-	(50,624)	604	50,020	-	-	-
Depreciation charge	-	(656)	(12,947)	(2,495)	(25,868)	(10,145)	-	(52,111)
Net exchange differences	-	-	148	13	-	32	-	193
Closing net book amount	<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>\$ -</u>	<u>\$ 222,113</u>
<u>At December 31, 2015</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>\$ -</u>	<u>\$ 222,113</u>

	<u>Land</u>	<u>Buildings</u>	<u>Testing equipment</u>	<u>Office equipment</u>	<u>Leasehold assets</u>	<u>Leasehold improvements</u>	<u>Construction in progress and equipment to be inspected</u>	<u>Total</u>
<u>At January 1, 2014</u>								
Cost	\$ 14,962	\$ 29,532	\$ 171,172	\$ 9,026	\$ -	\$ 29,195	\$ -	\$ 253,887
Accumulated depreciation	-	(2,734)	(53,494)	(4,340)	-	(8,834)	-	(69,402)
	<u>\$ 14,962</u>	<u>\$ 26,798</u>	<u>\$ 117,678</u>	<u>\$ 4,686</u>	<u>\$ -</u>	<u>\$ 20,361</u>	<u>\$ -</u>	<u>\$ 184,485</u>
<u>2014</u>								
Opening net book amount	\$ 14,962	\$ 26,798	\$ 117,678	\$ 4,686	\$ -	\$ 20,361	\$ -	\$ 184,485
Additions	-	-	34,914	1,178	-	3,994	12,300	52,386
Transfer (Note 2)	-	-	14,620	-	-	-	-	14,620
Reclassifications	-	-	(50,000)	-	50,000	-	-	-
Depreciation charge	-	(657)	(33,495)	(1,588)	(2,019)	(6,639)	-	(44,398)
Net exchange differences	-	-	151	20	-	71	-	242
Closing net book amount	<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>At December 31, 2014</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>

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, 2015</u>			
Cost	\$ 49,216	\$ 7,352	\$ 56,568
Accumulated amortization	(31,044)	(2,902)	(33,946)
	<u>\$ 18,172</u>	<u>\$ 4,450</u>	<u>\$ 22,622</u>
<u>2015</u>			
Opening net book amount	\$ 18,172	\$ 4,450	\$ 22,622
Addition-acquired separately	-	4,721	4,721
Transfer (Note)	-	307	307
Amortization charge	(5,124)	(3,695)	(8,819)
Net exchange differences	44	-	44
Closing net book amount	<u>\$ 13,092</u>	<u>\$ 5,783</u>	<u>\$ 18,875</u>
<u>At December 31, 2015</u>			
Cost	\$ 49,259	\$ 11,463	\$ 60,722
Accumulated amortization	(36,167)	(5,680)	(41,847)
	<u>\$ 13,092</u>	<u>\$ 5,783</u>	<u>\$ 18,875</u>
	<u>Professional technology</u>	<u>Computer software</u>	<u>Total</u>
<u>At January 1, 2014</u>			
Cost	\$ 49,113	\$ 3,707	\$ 52,820
Accumulated amortization	(25,943)	(890)	(26,833)
	<u>\$ 23,170</u>	<u>\$ 2,817</u>	<u>\$ 25,987</u>
<u>2014</u>			
Opening net book amount	\$ 23,170	\$ 2,817	\$ 25,987
Addition-acquired separately	-	2,035	2,035
Transfer (Note)	-	1,610	1,610
Amortization charge	(5,101)	(2,012)	(7,113)
Net exchange differences	103	-	103
Closing net book amount	<u>\$ 18,172</u>	<u>\$ 4,450</u>	<u>\$ 22,622</u>
<u>At December 31, 2014</u>			
Cost	\$ 49,216	\$ 7,352	\$ 56,568
Accumulated amortization	(31,044)	(2,902)	(33,946)
	<u>\$ 18,172</u>	<u>\$ 4,450</u>	<u>\$ 22,622</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:

	Years ended December 31,	
	2015	2014
General and administrative expenses	\$ 2,777	\$ 1,384
Research and development expenses	6,042	5,729
	<u>\$ 8,819</u>	<u>\$ 7,113</u>

(6) Other non-current assets

	December 31, 2015	December 31, 2014
Refundable deposits	\$ 28,639	\$ 17,919
Prepaid expenses for medicines research - over one year	20,000	20,000
Prepayments for business facilities	70	6,292
Other financial assets - non-current	-	552
	<u>\$ 48,709</u>	<u>\$ 44,763</u>

