

TAIWAN LIPOSOME COMPANY
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2014 AND 2013

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Taiwan Liposome Company

We have audited the accompanying balance sheets of Taiwan Liposome Company as of December 31, 2014 and 2013, and the related 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 financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Liposome Company as of December 31, 2014 and 2013, and its financial performance and cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers".

PricewaterhouseCoopers, Taipei, Taiwan

February 26, 2015

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

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

TAIWAN LIPOSOME COMPANY
BALANCE SHEETS
DECEMBER 31, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets	Notes	2014		2013	
		AMOUNT	%	AMOUNT	%
Current Assets					
Cash and cash equivalents	6(1)	\$ 2,948,076	90	\$ 3,430,560	92
Accounts receivable, net	6(2)	5,818	-	5,963	-
Other receivables		4,880	-	1,839	-
Current income tax assets		3,395	-	995	-
Prepayments	6(3)	23,715	1	35,116	1
Other current assets	8	1,881	-	6,458	-
Total Current Assets		<u>2,987,765</u>	<u>91</u>	<u>3,480,931</u>	<u>93</u>
Non-current Assets					
Investments accounted for under equity method	6(4)	47,372	2	43,780	1
Property, plant and equipment	6(5) and 8	203,274	6	180,378	5
Intangible assets		4,449	-	2,817	-
Other non-current assets	6(6) and 8	44,457	1	42,380	1
Total Non-current Assets		<u>299,552</u>	<u>9</u>	<u>269,355</u>	<u>7</u>
Total Assets		<u>\$ 3,287,317</u>	<u>100</u>	<u>\$ 3,750,286</u>	<u>100</u>

(Continued)

TAIWAN LIPOSOME COMPANY
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity	Notes	2014		2013	
		AMOUNT	%	AMOUNT	%
Current Liabilities					
Notes payable		\$ 251	-	\$ 2,791	-
Other payables	6(7)(24)	94,453	3	70,853	2
Other current liabilities	6(8)(9)	42,192	1	27,275	1
Total Current Liabilities		<u>136,896</u>	<u>4</u>	<u>100,919</u>	<u>3</u>
Non-current Liabilities					
Long-term borrowings	6(8)	39,692	2	51,331	1
Provisions for liabilities - non-current	6(12)	3,627	-	3,087	-
Other non-current liabilities	6(9)(10)	35,898	1	6,677	-
Total Non-current Liabilities		<u>79,217</u>	<u>3</u>	<u>61,095</u>	<u>1</u>
Total Liabilities		<u>216,113</u>	<u>7</u>	<u>162,014</u>	<u>4</u>
Equity					
Share capital					
Common stock	6(13)	554,033	17	546,288	15
Capital surplus					
Capital surplus	6(14)	3,194,719	97	3,448,175	92
Retained earnings					
Accumulated deficit	6(15)	(638,726)	(20)	(405,977)	(11)
Other equity					
Other equity interest		(38,822)	(1)	(214)	-
Total equity		<u>3,071,204</u>	<u>93</u>	<u>3,588,272</u>	<u>96</u>
Significant contingent liabilities and unrecognised contract commitments	9				
Subsequent events	11				
Total Liabilities and Equity		<u>\$ 3,287,317</u>	<u>100</u>	<u>\$ 3,750,286</u>	<u>100</u>

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

TAIWAN LIPOSOME COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT LOSS PER SHARE AMOUNT)

Items	Notes	2014		2013	
		AMOUNT	%	AMOUNT	%
Sales revenue	6(16)	\$ 95,922	100	\$ 158,644	100
Operating expenses	6(20)(21)				
General and administrative expenses		(101,677)	(106)	(96,217)	(61)
Research and development expenses		(664,991)	(693)	(470,285)	(296)
Total operating expenses		(766,668)	(799)	(566,502)	(357)
Operating loss		(670,746)	(699)	(407,858)	(257)
Non-operating income and expenses					
Other income	6(17)	35,246	37	11,419	7
Other gains and losses	6(18)	5,019	5	(661)	(1)
Finance costs	6(19)	(1,308)	(2)	(1,634)	(1)
Share of loss of associates and joint ventures accounted for using equity method	6(4)	(1,071)	(1)	(2,236)	(1)
Total non-operating income and expenses		37,886	39	6,888	4
Net loss		(\$ 632,860)	(660)	(\$ 400,970)	(253)
Other comprehensive (loss) income					
Financial statements translation differences of foreign operations		\$ 1,638	2	\$ 555	1
Actuarial (loss) gain on defined benefit plan	6(10)	(5,866)	(6)	184	-
Total other comprehensive (loss) income		(\$ 4,228)	(4)	\$ 739	1
Total comprehensive loss		(\$ 637,088)	(664)	(\$ 400,231)	(252)
Basic Loss Per Share (in dollars)	6(23)	(\$ 11.54)		(\$ 8.22)	
Diluted Loss Per Share (in dollars)	6(23)	(\$ 11.54)		(\$ 8.22)	

