

**TAIWAN LIPOSOME COMPANY, LTD. AND
SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS**

**NINE MONTHS ENDED SEPTEMBER 30, 2018 AND
2017**



資誠

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To Taiwan Liposome Company, Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheets of Taiwan Liposome Company, Ltd. and subsidiaries ("the Group") as of September 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three-month and nine-month periods then ended, as well as the statements of changes in equity and of cash flows for the nine-month periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standard 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of our review

We conducted our reviews in accordance with the Statement of Auditing Standards No. 65, "Review of Financial Information Performed by the Independent Auditor of the Entity" in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2018 and 2017, and of its consolidated financial performance for the three-month and nine-month periods then ended and its consolidated cash flows for the nine-month periods then ended in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standard 34, "Interim Financial Reporting" as endorsed by the Financial Supervisory Commission.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Group will require additional financing to fund future operations. Management's plans in regard to this matter are also described in Note 1. Our conclusion is not modified in respect of this matter.

Teng, Sheng-Wei

Hsieh, Chih-Cheng

For and on behalf of PricewaterhouseCoopers, Taiwan
November 2, 2018

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

TAIWAN LIPOSOME COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2018, DECEMBER 31, 2017 AND SEPTEMBER 30, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
 (THE BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND 2017 ARE UNAUDITED BUT REVIEWED)

Assets		Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 659,018	65	\$ 951,713	75	\$ 1,253,874	81
1170	Accounts receivable, net	6(2)	8,135	1	8,622	1	8,463	1
1200	Other receivables	6(18)	2,041	-	19,726	1	13,183	1
1220	Current income tax assets		421	-	414	-	2,405	-
1410	Prepayments	6(3)	120,375	12	71,400	6	51,610	3
11XX	Total current assets		<u>789,990</u>	<u>78</u>	<u>1,051,875</u>	<u>83</u>	<u>1,329,535</u>	<u>86</u>
Non-current assets								
1600	Property, plant and equipment	6(4) and 8	146,123	15	153,835	12	161,229	10
1780	Intangible assets	6(5)	4,286	-	8,637	1	9,006	1
1840	Deferred income tax assets		78	-	81	-	81	-
1900	Other non-current assets	6(6)	70,895	7	48,111	4	47,127	3
15XX	Total non-current assets		<u>221,382</u>	<u>22</u>	<u>210,664</u>	<u>17</u>	<u>217,443</u>	<u>14</u>
1XXX	Total assets		<u>\$ 1,011,372</u>	<u>100</u>	<u>\$ 1,262,539</u>	<u>100</u>	<u>\$ 1,546,978</u>	<u>100</u>

(Continued)

TAIWAN LIPOSOME COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2018, DECEMBER 31, 2017 AND SEPTEMBER 30, 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(THE BALANCE SHEETS AS OF SEPTEMBER 30, 2018 AND 2017 ARE UNAUDITED BUT REVIEWED)

Liabilities and equity		Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities								
2100	Short-term borrowings	6(7)	\$ 46,000	4	\$ 46,000	4	\$ 46,000	3
2130	Contract liabilities - current	6(17)	32	-	-	-	-	-
2150	Notes payable		-	-	-	-	750	-
2200	Other payables	6(8)(25)	88,227	9	93,541	7	117,132	8
2300	Other current liabilities	6(9)(10)	113,414	11	53,513	4	53,738	3
21XX	Total current liabilities		<u>247,673</u>	<u>24</u>	<u>193,054</u>	<u>15</u>	<u>217,620</u>	<u>14</u>
Non-current liabilities								
2540	Long-term borrowings	6(9)	340,304	34	66,177	5	66,650	4
2550	Provisions for liabilities - non-current	6(13)	6,922	1	6,922	1	6,922	1
2600	Other non-current liabilities	6(10)	5,103	-	9,102	1	20,056	1
25XX	Total non-current liabilities		<u>352,329</u>	<u>35</u>	<u>82,201</u>	<u>7</u>	<u>93,628</u>	<u>6</u>
2XXX	Total liabilities		<u>600,002</u>	<u>59</u>	<u>275,255</u>	<u>22</u>	<u>311,248</u>	<u>20</u>
Equity								
Equity attributable to owners of parent								
Share capital		6(14)						
3110	Common share		562,240	56	561,990	44	557,131	36
Capital surplus		6(15)						
3200	Capital surplus		469,959	46	1,322,625	105	1,297,420	84
Retained earnings								
3350	Accumulated deficit	6(16)	(602,813)	(60)	(874,086)	(69)	(611,349)	(40)
Other equity								
3400	Other equity interest		(18,016)	(1)	(23,245)	(2)	(7,472)	-
31XX	Equity attributable to owners of parent		<u>411,370</u>	<u>41</u>	<u>987,284</u>	<u>78</u>	<u>1,235,730</u>	<u>80</u>
3XXX	Total equity		<u>411,370</u>	<u>41</u>	<u>987,284</u>	<u>78</u>	<u>1,235,730</u>	<u>80</u>
Significant contingent liabilities and unrecognized contract commitments								
Significant events after reporting period		11						
3X2X	Total liabilities and equity		<u>\$ 1,011,372</u>	<u>100</u>	<u>\$ 1,262,539</u>	<u>100</u>	<u>\$ 1,546,978</u>	<u>100</u>