(7) Short-term borrowings

Type of borrowings	December 31, 2015	December 31, 2014
Bank unsecured borrowings	\$ 46,000	\$ -
Interest rate	2.13%~2.33%	-
Credit line	<u>\$ 46,000</u>	<u>\$ -</u>

(8) Other payables

	December 31, 2015	December 31, 2014
Salaries and bonuses	\$ 26,656	\$ 23,423
Research expenses	11,081	19,423
Research medicine expenses	10,281	11,841
Service expenses	5,269	5,200
Payables on machinery and equipment	5,010	13,164
Repair expense payables	4,833	404
Labor and health insurance fees payable	1,950	1,796
Accrued expenses	6,767	4,695
	<u>\$ 71,847</u>	<u>\$ 79,946</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>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	<u>2,760</u>
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>December 31, 2014</u>
Taiwan Business Bank secured borrowings	Note 4	2.25%	Land and buildings	\$ 39,167
Taiwan Business Bank secured borrowings	Note 5	3.00%	Demand deposits	3,884
Taiwan Business Bank secured borrowings	Note 3	1.00%	Demand deposits	<u>8,280</u>
Less: current portion (recorded as other current liabilities)				51,331 <u>(11,639)</u> <u>\$ 39,692</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.

Note 4: The Company entered into a loan contract with Taiwan Business Bank in 2009 in the amount of \$43,650 for the purchase of land and building. The contract period is from November 2009 to November 2029. The principal and interest of the loan are payable monthly from the third year after the drawdown date.

Note 5: The Company entered into a “Synergistic Dual - Function Anticancer Lipotecan Development Project” and signed the loan contract with the Industrial Development Bureau in 2009 in the amount of \$31,080 (the bank: Taiwan Business Bank). The contract period is from December 2009 to April 2015. The principal of the loan is payable quarterly from July 15, 2011.

As of December 31, 2015 and 2014, the undrawn loan facilities amounted to \$1,050 and \$0, respectively. The information about the Company’s liquidity risk is provided in Note 12 (2) C (c).

(10) Finance lease liabilities

The Company leases testing equipment assets under finance lease. Based on the terms of the lease contracts, ownership of all leased equipment will transfer to the Company at no consideration when the leases expire. Future minimum lease payments and their present values as at December 31, 2015 and 2014 are as follows:

	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

	December 31, 2014		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
Not later than one year (Note)	\$ 24,629	(\$ 624)	\$ 24,005
<u>Non-current</u>			
Later than one year but not later than two years (Note)	24,214	(214)	24,000
	<u>\$ 48,843</u>	<u>(\$ 838)</u>	<u>\$ 48,005</u>

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

(11) Pensions

A. Defined benefit plans

(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 December 31, every year. If the account balance is not enough 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 contribution for the deficit by next March.

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

	December 31, 2015	December 31, 2014
Present value of defined benefit obligations	\$ 5,653	\$ 9,326
Fair value of plan assets	(857)	(1,824)
Net defined benefit liability	<u>\$ 4,796</u>	<u>\$ 7,502</u>

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2015</u>			
Balance at January 1	\$ 9,326	(\$ 1,824)	\$ 7,502
Current service cost	551	-	551
Interest expense / income	186	(36)	150
	<u>10,063</u>	<u>(1,860)</u>	<u>8,203</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(10)	(10)
Change in financial assumptions	239	-	239
Experience adjustments	(2,352)	-	(2,352)
	(2,113)	(10)	(2,123)
Pension fund contribution	-	(257)	(257)
Paid pension	(2,297)	1,270	(1,027)
Balance at December 31	<u>\$ 5,653</u>	<u>(\$ 857)</u>	<u>\$ 4,796</u>

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
<u>Year ended December 31, 2014</u>			
Balance at January 1	\$ 3,391	(\$ 1,554)	\$ 1,837
Interest expense / income	66	(30)	36
	<u>3,457</u>	<u>(1,584)</u>	<u>1,873</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(3)	(3)
Experience adjustments	5,869	-	5,869
	5,869	(3)	5,866
Pension fund contribution	-	(237)	(237)
Balance at December 31	<u>\$ 9,326</u>	<u>(\$ 1,824)</u>	<u>\$ 7,502</u>

(d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor

Retirement Fund” (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2015 and 2014 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2015	2014
Discount rate	1.70%	2.00%
Future salary increases	2.00%	2.00%

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

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
<u>December 31, 2015</u>				
Effect on present value of defined benefit obligation	(\$ 752)	\$ 889	\$ 814	(\$ 708)
<u>December 31, 2014</u>				
Effect on present value of defined benefit obligation	(\$ 1,024)	\$ 1,224	\$ 1,131	(\$ 974)

The sensitivity analysis above was arrived at based on one assumption which changed which the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(f) Expected contributions to the defined benefit pension plans of the Company for the year ending December 31, 2016 are \$252.