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

TAIWAN LIPOSOME COMPANY
 STATEMENTS OF CHANGES IN EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	Share Capital		Capital Surplus			Retained Earnings	Other Equity		Total equity
		Common stock	Advance receipts for share capital	Additional paid-in capital	Share options	Restricted stocks	Accumulated deficit	Exchange difference on translation of foreign financial statements	Unearned compensation	
<u>2013</u>										
Balance at January 1, 2013		\$ 439,930	\$ 2,146	\$ 685,958	\$ 4,275	\$ -	(\$ 235,165)	(\$ 769)	\$ -	\$ 896,375
Share-based payments	6(11)	-	-	86,820	10,329	-	-	-	-	97,149
Employee stock options		6,358	(2,146)	18,000	(2,233)	-	-	-	-	19,979
Capital surplus used to cover accumulated deficit	6(15)	-	-	(229,974)	-	-	229,974	-	-	-
Issuance of common stock for cash		100,000	-	2,875,000	-	-	-	-	-	2,975,000
Net loss		-	-	-	-	-	(400,970)	-	-	(400,970)
Other comprehensive income		-	-	-	-	-	184	555	-	739
Balance at December 31, 2013		<u>\$ 546,288</u>	<u>\$ -</u>	<u>\$ 3,435,804</u>	<u>\$ 12,371</u>	<u>\$ -</u>	<u>(\$ 405,977)</u>	<u>(\$ 214)</u>	<u>\$ -</u>	<u>\$ 3,588,272</u>
<u>2014</u>										
Balance at January 1, 2014		\$ 546,288	\$ -	\$ 3,435,804	\$ 12,371	\$ -	(\$ 405,977)	(\$ 214)	\$ -	\$ 3,588,272
Share-based payments	6(11)	-	-	-	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	6(15)	-	-	(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>\$ -</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>\$ 3,071,204</u>

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

TAIWAN LIPOSOME COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Loss before tax for the year		(\$ 632,860)	(\$ 400,970)
Adjustments to reconcile loss before tax to net cash used in operating activities			
Income and expenses having no effect on cash flows			
Share-based payments	6(11)	98,236	97,149
Depreciation	6(20)	41,840	23,078
Amortization	6(20)	2,012	615
Share of loss of subsidiaries, associates and joint ventures accounted for under the equity method	6(4)	1,071	2,236
Interest expense	6(19)	1,308	1,634
Interest income	6(17)	(24,254)	(10,760)
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Accounts receivable, net		145	29,102
Other receivables		(3,287)	16
Prepayments		11,401	(30,394)
Other non-current assets		-	(20,000)
Net changes in liabilities relating to operating activities			
Notes payable		(2,540)	(10,161)
Other payables		20,746	(59,554)
Other current liabilities		(2,217)	5,064
Provisions for liabilities		-	(1,050)
Other non-current liabilities		(645)	4,654
Cash used in operations		(489,044)	(369,341)
Interest received		24,500	9,544
Interest paid		(1,325)	(1,665)
Income tax paid		(2,400)	(874)
Net cash used in operating activities		(468,269)	(362,336)

(Continued)

TAIWAN LIPOSOME COMPANY
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other financial assets		\$ 6,457	\$ 2,658
Acquisition of investments accounted for using equity method	6(4)	(3,025)	-
Acquisition of property, plant and equipment	6(24)	(47,605)	(69,154)
Increase in other non-current assets		(5,391)	(16,230)
Increase in intangible assets		(2,035)	(2,234)
(Increase) decrease in refundable deposits		(13,895)	482
Net cash used in investing activities		<u>(65,494)</u>	<u>(84,478)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Payment of long-term borrowings		(18,510)	(19,461)
Increase in lease payable		48,005	-
Employee stock options		18,389	19,979
Issuance of restricted stocks		3,395	-
Issuance of common stock for cash		-	2,975,000
Net cash provided by financing activities		<u>51,279</u>	<u>2,975,518</u>
(Decrease) increase in cash and cash equivalents		(482,484)	2,528,704
Cash and cash equivalents at beginning of year		<u>3,430,560</u>	<u>901,856</u>
Cash and cash equivalents at end of year		<u>\$ 2,948,076</u>	<u>\$ 3,430,560</u>

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

TAIWAN LIPOSOME COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(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 is a biopharmaceutical company focused on the research, development and commercialization of innovative pharmaceutical products based on its proprietary drug delivery technologies.

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

These financial statements were authorised for issuance by the Board of Directors on February 26, 2015.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

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

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the 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 the “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 related new standards, interpretations and amendments are listed below:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Limited exemption from comparative IFRS 7 disclosures for first-time adopters (amendments to IFRS 1)	July 1, 2010
Severe hyperinflation and removal of fixed dates for first-time adopters (amendments to IFRS 1)	July 1, 2011
Government loans (amendments to IFRS 1)	January 1, 2013
Disclosures—Transfers of financial assets (amendments to IFRS 7)	July 1, 2011
Disclosures—Offsetting financial assets and financial liabilities (amendments to IFRS 7)	January 1, 2013
IFRS 10, ‘Consolidated financial statements’	January 1, 2013 (Investment entities: January 1, 2014)
IFRS 11, ‘Joint arrangements’	January 1, 2013
IFRS 12, ‘Disclosure of interests in other entities’	January 1, 2013
IFRS 13, ‘Fair value measurement’	January 1, 2013
Presentation of items of other comprehensive income (amendments to IAS 1)	July 1, 2012
Deferred tax: recovery of underlying assets (amendments to IAS 12)	January 1, 2012
IAS 19 (revised), ‘Employee benefits’	January 1, 2013
IAS 27, ‘Separate financial statements’ (as amended in 2011)	January 1, 2013
IAS 28, ‘Investments in associates and joint ventures’ (as amended in 2011)	January 1, 2013
Offsetting financial assets and financial liabilities (amendments to IAS 32)	January 1, 2014
IFRIC 20, ‘Stripping costs in the production phase of a surface mine’	January 1, 2013
Improvements to IFRSs 2010	January 1, 2011
Improvements to IFRSs 2009—2011	January 1, 2013

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

A. IAS 1, ‘Presentation of financial statements’

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

B. IFRS 12, 'Disclosure of interests in other entities'

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

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

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

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
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)	January 1, 2016
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, 2017
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

(2) Basis of preparation

- A. Except for defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation, these financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with the IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(3) Foreign currency translation

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

A. Foreign currency transactions and balances

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

transactions.

- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within other gains and losses.

B. Translation of foreign operations

The operating results and financial position of all the 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.

(4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
- (b) Assets held mainly for trading purposes;
- (c) Assets that are expected to be realised within twelve months from the balance sheet date;
- (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

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

(5) Cash equivalents

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

(6) Accounts receivable and other receivables

Accounts receivable are claims resulting from the sale of goods or services. Other receivables are

those arising from transactions other than the sale of goods or services. Accounts receivable and other receivables are recognised initially at fair value and subsequently measured at 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.

(7) Impairment of financial assets

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
- (a) Significant financial difficulty of the issuer or debtor;
 - (b) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (c) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- or
- (e) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered.
- C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred on financial assets measured at amortised cost, accounting for impairment is made as follows:

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

(8) Derecognition of financial assets

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

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

(9) Subsidiaries accounted for using equity method

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

(10) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and

useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

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

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

(13) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognising 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 Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(18) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method.

The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date).

- ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income.

(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 stock:
 - 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 Company 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 Company 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 dividends declared.
 - 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 that have not met the vesting conditions to the Company and the Company must refund their payments on the stocks, the Company 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. 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 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 Company 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

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

(22) Revenue recognition

- A. Royalty revenues are recognised with the contract when the earning process is substantially completed and are realised or realizable.
- B. Co-development revenue shall be recognized 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 Company 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 recognized upon each milestone achieved by development stage.

(23) Government grants

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

5. CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ASSUMPTION

UNCERTAINTY

The preparation of these financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. 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.

A. Impairment assessment of tangible and intangible assets

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

B. Realisability of deferred tax assets

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

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Cash on hand	\$ 70	\$ 70
Checking and demand deposits	687,826	761,045
Time deposits	2,260,180	2,669,445
	<u>\$ 2,948,076</u>	<u>\$ 3,430,560</u>

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

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

(2) Accounts receivable

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Accounts receivable	\$ 5,818	\$ 5,963

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

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

C. The maximum exposure to credit risk at December 31, 2014 and 2013 was the carrying amount of accounts receivable.

(3) Prepayments

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Net input VAT	\$ 15,889	\$ 8,687
Prepaid service expense	3,002	-
Prepaid banking charges	1,427	231
Prepaid repair expense	1,087	2,543
Prepaid rent	401	2,909
Prepaid expense for medicine research	200	18,885
Others	1,709	1,861
	<u>\$ 23,715</u>	<u>\$ 35,116</u>

(4) Investments accounted for using equity method

	<u>2014</u>	<u>2013</u>
At January 1	\$ 43,780	\$ 45,461
Addition of investments accounted for using equity method	3,025	-
Share of loss of investments accounted for using equity method	(1,071)	(2,236)
Changes in other equity	<u>1,638</u>	<u>555</u>
At December 31	<u>\$ 47,372</u>	<u>\$ 43,780</u>
	<u>December 31, 2014</u>	<u>December 31, 2013</u>
TLC Biopharmaceuticals, Inc.	\$ 43,305	\$ 43,139
TLC Biopharmaceuticals, B.V.	857	641
TLC Biopharmaceuticals, (H.K.) Limited	3,206	-
TLC Biopharmaceuticals Pty Ltd.	<u>4</u>	<u>-</u>
	<u>\$ 47,372</u>	<u>\$ 43,780</u>

Information about the subsidiaries is provided in Note 4(3) of the 2014 consolidated financial statements.

(5) Property, plant and equipment

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

	<u>Land</u>	<u>Buildings</u>	<u>Testing equipment</u>	<u>Office equipment</u>	<u>Leasehold 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	\$ 164,061	\$ 8,379	\$ -	\$ 27,272	\$ -	\$ 244,206
Accumulated depreciation	-	(2,734)	(49,151)	(3,742)	-	(8,201)	-	(63,828)
	<u>\$ 14,962</u>	<u>\$ 26,798</u>	<u>\$ 114,910</u>	<u>\$ 4,637</u>	<u>\$ -</u>	<u>\$ 19,071</u>	<u>\$ -</u>	<u>\$ 180,378</u>
<u>2014</u>								
Opening net book amount	\$ 14,962	\$ 26,798	\$ 114,910	\$ 4,637	\$ -	\$ 19,071	\$ -	\$ 180,378
Additions	-	-	33,496	764	-	3,556	12,300	50,116
Transfer (Note)	-	-	(35,380)	-	50,000	-	-	14,620
Depreciation charge	-	(657)	(31,617)	(1,552)	(2,019)	(5,995)	-	(41,840)
Closing net book amount	<u>\$ 14,962</u>	<u>\$ 26,141</u>	<u>\$ 81,409</u>	<u>\$ 3,849</u>	<u>\$ 47,981</u>	<u>\$ 16,632</u>	<u>\$ 12,300</u>	<u>\$ 203,274</u>
<u>At December 31, 2014</u>								
Cost	\$ 14,962	\$ 29,532	\$ 132,996	\$ 6,579	\$ 50,000	\$ 30,512	\$ 12,300	\$ 276,881
Accumulated depreciation	-	(3,391)	(51,587)	(2,730)	(2,019)	(13,880)	-	(73,607)
	<u>\$ 14,962</u>	<u>\$ 26,141</u>	<u>\$ 81,409</u>	<u>\$ 3,849</u>	<u>\$ 47,981</u>	<u>\$ 16,632</u>	<u>\$ 12,300</u>	<u>\$ 203,274</u>