(g) As of December 31, 2015, the weighted average duration of that retirement plan is 18 years.

B. Defined contribution plan

Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2015 and 2014 were \$7,267 and \$5,988, 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 years ended December 31, 2015 and 2014 were \$946 and \$556, respectively.

(12) Share-based payment

A. As of December 31, 2015 and 2014, the Company’s equity-settled share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions
Employee stock options	2009.10.29	788.0	5 years	1 year service vested immediately (Note 1)
“	2010.01.21	200.0	5 years	1 year service vested immediately (Note 1)
“	2010.07.22	108.0	5 years	1 year service vested immediately (Note 1)
“	2011.07.14	1,200.0	5 years	2 years service vested immediately (Note 2)
“	2011.12.23	168.0	5 years	2 years service vested immediately (Note 2)
“	2012.05.08	132.0	5 years	2 years service vested immediately (Note 2)
“	2013.11.14	1,365.0	5 years	2 years service vested immediately (Note 2)

<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	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)
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)

(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

	Years ended December 31,			
	2015		2014	
Share option	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 year	2,049.3	\$ 279	2,299.2	\$ 242
Options granted	1,800.0	229	395.0	248
Options exercised	(262.9)	40	(424.5)	43
Options revoked	(438.1)	301	(220.4)	296
Options outstanding at end of the year	<u>3,148.3</u>	267	<u>2,049.3</u>	279
Options exercisable at end of the year	<u>736.5</u>	35~379	<u>278.1</u>	28~117.3
Options permitted but not yet outstanding at end of year	<u>1,800</u>	-	<u>1,800</u>	-

(b) Restricted stocks to employees

	2015	2014
	Shares (in thousands)	Shares (in thousands)
At January 1	350	-
Issued for the year	-	350
Expired for the year (Note)	(55)	-
Restrictions removed for the year	(91)	-
At December 31	<u>204</u>	<u>350</u>

(Note) Employees who resigned during the vesting period returned 9 thousand shares of stock in November 2015. Details of the changes in the stocks that have not been registered as of February 25, 2016 are provided in Note 11(2).

C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2015 and 2014 were \$183.80 (in dollars) and \$263.52 (in dollars), respectively.

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

December 31, 2015						
			Options outstanding at end of year		Options exercisable at end of year	
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)	
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	379.0	
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	4.59	148	-	-	
141	216.0	4.83	141	-	-	
	<u>3,148.3</u>			<u>736.5</u>		

December 31, 2014						
			Options outstanding at end of year		Options exercisable at end of year	
Exercise price (in dollars)	Quantity (in thousands)	Expected remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)	
35	346.2	1.54	35	212.9	35	
69.9	50.5	1.98	69.9	16.0	69.9	
117.3	73.3	2.36	117.3	41.9	117.3	
379	1,209.0	3.87	379	-	-	
272	218.0	4.22	272	-	-	
206	145.0	4.62	206	-	-	
	<u>2,049.3</u>			<u>278.1</u>		

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

Employee stock options

Grant date	<u>October 29, 2015</u>	<u>July 30, 2015</u>	<u>May 4, 2015</u>
Dividend yield rate	-	-	-
Exercise price volatility	50.18%	48.59%	49.17%
Risk-free interest rate	0.68%~0.81%	0.86%~0.97%	0.91%~1.05%
Expected vesting period (years)	3.5~4.5	3.5~4.5	3.5~4.5
Per share exercise price (in dollars) \$	141	\$ 148	\$ 225
Weighted stock options average fair value (in dollars)	52~59	54~60	82~93
Grant date	<u>April 30, 2015</u>	<u>February 26, 2015</u>	<u>August 15, 2014</u>
Dividend yield rate	-	-	-
Exercise price volatility	49.10%	46.68%	46.22%
Risk-free interest rate	0.91%~1.03%	0.92%~1.04%	0.99%~1.15%
Expected vesting period (years)	3.5~4.5	3.5~4.5	3.5~4.5
Per share exercise price (in dollars) \$	225	\$ 246.5	\$ 206
Weighted stock options average fair value (in dollars)	82~93	86~97	71~81
Grant date	<u>March 20, 2014</u>	<u>November 14, 2013</u>	<u>May 8, 2012</u>
Dividend yield rate	-	-	-
Exercise price volatility	46.06%	48.51%	42.44%
Risk-free interest rate	0.92%~1.10%	1.00%~1.18%	1.00%
Expected vesting period (years)	3.5~4.5	3.5~4.5	3.875
Per share exercise price (in dollars) \$	272.0	\$ 379	\$ 117.3
Weighted stock options average fair value (in dollars)	94~106	137~155	5.18~7.29
Grant date	<u>December 23, 2011</u>	<u>July 14, 2011</u>	<u>July 22, 2010</u>
Dividend yield rate	-	-	-
Exercise price volatility	43.92%	44.70%	41.66%
Risk-free interest rate	1.00%	1.14%	0.64%
Expected vesting period (years)	3.875	3.875	3.75
Per share exercise price (in dollars) \$	69.9	\$ 35	\$ 28
Weighted stock options average fair value (in dollars)	1.36~2.14	2.05~2.80	1.76~2.81