	<u>Land</u>	<u>Buildings</u>	<u>Testing equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<u>At January 1, 2013</u>						
Cost	\$ 14,962	\$ 29,532	\$ 76,720	\$ 8,032	\$ 26,839	\$ 156,085
Accumulated depreciation	-	(2,078)	(35,643)	(2,149)	(2,408)	(42,278)
	<u>\$ 14,962</u>	<u>\$ 27,454</u>	<u>\$ 41,077</u>	<u>\$ 5,883</u>	<u>\$ 24,431</u>	<u>\$ 113,807</u>
<u>2013</u>						
Opening net book amount	\$ 14,962	\$ 27,454	\$ 41,077	\$ 5,883	\$ 24,431	\$ 113,807
Additions	-	-	77,292	441	433	78,166
Transfer (Note)	-	-	11,483	-	-	11,483
Depreciation charge	-	(656)	(14,942)	(1,687)	(5,793)	(23,078)
Closing net book amount	<u>\$ 14,962</u>	<u>\$ 26,798</u>	<u>\$ 114,910</u>	<u>\$ 4,637</u>	<u>\$ 19,071</u>	<u>\$ 180,378</u>
<u>At December 31, 2013</u>						
Cost	\$ 14,962	\$ 29,532	\$ 164,061	\$ 8,379	\$ 27,272	\$ 244,206
Accumulated depreciation	-	(2,734)	(49,151)	(3,742)	(8,201)	(63,828)
	<u>\$ 14,962</u>	<u>\$ 26,798</u>	<u>\$ 114,910</u>	<u>\$ 4,637</u>	<u>\$ 19,071</u>	<u>\$ 180,378</u>

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(24).

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

D. Information about the leasehold assets is provided in Note 6(9).

(6) Other non-current assets

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Prepaid expense for medicines research - over one year	\$ 20,000	\$ 20,000
Refundable deposits	17,613	3,718
Prepayments for business facilities	6,292	16,230
Other financial assets - non-current	552	2,432
	<u>\$ 44,457</u>	<u>\$ 42,380</u>

(7) Other payables

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Research expenses	\$ 34,588	\$ 23,424
Salaries and bonuses	22,854	16,512
Payables on machinery and equipment	13,164	10,246
Research medicine expenses	11,841	6,100
Service expenses	5,200	6,341
Accrued payables	6,806	8,230
	<u>\$ 94,453</u>	<u>\$ 70,853</u>

(8) Long-term borrowings

<u>Type of borrowings</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 1)	2.25%	Land and buildings	\$ 39,167
Taiwan Business Bank secured borrowings	(Note 2)	3.00%	Demand deposits	3,884
Taiwan Business Bank secured borrowings	(Note 3)	1.00%	Demand deposits	8,280
				<u>51,331</u>
Less: current portion (recorded as other current liabilities)				(<u>11,639</u>)
				<u>\$ 39,692</u>

Type of borrowings	Borrowing period and repayment term	Interest rate	Collateral	December 31, 2013
Taiwan Business Bank secured borrowings	(Note 1)	2.25%	Land and buildings	\$ 41,353
Taiwan Business Bank secured borrowings	(Note 2)	3.00%	Demand deposits	11,652
Taiwan Business Bank secured borrowings	(Note 3)	1.00%	Demand deposits	13,800
Taiwan Business Bank secured borrowings	(Note 3)	1.00%	Time deposits	3,036
				<u>69,841</u>
Less: current portion (recorded as other current liabilities)				(<u>18,510</u>)
				<u>\$ 51,331</u>

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

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

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

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

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

(9) 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, 2014 is as follows:

	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.

(10) 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.

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

	December 31, 2014	December 31, 2013
Present value of funded defined benefit obligations	\$ 9,326	\$ 3,391
Fair value of plan assets	(1,824)	(1,554)
Net liability in the balance sheet (recorded as other non-current liabilities)	<u>\$ 7,502</u>	<u>\$ 1,837</u>

(c) Movements in present value of defined benefit obligations are as follows:

	<u>2014</u>	<u>2013</u>
Present value of defined benefit obligations		
At January 1	\$ 3,391	\$ 3,526
Interest cost	66	53
Actuarial gain (loss)	<u>5,869</u>	<u>(188)</u>
At December 31	<u>\$ 9,326</u>	<u>\$ 3,391</u>

(d) Movements in fair value of plan assets:

	<u>2014</u>	<u>2013</u>
Fair value of plan assets		
At January 1	\$ 1,554	\$ 1,319
Expected return on plan assets	30	20
Actuarial gain (loss)	3	(4)
Employer contributions	<u>237</u>	<u>219</u>
At December 31	<u>\$ 1,824</u>	<u>\$ 1,554</u>

(e) Amounts of expenses recognised in statements of comprehensive income:

	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Interest cost	\$ 66	\$ 53
Expected return on plan assets	<u>(30)</u>	<u>(20)</u>
Current pension cost	<u>\$ 36</u>	<u>\$ 33</u>

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

	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
General and administrative expenses	\$ 3	\$ 2
Research and development expenses	<u>33</u>	<u>31</u>
	<u>\$ 36</u>	<u>\$ 33</u>

(f) Amounts of actuarial gains or losses recognised under other comprehensive income are as follows:

	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Recognition for current period	<u>(\$ 5,866)</u>	<u>\$ 184</u>
Accumulated amount	<u>(\$ 6,107)</u>	<u>(\$ 241)</u>

(g) 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. The constitution of fair value of plan assets as of December 31, 2014 and 2013 is given in the Annual Labor Retirement Fund Utilisation Report published by the government. Expected return on plan assets was a projection of overall return for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilisation by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

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

	For the years ended December 31,	
	2014	2013
Discount rate	2.00%	2.00%
Future salary increases	2.00%	2.00%
Expected return on plan assets	2.00%	2.00%

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

(i) Historical information of experience adjustments was as follows:

	For the years ended December 31,		
	2014	2013	2012
Present value of defined benefit obligation	\$ 9,326	\$ 3,391	\$ 3,526
Fair value of plan assets	(1,824)	(1,554)	(1,319)
Deficit in the plan	\$ 7,502	\$ 1,837	\$ 2,207
Experience adjustments on plan liabilities	\$ 5,869	\$ 104	\$ 235
Experience adjustments on plan assets	\$ 3	(\$ 4)	(\$ 10)

(j) Expected contributions to the defined benefit pension plans of the Company within one year from December 31, 2014 are \$239.

B. Defined contribution plans

Effective July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based

on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2014 and 2013 were \$5,988 and \$4,316, respectively.

(11) Share-based payment

A. As of December 31, 2014 and 2013, 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	1365.0	5 years	2 years service vested immediately (Note 2)
"	2014.03.20	250.0	5 years	2 years service vested immediately (Note 2)
"	2014.08.15	145.0	5 years	2 years service vested immediately (Note 2)
Restricted stocks to employees (Note 3)	2014.08.15	307.0	3 years	Performance condition achieved (Note 4)
Restricted stocks to employees (Note 3)	2014.11.14	43.0	3 years	Performance condition achieved (Note 4)
Cash capital increase reserved for employee preemption	2013.07.14	1,500.0	None	Vested immediately

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

years service are entitled to 100%.

Note 2: Employees with 2 years service 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 during the vesting period, but voting right and dividend right are not restricted on these stocks. Employees are required to return the stocks that have not reached vesting condition 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

	For the years ended December 31,			
	2014		2013	
	No. of units (in thousands)	Weighted- average exercise price (in dollars)	No. of units (in thousands)	Weighted- average exercise price (in dollars)
Options outstanding at beginning of the year	2,299.2	\$ 242	1,543.3	\$ 44
Options granted	395.0	248	1,365.0	379
Options exercised	(424.5)	43	(559.1)	36
Options revoked	(220.4)	296	(50.0)	75
Options outstanding at end of the year	<u>2,049.3</u>	264	<u>2,299.2</u>	242
Options exercisable at end of the year	<u>278.1</u>	28~117.3	<u>361.5</u>	28~69.9
Options permitted but not yet outstanding at end of year	<u>1,800</u>	-	<u>395.0</u>	379

(b) Restricted stocks to employees

	2014	2013
	Shares (in thousands)	Shares (in thousands)
At January 1	-	-
Issued for the period	350	-
Restrictions removed for the period	-	-
At December 31	<u>350</u>	-

- C. The weighted-average stock price of stock options at exercise dates for the years ended December 31, 2014 and 2013 was \$263.52 (in dollars) and \$344.65 (in dollars), respectively.
- D. The expiry date and exercise price of stock options outstanding at the balance sheet date are as follows:

		December 31, 2014			
		Options outstanding at end of year		Options exercisable at end of year	
		Expected			
Exercise price (in dollars)	Quantity (in thousands)	remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)
\$ 28	7.3	0.20	\$ 28	7.3	\$ 28
35	346.3	1.54	35	212.9	35
69.9	50.4	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>	
		December 31, 2013			
		Options outstanding at end of year		Options exercisable at end of year	
		Expected			
Exercise price (in dollars)	Quantity (in thousands)	remaining life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)
\$ 28	50.6	0.98	\$ 28	41.5	\$ 28
35	687.8	2.54	35	292.3	35
69.9	97.8	2.98	69.9	27.7	69.9
117.3	112.0	3.36	117.3	-	-
379	1,351.0	4.87	379	-	-
	<u>2,299.2</u>			<u>361.5</u>	

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>August 15, 2014</u>	<u>March 20, 2014</u>	<u>November 14, 2013</u>
Dividend yield rate	-	-	-
Exercise price volatility	46.22%	46.06%	48.51%
Risk-free interest rate	0.99~1.15%	0.92%~1.10%	1.00%~1.18%
Expected vesting period (years)	3.5~4.5	3.5~4.5	3.5~4.5
Per share exercise price (in dollars) \$	206	\$ 272	\$ 379
Weighted stock options average fair value (in dollars)	71~81	94~106	137~155
Grant date	<u>May 8, 2012</u>	<u>December 23, 2011</u>	<u>July 14, 2011</u>
Dividend yield rate	-	-	-
Exercise price volatility	42.44%	43.92%	44.70%
Risk-free interest rate	1.00%	1.00%	1.14%
Expected vesting period (years)	3.875	3.875	3.875
Per share exercise price (in dollars) \$	117.3	\$ 69.9	\$ 35
Weighted stock options average fair value (in dollars)	5.18~7.29	1.36~2.14	2.05~2.80
Grant date	<u>July 22, 2010</u>	<u>January 21, 2010</u>	<u>October 29, 2009</u>
Dividend yield rate	-	-	-
Exercise price volatility	41.66%	42.23%	48.10%
Risk-free interest rate	0.64%	0.65%	0.76%
Expected vesting period (years)	3.75	3.75	3.75
Per share exercise price (in dollars) \$	28	\$ 28	\$ 28
Weighted stock options average fair value (in dollars)	1.76~2.81	2.52~3.75	3.16~3.88

Cash capital increase reserved for employee preemption

Grant date	<u>July 14, 2013</u>
Dividend yield rate	-
Exercise price volatility	50.57%
Risk-free interest rate	0.60%
Expected vesting period (years)	0.14
Per share exercise price (in dollars) \$	298
Weighted stock options average fair value (in dollars)	57.88

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	0.58%~0.92%	0.56%~0.90%
Expected vesting period (years)	1~3	1~3
Stock price (in dollars)	\$ 191	\$ 206
Per share exercise price (in dollars)	10	10
Weighted 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>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Equity-settled	<u>\$ 98,236</u>	<u>\$ 97,149</u>

(12) Provisions (Decommissioning liabilities)

	<u>2014</u>	<u>2013</u>
At January 1	\$ 3,087	\$ 4,137
Additional provisions	540	-
Used during the period	-	(1,050)
At December 31	<u>\$ 3,627</u>	<u>\$ 3,087</u>

Analysis of total provisions:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Non-current	<u>\$ 3,627</u>	<u>\$ 3,087</u>

In accordance with the requirements specified in the agreement, the Company bears the obligation for the costs of dismantling, removing the asset and restoring the site of its rented office in the future. A provision is recognised for the present value of costs to be incurred for dismantling, removing the asset and restoring the site. It is expected that the provision will be used in 3 years