Grant date	<u>January 21, 2010</u>	<u>October 29, 2009</u>
Dividend yield rate	-	-
Exercise price volatility	42.23%	48.10%
Risk-free interest rate	0.65%	0.76%
Expected vesting period (years)	3.75	3.75
Per share exercise price (in dollars) \$	28	\$ 28
Weighted stock options average fair value (in dollars)	2.52~3.75	3.16~3.88

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	0.56%~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 restricted stocks average fair value (in dollars)	128.47~151.99	139.28~164.58

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

	<u>Years ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Equity-settled	<u>\$ 113,698</u>	<u>\$ 98,236</u>
(13) <u>Provisions (Decommissioning liabilities)</u>		
	<u>2015</u>	<u>2014</u>
At January 1, 2015	\$ 3,627	\$ 3,087
Additional provisions	269	540
Used during the year	(50)	-
At December 31, 2015	<u>\$ 3,846</u>	<u>\$ 3,627</u>

Analysis of total provisions:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Non-current	<u>\$ 3,846</u>	<u>\$ 3,627</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 December 31, 2015, the Company's authorized capital was \$600,000, and the paid-in capital was \$556,203 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):

	2015	2014
At January 1	55,403	54,629
Employee stock options exercised	263	424
Employee restricted stocks	-	350
Cancellation of restricted stocks	(46)	-
At December 31	55,620	55,403

- 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, 2015 to buy back the restricted shares to retire for capital reduction. Details are provided in Note 11(2).

D. Treasury stock

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

		December 31, 2015	
Name of company		Number of shares	
<u>holding the stocks</u>	<u>Reason for reacquisition</u>	<u>(in thousands)</u>	<u>Carrying amount</u>
The Company	To be reissued to employees	276	\$ 36,893

- (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) Accumulated deficit

- A. Under the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:
- (a) Payment of taxes and duties.
 - (b) Cover prior years' accumulated deficit, if any.
 - (c) After deducting items a and b, set aside 10% of the remaining amount as legal reserve.
 - (d) 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. (a) The stockholders during their meeting on June 23, 2015 and June 18, 2014 adopted a resolution to use capital reserve amounting to \$638,726 and \$405,977, respectively to cover accumulated deficit.

- (b) The Board of Directors during its meeting on February 25, 2016 has proposed to cover accumulated losses of \$673,562 with capital reserve, but as of February 25, 2016, the proposal has not yet been resolved by the stockholders.

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

- E. As of December 31, 2015, 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

	Years ended December 31,	
	2015	2014
Co-development revenue	\$ 23,641	\$ 62,709
Royalty payment revenue	36,130	33,213
	<u>\$ 59,771</u>	<u>\$ 95,922</u>

A. Co-development revenue is the revenue arising from authorized co-development generic drugs. The details are as follows:

- (a) The Company signed new injections/new medicine cooperative development agreement with SciClone Pharmaceuticals International China Holding Ltd. (“SciClone”). Under the agreement, the Company authorized SciClone to sell related products in China, Hong Kong and Macau. The Company recognizes up-front payment revenue during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, the Company will receive a royalty fee based on a fixed amount depending on the amount of net sales revenue achieved, but not to exceed the maximum amount set in the agreement.
- (b) The Company authorized SamChunDang Pharm Co., Ltd. (“SamChunDang”) to sell special generic products in Korea. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, a royalty fee will be received by the Company, which is equal to a certain amount depending on the sales volume subject to a certain ceiling.
- (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 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

	Years ended December 31,	
	2015	2014
Interest income	\$ 19,742	\$ 24,258
Government subsidy income (Note)	18,192	3,895
Others	2,140	7,097
	<u>\$ 40,074</u>	<u>\$ 35,250</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 December 31, 2015, “Phase II trial plan of TLC388 (Lipotecan)” has been completed.