(13) Share capital

A. As of December 31, 2014, the Company's authorized capital was \$600,000, and the paid-in capital was \$554,033, with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

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

	<u>2014</u>	<u>2013</u>
At January 1	54,629	43,993
Cash capital increase	-	10,000
Employee stock options exercised	424	636
Employee restricted shares	350	-
At December 31	<u>55,403</u>	<u>54,629</u>

- B. To increase the Company's working capital, the stockholders at their extraordinary stockholders' meeting on March 10, 2011 adopted a resolution to raise additional cash through private placement with the effective date set on March 25, 2011. The maximum number of shares to be issued through the private placement is 4,711 thousand shares at an estimated subscription price of \$42.45 (in dollars) per share. The amount of capital raised through the private placement was \$200,000 which had been registered. Pursuant to the Securities and Exchange Law, the ordinary shares raised through the private placement are subject to certain transfer restrictions and cannot be listed on the stock exchange until three years after they have been issued and have been offered publicly. Other than these restrictions, the rights and obligations of the ordinary shares raised through the private placement are the same as other issued ordinary shares.
- C. The Board of Directors during its meeting on June 18, 2014 adopted a resolution to issue employee restricted ordinary shares (see Note 6(11)) with the effective date set on August 21, 2014 and November 20, 2014. 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.

(14) 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.

(15) Accumulated deficit

- A. Under the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:
- a. Payment of taxes and duties.
 - b. Cover prior years' accumulated deficit, if any.
 - c. After deducting items a and b, set aside 10% of the remaining amount as legal reserve.
 - d. After deducting items a to c, appropriating 2% of remaining earnings as remuneration to directors and supervisors.
 - e. After deducting items a to c, appropriating 2%~8% of remaining earnings as employees' bonuses.
- B. The Company's dividend policy is summarized below:
As the Company operates in a volatile business environment and is in the stable growth stage,

the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans. According to the dividend policy adopted by the Board of Directors, cash dividends shall account for at least 10% of the total dividends distributed.

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

D. (a) The stockholders during their meeting on June 18, 2014 and June 28, 2013 adopted a resolution to use capital reserve amounting to \$405,977 and \$229,974, respectively, to cover accumulated deficit.

(b) The Board of Directors during its meeting on February 26, 2015 has proposed to cover accumulated losses of \$638,726 with capital reserve, but as of February 26, 2015, the proposal has not been resolved by stockholders.

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

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

(16) Operating revenue

	For the years ended December 31,	
	2014	2013
Co-development revenue	\$ 62,709	\$ 119,808
Royalty payment revenue	33,213	38,836
	<u>\$ 95,922</u>	<u>\$ 158,644</u>

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

(a) The Company, TEVA Pharmaceuticals, Curacao, NV. (TEVA) and TWI Pharmaceuticals, Inc. (TWI) signed an agreement to co-develop generic drugs in March 2012. This agreement authorizes TEVA to sell anti-cancer drugs developed by the Company in USA. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched to the market, a royalty fee will be received by the Company, which is equal to a certain percentage of its net sales revenue.

However, the Company signed a new cooperation agreement with TEVA and TWI separately in September and November 2013, respectively. Under the agreement, the Company will lead the future development of the product strategy, and the Company will no longer receive milestone payments from TEVA and TWI. After the new drug is launched in the market, the royalty fee to be received by the Company based on the net sales revenue will be raised.

- (b) The Company and YUNGSIN PHARM IND. CO. LTD. (YSP) signed an agreement to co-develop, produce and promote generic drugs. This agreement authorizes YSP the exclusive right in Taiwan to produce and promote. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched to the market, a royalty fee will be received by the Company, which is equal to a certain percentage of its net sales revenue. The Company acquired the drug permit license from the Ministry of Health and Welfare, Executive Yuan, on July 1, 2013.
- (c) The Company signed new injections/new medicine cooperative development agreement with SciClone Pharmaceuticals International China Holding Ltd. (“SciClone”). Under the agreement, the Company authorized SciClone to sell related products in China, Hong Kong and Macau. The Company recognizes up-front payment revenue during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, the Company will receive a royalty fee based on a fixed amount depending on the amount of net sales revenue achieved, but not to exceed the maximum amount set in the agreement.
- (d) The Company authorized SamChunDang Pharm Co., Ltd. (“SamChunDang”) to sell special generic products in Korea. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, a royalty fee will be received by the Company, which is equal to a certain amount depending on the sales volume subject to a certain ceiling.
- (e) The Company and Sandoz AG. (“Sandoz”) signed an agreement to sell special generic products in Europe and USA. The Company recognizes up-front payment revenue in installments during the development stage and also recognizes milestone payment revenue upon each milestone achieved. Once the new drug is launched in the market, a royalty fee will be received by the Company. The Company also recognizes performance-based milestone payment revenue upon entering the local market in Europe and USA, and if net sales reached a certain sales volume for the first time within five years.

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

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

(17) Other income

	For the years ended December 31,	
	2014	2013
Interest income	\$ 24,254	\$ 10,760
Government subsidy income (Notes 1 to 3)	3,895	70
Others	7,097	589
	<u>\$ 35,246</u>	<u>\$ 11,419</u>

Note 1: 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)” with Institute for Information Industry in 2014. As approved by Zi-Chan-Zi No.1030007839, the Company received \$17,592 in subsidy. For the year ended December 31, 2014, the Company recognised government subsidy income of \$3,795 in accordance with the progress of execution. As of December 31, 2014, the amount of unreceived government subsidy income was \$3,795 (recorded as other receivables).

Note 2: The Company has applied for “Subsidy to outstanding biotech organization for attending International Bio Technology Exhibition”. As approved by the Chan-Ye-Ke-Zi Letter No. 10332396600 issued by Department of Economic Development in 2014, Taipei City Government, the Company received \$100 as subsidy.