(19) Other gains and losses

	Years ended December 31,	
	2015	2014
Net currency exchange loss	\$ 679	\$ 5,002

(20) Finance costs

	Years ended December 31,	
	2015	2014
Bank borrowings	\$ 1,337	\$ 1,233
Lease liabilities	1,253	75
	<u>\$ 2,590</u>	<u>\$ 1,308</u>

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

	Years ended December 31,	
	2015	2014
Employee benefit expense	\$ 338,424	\$ 276,734
Depreciation charges	\$ 52,111	\$ 44,398
Amortization charges	\$ 8,819	\$ 7,113

(22) Employee benefit expense

	Years ended December 31,	
	2015	2014
Wages and salaries	\$ 191,552	\$ 152,992
Share-based payment compensation cost	113,698	98,236
Labor and health insurance fees	14,938	11,386
Pension costs	8,914	6,580
Other personnel expenses	9,322	7,540
	<u>\$ 338,424</u>	<u>\$ 276,734</u>

- A. According to the Articles of Incorporation of the Company, when distributing earnings, the Company shall distribute bonus to the employees and pay remuneration to the directors and supervisors that account for 2~8% and 2%, respectively, of the total distributed amount.

However, in accordance with the Company Act amended on May 20, 2015, a company shall distribute employee remuneration, based on the current year's profit condition, in a fixed amount or a proportion of profits. If a company has accumulated deficit, earnings should be channeled to cover losses. Aforementioned employee remuneration could be paid by cash or stocks. Specifics of the compensation are to be determined in a board meeting that registers two-thirds of directors in attendance, and the resolution must receive support from half of participating members. The resolution should be reported to the shareholders' meeting. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive aforementioned stock or cash may be specified in the Articles of Incorporation. The Board of Directors of the Company has approved the amended Articles of Incorporation of the Company on February 25, 2016. According to the amended articles, a ratio of profit of the current year distributable, after covering accumulated 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. The amended articles will be resolved in the shareholders' meeting in 2016.

- B. As of December 31, 2015, 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. Income tax expense

Components of income tax expense:

	Years ended December 31,	
	2015	2014
Current tax:		
Current tax on profits for the year	\$ 525	\$ 292
Deferred tax:		
Origination and reversal of temporary differences	(75)	-
Income tax expense	\$ 450	\$ 292

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2015	2014
Tax calculated based on profit before tax and statutory tax rate	\$ 525	\$ 292
Change in assessment of realization of deferred tax assets	(75)	-
Tax expenses	\$ 450	\$ 292

C. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	2015				
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	December 31
Temporary differences:					
– Deferred tax assets:					
Unrealised expenses	\$ -	\$ 75	\$ -	\$ -	\$ 75

The Group had no deferred tax assets or liabilities arising from temporary differences for the year ended December 31, 2014.

D. Details of investment tax credits and unrecognised deferred tax assets are as follows:

<u>Qualifying items</u>	<u>December 31, 2015</u>		
	<u>Unused tax credits</u>	<u>Unrecognised deferred tax assets</u>	<u>Final year tax credits are due</u>
Research and development	\$ 182,790	\$ 182,790	Note
Employees' training	72	72	"

<u>Qualifying items</u>	<u>December 31, 2014</u>		
	<u>Unused tax credits</u>	<u>Unrecognised deferred tax assets</u>	<u>Final year tax credits are due</u>
Research and development	\$ 125,104	\$ 125,104	Note
Employees' training	83	8	"

Note: In accordance with the Ministry of Economic Affairs (MOEA) Jing-Shou-Gong-Zi Letter No. 10020409420 dated June 10, 2011 and Letter No. 10320407210 dated April 3, 2014, the Company was approved as a biotech pharmaceuticals company. Accordingly, the Company and its stockholders are eligible for investment tax credits under the Statute for Development of Biotech New Pharmaceuticals Industry. Relevant investment tax credits can be used to offset against the Company's income tax within five years from the year in which the Company starts to have income tax payable.

E. Expiration dates of unused loss carryforward and amounts of unrecognised deferred tax assets for the Company are as follows:

<u>Year incurred</u>	<u>December 31, 2015</u>			
	<u>Amount filed/ assessed</u>	<u>Unused amount</u>	<u>Unrecognised deferred tax assets</u>	<u>Usable until year</u>
2006	\$ 46,092	\$ 46,092	\$ 46,092	2016
2007	98,714	98,714	98,714	2017
2008	200,442	200,442	200,442	2018
2009	136,642	136,642	136,642	2019
2010	196,215	196,215	196,215	2020
2011	212,903	212,903	212,903	2021
2012	187,946	187,946	187,946	2022
2013	407,816	407,816	407,816	2023
2014	639,635	639,635	639,635	2024
2015	655,123	655,123	655,123	2025
	<u>\$ 2,781,528</u>	<u>\$ 2,781,528</u>	<u>\$ 2,781,528</u>	

December 31, 2014				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Usable until year
2005	\$ 29,290	\$ 29,290	\$ 29,290	2015
2006	46,092	46,092	46,092	2016
2007	98,714	98,714	98,714	2017
2008	200,442	200,442	200,442	2018
2009	136,642	136,642	136,642	2019
2010	196,215	196,215	196,215	2020
2011	212,903	212,903	212,903	2021
2012	187,946	187,946	187,946	2022
2013	407,816	407,816	407,816	2023
2014	639,635	639,635	639,635	2024
	<u>\$ 2,155,695</u>	<u>\$ 2,155,695</u>	<u>\$ 2,155,695</u>	

F. Expiration dates of unused loss carryforward and amounts of unrecognised deferred tax assets of the subsidiaries are as follows:

December 31, 2015				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Usable until year
2005	\$ 14,885	\$ 1,262	\$ 1,262	2025
2006	21,736	21,736	21,736	2026
2007	28,650	28,650	28,650	2027
2008	2,104	2,104	2,104	2028
	<u>\$ 67,375</u>	<u>\$ 53,752</u>	<u>\$ 53,752</u>	

December 31, 2014				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Usable until year
2005	\$ 14,352	\$ 6,675	\$ 6,675	2025
2006	20,958	20,958	20,958	2026
2007	27,625	27,625	27,625	2027
2008	2,028	2,028	2,028	2028
	<u>\$ 64,963</u>	<u>\$ 57,286</u>	<u>\$ 57,286</u>	

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Deductible temporary differences	\$ <u>100,203</u>	\$ <u>96,838</u>

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

I. Unappropriated retained earnings:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Earnings generated in and after 1998	(\$ <u>673,562</u>)	(\$ <u>638,726</u>)

J. As of December 31, 2015 and 2014, the balance of the imputation tax credit account was \$0, and there was no distributable earnings. The creditable tax rate was not applicable.

(24) Loss per share

	<u>Year ended December 31, 2015</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Loss per share (in dollars)</u>
<u>Basic loss per share</u>			
Loss attributable to ordinary shareholders of the company	(\$ 675,685)	55,159	(\$ <u>12.25</u>)
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(Note)	
<u>Diluted loss per share</u>			
Loss attributable to ordinary shareholders of the company plus assumed conversion of all dilutive potential ordinary shares	(\$ <u>675,685</u>)	<u>55,159</u>	(\$ <u>12.25</u>)

	Year ended December 31, 2014		
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Loss per share (in dollars)
<u>Basic loss per share</u>			
Loss attributable to ordinary shareholders of the company	(\$ 632,860)	54,817	(\$ <u>11.54</u>)
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(Note)	
<u>Diluted loss per share</u>			
Loss attributable to ordinary shareholders of the company plus assumed conversion of all dilutive potential ordinary shares	(\$ <u>632,860</u>)	<u>54,817</u>	(\$ <u>11.54</u>)

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

(25) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31,	
	2015	2014
Purchase of property, plant and equipment	\$ 66,590	\$ 52,386
Add: Opening balance of payable on equipment	15,844	13,333
Less: Ending balance of payable on equipment	(3,826)	(15,844)
Cash paid	<u>\$ 78,608</u>	<u>\$ 49,875</u>

	Years ended December 31,	
	2015	2014
Purchase of intangible assets	\$ 4,721	\$ 2,035
Less: Ending balance of payable on equipment	(84)	-
Cash paid	<u>\$ 4,637</u>	<u>\$ 2,035</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

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

(2) Significant transactions and balances with related parties

The Company's Chairman provided guarantees for the Company's long-term and short-term loans with Taiwan Cooperative Bank and guarantees for the Company's long-term loan with the Industrial Development Bureau. As of December 31, 2015 and 2014, details of loans are described in Note 6(7) and 6(9), respectively.

(3) Key management compensation

	Years ended December 31,	
	2015	2014
Salaries and other short-term employee benefits	\$ 24,586	\$ 17,504
Share-based payments	20,393	5,939
Post-employment benefits	324	108
	<u>\$ 45,303</u>	<u>\$ 23,551</u>

8. PLEDGED ASSETS

<u>Assets Pledged</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>Pledge purpose</u>
Shown as other current assets			
Demand deposits	\$ 552	\$ 1,881	Note 1
Demand deposits	4,209	-	Note 3
	<u>\$ 4,761</u>	<u>\$ 1,881</u>	
Shown as other non-current assets			
Demand deposits	<u>\$ -</u>	<u>\$ 552</u>	Note 1
Shown as property, plant and equipment			
Land	\$ 14,962	\$ 14,962	Note 2
Buildings	25,485	26,141	Note 2
	<u>\$ 40,447</u>	<u>\$ 41,103</u>	