Note 3: The Company entered into a “A Lipid-based Sustained Release Ophthalmic drug” contract with the Institute for Information Industry in 2011, and the Company is entitled to receive \$12,800 in subsidy as approved by the (100) Zi-An-Zi Letter No. 1001000462. For the year ended December 31, 2013, the Company recognised government subsidy income of \$70.

(18) Other gains and losses

	For the years ended December 31,	
	2014	2013
Net currency exchange gain (loss)	\$ 5,019	(\$ 661)

(19) Finance costs

	For the years ended December 31,	
	2014	2013
Bank borrowings	\$ 1,233	\$ 1,634
Finance lease liabilities	75	-
	<u>\$ 1,308</u>	<u>\$ 1,634</u>

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

	For the years ended December 31,	
	2014	2013
Employee benefit expense	\$ 248,116	\$ 203,290
Depreciation charges on property, plant and equipment	41,840	23,078
Amortisation charges on intangible assets	2,012	615
Research expenses	247,213	186,873
Research medicine expenses	122,294	49,405
Service expenses	37,420	28,156
Operating lease payments	16,838	15,083
Transportation expenses	2,744	2,995
Royalty expense	-	23,107
Other expenses	48,191	33,900
	<u>\$ 766,668</u>	<u>\$ 566,502</u>

(21) Employee benefit expense

	For the years ended December 31,	
	2014	2013
Wages and salaries	\$ 128,900	\$ 90,837
Share-based payment compensation cost	98,236	97,149
Labor and health insurance fees	9,940	7,199
Pension costs	6,024	4,349
Other personnel expenses	5,016	3,756
	<u>\$ 248,116</u>	<u>\$ 203,290</u>

(22) Income tax

A. Income tax expense

Components of income tax expense:

	For the years ended December 31,	
	2014	2013
Current tax:		
Current tax on profits for the period	<u>\$ -</u>	<u>\$ -</u>

B. The Company had incurred net loss for the years ended December 31, 2014 and 2013. As the probability of deferred tax assets caused by the temporary difference to offset the future income tax expense is low, deferred tax assets are not recognized. Therefore, reconciliation between income tax expense and accounting profit is not applicable.

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

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

December 31, 2013			
Qualifying items	Unused tax credits	Unrecognised deferred tax assets	Final year tax credits are due
Research and development	\$ 69,351	\$ 69,351	Note
Employees' training	116	116	"

Note: In accordance with the Ministry of Economic Affairs (MOEA) Jing-Shou-Gong-Zi Letter No. 09720410630 dated August 6, 2008, 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 New Biotech Pharmaceuticals Industry. Relevant investment tax credits can be used to offset against the Company's income tax within five years from the year in which the Company starts to have income tax payable.

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

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>	

December 31, 2013				
Year incurred	Amount filed/ assessed	Unused amount	Unrecognised deferred tax assets	Usable until year
2004	\$ 29,265	\$ 29,265	\$ 29,265	2014
2005	29,290	29,290	29,290	2015
2006	46,092	46,092	46,092	2016
2007	98,714	98,714	98,714	2017
2008	200,442	200,442	200,442	2018
2009	136,642	136,642	136,642	2019
2010	196,215	196,215	196,215	2020
2011	212,903	212,903	212,903	2021
2012	187,946	187,946	187,946	2022
2013	407,816	407,816	407,816	2023
	<u>\$ 1,545,325</u>	<u>\$ 1,545,325</u>	<u>\$ 1,545,325</u>	

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

	December 31, 2014	December 31, 2013
Deductible temporary differences	<u>\$ 96,838</u>	<u>\$ 105,237</u>

F. The Company's income tax returns through 2012 have been assessed and approved by the Tax Authority.

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

(23) Loss per share

	For the year ended December 31, 2014		
		Weighted average number of ordinary shares outstanding (shares in thousands)	Loss per share (in dollars)
	Amount after tax		
<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>

	For the year ended December 31, 2013		
		Weighted average number of ordinary shares outstanding (shares in thousands)	Loss per share (in dollars)
	Amount after tax		
<u>Basic loss per share</u>			
Loss attributable to ordinary shareholders of the Company	(\$ 400,970)	48,776	<u>(\$ 8.22)</u>
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(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>(\$ 400,970)</u>	<u>48,776</u>	<u>(\$ 8.22)</u>

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

(24) Non-cash transactions

Investing activities with partial cash payments

	For the years ended December 31,	
	2014	2013
Purchase of property, plant and equipment	\$ 50,116	\$ 78,166
Add: Opening balance of payable on equipment	13,333	4,321
Less: Ending balance of payable on equipment	(15,844)	(13,333)
Cash paid	<u>\$ 47,605</u>	<u>\$ 69,154</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

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

(2) Significant transactions and balances with related parties

A. Operating expenses - research expenses

	For the years ended December 31,	
	2014	2013
Subsidiaries	<u>\$ 48,367</u>	<u>\$ 32,499</u>

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

B. Accrued expenses (shown as other payables)

	December 31, 2014	December 31, 2013
Subsidiaries	<u>\$ 15,165</u>	<u>\$ 10,000</u>

C. The Company's Chairman provided guarantees for the Company's long-term loans with the Industrial Development Bureau. As of December 31, 2014 and 2013, details of loans are described in Note 6(8).

(3) Key management compensation

	For the years ended December 31,	
	2014	2013
Salaries and other short-term employee benefits	\$ 10,034	\$ 8,695
Share-based payments	5,939	12,050
Post-employment benefits	108	108
	<u>\$ 16,081</u>	<u>\$ 20,853</u>

8. PLEGGED ASSETS

<u>Assets Pledged</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>	<u>Pledge purpose</u>
Shown as other current assets			
Demand deposits	\$ 1,881	\$ 2,658	Note 1
Time deposits	-	3,800	Note 1
	<u>\$ 1,881</u>	<u>\$ 6,458</u>	
Shown as other non-current assets			
Demand deposits	<u>\$ 552</u>	<u>\$ 2,432</u>	Note 1
Shown as property, plant and equipment			
Land	\$ 14,962	\$ 14,962	Note 2
Buildings	26,141	26,798	Note 2
	<u>\$ 41,103</u>	<u>\$ 41,760</u>	

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

Note 2: The Company provided collaterals for loans.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT

COMMITMENTS

(1) Contingencies

In accordance with the Company's contract concerning licensing sale of certain generic drug, the Company must possess certain ability to supply during pre-market trading. If the Company fails to reach the ability, the Company will bear certain compensation for loss.

(2) Commitments

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Property, plant and equipment	<u>\$ 21,349</u>	<u>\$ 8,816</u>

B. Operating lease commitments

The Company 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, 2014</u>	<u>December 31, 2013</u>
Not later than one year	\$ 16,483	\$ 12,475
Later than one year but not later than five years	51,837	24,669
Over five years	3,416	-
	<u>\$ 71,736</u>	<u>\$ 37,144</u>

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
	\$ 79,287	\$ 83,192

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
	\$ 342,353	\$ 361,782

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

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

(1) Details of the deficit compensation proposed by the Board of Directors on February 26, 2015 are provided in Note 6(15) D.(b).

(2) On February 26, 2015, the Board of Directors has resolved for the Company to purchase the restricted stocks to employees who have resigned during the vesting period and to register for cancellation of 4,000 shares. The record date for capital reduction was set as March 3, 2015.

12. OTHERS

(1) Capital risk management

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

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

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Total debt	\$ 216,113	\$ 162,014
Total capital	\$ 554,033	\$ 546,288
Debt ratio	<u>39.01%</u>	<u>29.66%</u>

(2) Financial instruments

A. Fair value information of financial instruments

(a) The book value of financial instruments measured at amortized cost (including cash and cash equivalents, accounts receivable, other receivables, notes payable and other payables) are approximate to their fair value.

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

B. Financial risk management policies

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

C. Significant financial risks and degree of financial risks

(a) Market risk

i. Foreign exchange risk

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

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

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

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

For the 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	-

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

ii. Interest rate risk

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

At December 31, 2014 and 2013, if interest rates had been 0.2% higher/lower with all other conditions held constant, net loss for the years ended December 31, 2014 and

2013 would have been \$86 and \$106 higher/lower, respectively.

(b) Credit risk

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

(c) Liquidity risk

- i. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Company's non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	December 31, 2014				
	1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
	\$	\$	\$	\$	\$
Notes payable	251	-	-	-	-
Other payables	94,453	-	-	-	-
Finance lease liabilities (including current portion)	24,005	24,000	-	-	-
Long-term borrowings (including current portion)	12,669	5,881	3,093	6,186	30,676
	December 31, 2013				
	1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
	\$	\$	\$	\$	\$
Notes payable	2,791	-	-	-	-
Other payables	70,853	-	-	-	-
Long-term borrowings (including current portion)	19,707	12,605	5,864	6,186	33,770

(3) Fair value estimation

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

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

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

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			
				General ledger account	Amount (Thousands) (Note 5)	Transaction terms	Percentage of consolidated total sales revenues or total assets (Note 3)
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company	2	Sales revenue	\$ 44,155	(Note 4)	46.03%
2	TLC Biopharmaceuticals, B.V.	Taiwan Liposome Company	2	Sales revenue	3,267	(Note 4)	3.41%
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company	2	Sales revenue	13,606	(Note 4)	0.42%

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

Note 4: Transaction items follow the agreement.

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

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

Information related to investee companies' investment income or loss was translated at the average exchange rate for the year ended December 31, 2014 while others were translated at the rate of exchange prevailing on December 31, 2014.

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as of December 31, 2014			Income of the investee for the year ended December 31, 2014	Investment income (loss) recognised by the Company for the year ended December 31, 2014	Note
				Balance as of December 31, 2014	Balance as of December 31, 2013	Number of shares	Ownership (%)	Book value			
Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	USA	Research on new anti-cancer drugs and biotechnology services	\$ 55,433	\$ 55,433	3,100,000	100	\$ 43,305	\$ 3,254	(\$ 1,360)	
Taiwan Liposome Company	TLC Biopharmaceuticals, B.V.	Netherlands	Technical authorization and product development	4,410	4,410	1,000,000	100	857	242	242	
Taiwan Liposome Company	TLC Biopharmaceuticals, (H.K.) Limited	Hong Kong	Biological technology service and reinvestment	3,023	-	780,000	100	3,206	46	46	
Taiwan Liposome Company	TLC Biopharmaceuticals, Pty Ltd.	Australia	Technical authorization and product development	3	-	100	100	4	1	1	

(3) Information on investments in Mainland China

Information on investments in Mainland China is based on the financial statements audited by the independent accountants of the Taiwan parent company. Except for the investment income or loss for the period which is translated at the average exchange rate of the year ended December 31, 2014, other accounts are translated at spot exchange rates prevailing at December 31, 2014.

A. Basic information :

Investee in Mainland China	Main business activities	Paid - in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2014	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2014		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2014	Income (loss) of investee for the year ended December 31, 2014	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2014	Book value of investments in Mainland China as of December 31, 2014	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2014	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
TLC Biopharmaceuticals, (Shanghai) Limited	Consulting of medical related technology and technological service	\$2,546	Reinvestment in Mainland China through third region company	\$ -	\$ 2,554	\$ -	\$ 2,554	\$ 45	100	\$ 45	\$ 2,601	\$ -	

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2014	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)(Note)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Taiwan Liposome Company	\$ 2,554	\$ 2,554	\$ 1,842,722

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

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

14. SEGMENT INFORMATION

None.