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

Note 2: The Company provided collateral 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>December 31, 2015</u>	<u>December 31, 2014</u>
Property, plant and equipment	\$ -	\$ 21,349

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>December 31, 2015</u>	<u>December 31, 2014</u>
Not later than one year	\$ 28,496	\$ 19,999
Later than one year but not later than five years	60,858	53,409
Over five years	1,250	3,416
	<u>\$ 90,604</u>	<u>\$ 76,824</u>

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	\$ 82,890	\$ 79,287

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

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	\$ 301,276	\$ 342,353

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

F. The Company's subsidiary entered into a synthesis technology of novel camptothecin derivative transfer agreement with California Pacific Medical Center (CPMC). Under the agreement, CPMC charges the Company's subsidiary a patent usage fee of USD 10,000 per annum and charges royalties of USD 300,000 maximum according to its R&D achievement rate plus

royalties equal to a certain percentage of relevant sales volume in the future. As of December 31, 2015, the Company had paid USD 100,000 in royalty.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

- (1) Details of the deficit compensation proposed by the Board of Directors on February 25, 2016 are provided in Note 6(16) D.(b).
- (2) On February 25, 2016, the Board of Directors has resolved for the Company to purchase the restricted stocks from employees who have resigned during the vesting period and to register for the cancellation of 9,000 shares. The record date for capital reduction was set as March 30, 2016.
- (3) On February 25, 2016, the Board of Directors has approved for the Company to reissue the treasury stock of 276 thousand shares to employees. The transfer price was \$133.76 (in dollar) per share.
- (4) On February 25, 2016, the Board of Directors has resolved for the Company to participate in the capital increase of Run Hong Biotechnology Co., Ltd. at the amount of not more than NT\$50 million.

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 December 31, 2015 and 2014, the Group's debt ratios are as follows:

	<u>December 31, 2015</u>
Total debt	<u>\$ 259,401</u>
Total capital	<u>\$ 556,203</u>
Debt ratio	<u>46.64%</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 loans, notes payable and other payables) are approximate to their fair values.
- (b) Other financial assets (shown as other current assets and other non-current assets) are pledged demand deposits. Their book value is the reasonable basis for fair value estimation

under the assumption that the amounts of those financial instruments are expected to be received by the Company at the balance sheet date.

- (c) The fair value of long-term loans is based on the present value of their expected cash flows. The effect of discounting is minor, thus, the book value is a reasonable basis for fair value estimation.

B. Financial risk management policies

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

C. Significant financial risks and degree of financial risks

(a) Market risk

i. Foreign exchange risk

- (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:

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

December 31, 2014			
(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	\$ 2,439	31.650	\$ 77,203
GBP : NTD	120	49.270	5,936
RMB : NTD	609	5.092	3,101
<u>Non-monetary items</u>			
USD : NTD	1,368	31.650	43,305
EUR : NTD	22	38.470	857
HKD : NTD	786	4.080	3,206
RMB : HKD (Note)	511	1.248	2,602
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	463	31.650	14,654
EUR : NTD	182	38.470	7,002
GBP : NTD	36	49.270	1,774
RMB : NTD	180	5.092	917
AUD : NTD	221	25.910	5,726

(Note) The functional currencies of certain subsidiaries of 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:

Year ended December 31, 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%	\$ 191	\$ -
RMB : NTD	1%	31	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	176	-
EUR : NTD	1%	27	-
GBP : NTD	1%	5	-
RMB : NTD	1%	9	-
AUD : NTD	1%	13	-
JPY : NTD	1%	7	-
HKD : NTD	1%	1	-
Year ended December 31, 2014			
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%	\$ 772	\$ -
GBP : NTD	1%	59	-
RMB : NTD	1%	31	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	147	-
EUR : NTD	1%	70	-
GBP : NTD	1%	18	-
RMB : NTD	1%	9	-
AUD : NTD	1%	57	-

(iii) The unrealised exchange gain arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2015 and 2014 amounted to (\$391) and \$6,701, 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 years ended December 31, 2015 and 2014, the Group's loans at variable rate were denominated in NTD.

At December 31, 2015 and 2014, if interest rates had been 0.2% higher/lower with all other conditions held constant, net loss for the years ended December 31, 2015 and 2014 would have been \$236 and \$86 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.

	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
	December 31, 2014				
	<u>1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 3 years</u>	<u>Between 3 and 5 years</u>	<u>Over 5 years</u>
Notes payable	\$ 251	\$ -	\$ -	\$ -	\$ -
Other payables	79,946	-	-	-	-
Finance lease liabilities (including current portion)	24,629	24,214	-	-	-
Long-term borrowings (including current portion)	12,669	5,881	3,093	6,186	30,676

(3) Fair value estimation

The Group had no financial instruments measured at fair value by valuation method as of December 31, 2015 and 2014.

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 year ended December 31, 2015: None
- J. Significant inter-company transactions during the year ended December 31, 2015: 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) Measurement of segment information

The Group's chief operating decision-maker assesses performance of the operating segments based on the profit (loss) before tax and discontinued operations.

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

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

(4) 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.

(5) Information on products and services

Please refer to Note 6(17) for the related information.

(6) Geographical information

Geographical information for the years ended December 31, 2015 and 2014 is as follows:

	<u>Year ended December 31, 2015</u>		<u>Year ended December 31, 2014</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
Taiwan	\$ 36,130	\$ 234,340	\$ 34,165	\$ 224,256
Europe	19,136	-	52,397	-
China	3,306	-	3,606	-
Others	1,199	6,648	5,754	5,701
	<u>\$ 59,771</u>	<u>\$ 240,988</u>	<u>\$ 95,922</u>	<u>\$ 229,957</u>

(7) Major customer information

Details of sales to individual customers reaching 10% of the Group's revenue for the years ended December 31, 2015 and 2014 is as follows:

<u>Customer</u>	<u>Years ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
	<u>Revenue</u>	<u>Revenue</u>
A	\$ 33,290	\$ 31,700
F	19,136	52,397

Taiwan Liposome Company and subsidiaries
Significant inter-company transactions
Year ended December 31, 2015

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	\$ 54,167	(Note 4)	90.62%
2	TLC Biopharmaceuticals, B.V.	Taiwan Liposome Company	2	Operating revenue	2,691	(Note 4)	4.50%
3	TLC Biopharmaceuticals, (Shanghai)	Taiwan Liposome Company	2	Operating revenue	1,812	(Note 4)	3.03%
4	TLC Biopharmaceuticals Pty Ltd.	Taiwan Liposome Company	2	Operating revenue	3,666	(Note 4)	6.13%
5	TLC Biopharmaceuticals Japan Co.,Ltd	Taiwan Liposome Company	2	Operating revenue	2,252	(Note 4)	3.77%
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company	2	Accounts receivable	15,161	(Note 4)	0.55%

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: All the transactions between parent company and subsidiary and between subsidiaries disclosed above 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)
Year ended December 31, 2015

Table 2

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as December 31, 2015			Income of the investee for the year ended December 31, 2015	Investment income (loss) recognised by the Company for the year ended December 31, 2015	Footnote
				Balance as of December 31, 2015	Balance as of December 31, 2014	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%	\$ 43,822	\$ 4,000	(\$ 614)	
Taiwan Liposome Company	TLC Biopharmaceuticals, B.V.	Netherlands	Technical authorization and product development	4,410	4,410	1,000,000	100%	1,002	199	199	
Taiwan Liposome Company	TLC Biopharmaceuticals, (H.K.) Limited	Hong Kong	Biological technology service and reinvestment	3,023	3,023	780,000	100%	3,361	183	183	
Taiwan Liposome Company	TLC Biopharmaceuticals Pty Ltd	Australia	Technical authorization and product development	3	3	100	100%	277	272	272	
Taiwan Liposome Company	TLC Biopharmaceuticals Japan Co., Ltd	Japan	Technical authorization and product development	2,670	-	1,000	100%	2,902	165	165	

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

Taiwan Liposome Company and subsidiaries
Information on investments in Mainland China - Basic information
Year ended December 31, 2015

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		Accumulated	Income (loss) of investee for the year ended December 31, 2015	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2015 (Note 2(2)B)	Book value	Accumulated	Footnote
				amount of remittance from Taiwan to Mainland China as of January 1, 2015	Remitted to Mainland China	Remitted back to Taiwan	amount of remittance from Taiwan to Mainland China as of December 31, 2015				of investments in Mainland China as of December 31, 2015	amount of investment income remitted back to Taiwan as of December 31, 2015	
TLC Biopharmaceuticals, (Shanghai) Limited	Consulting of medical related technology and technological service	\$ 2,498	Reinvestment in Mainland China through third region company	\$ 2,505	\$ -	\$ -	\$ 2,505	\$ 206	100	\$ 206	\$ 2,718	\$ -	

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 (loss) recognised by the Company for the year ended December 31, 2015' 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.

Company name	Accumulated	Investment	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
	amount of remittance from Taiwan to Mainland China as of December 31, 2015	amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)(Note)	
Taiwan Liposome Company	\$ 2,505	\$ 2,505	\$ 1,491,282

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