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

TAIWAN LIPOSOME COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT LOSS PER SHARE AMOUNTS)
(UNAUDITED BUT REVIEWED)

	Items	Notes	Three months ended September 30				Nine months ended September 30			
			2018		2017		2018		2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000	Operating revenue	6(17) and 12(5)	\$ 15,279	100	\$ 13,371	100	\$ 44,942	100	\$ 37,238	100
	Operating expenses	6(11)(12)(21)(22)								
6200	General and administrative expenses		(34,368)	(225)	(41,241)	(309)	(102,130)	(227)	(97,389)	(262)
6300	Research and development expenses		(184,557)	(1208)	(204,060)	(1526)	(551,399)	(1227)	(564,644)	(1516)
6000	Total operating expenses		(218,925)	(1433)	(245,301)	(1835)	(653,529)	(1454)	(662,033)	(1778)
6900	Operating loss		(203,646)	(1333)	(231,930)	(1735)	(608,587)	(1354)	(624,795)	(1678)
	Non-operating income and expenses									
7010	Other income	6(18)	15,104	99	9,477	71	22,037	49	14,984	40
7020	Other gains and losses	6(19)	(1,619)	(11)	(208)	(2)	(175)	-	1,745	5
7050	Finance costs	6(20)	(5,570)	(36)	(843)	(6)	(7,467)	(17)	(2,593)	(7)
7000	Total non-operating income and expenses		7,915	52	8,426	63	14,395	32	14,136	38
7900	Loss before income tax		(195,731)	(1281)	(223,504)	(1672)	(594,192)	(1322)	(610,659)	(1640)
7950	Income tax expense	6(23)	(269)	(2)	(8)	-	(680)	(2)	(690)	(2)
8200	Net loss		<u>(\$ 196,000)</u>	<u>(1283)</u>	<u>(\$ 223,512)</u>	<u>(1672)</u>	<u>(\$ 594,872)</u>	<u>(1324)</u>	<u>(\$ 611,349)</u>	<u>(1642)</u>
	Other comprehensive income (loss)									
	Items that may be subsequently reclassified to profit or loss									
8361	Financial statement translation differences of foreign operations		(\$ 1,120)	(7)	\$ 206	2	(\$ 703)	(1)	(\$ 2,119)	(5)
8300	Total other comprehensive income (loss)		<u>(\$ 1,120)</u>	<u>(7)</u>	<u>\$ 206</u>	<u>2</u>	<u>(\$ 703)</u>	<u>(1)</u>	<u>(\$ 2,119)</u>	<u>(5)</u>
8500	Total comprehensive loss		<u>(\$ 197,120)</u>	<u>(1290)</u>	<u>(\$ 223,306)</u>	<u>(1670)</u>	<u>(\$ 595,575)</u>	<u>(1325)</u>	<u>(\$ 613,468)</u>	<u>(1647)</u>
	Loss attributable to:									
8610	Owners of the parent		<u>(\$ 196,000)</u>	<u>(1283)</u>	<u>(\$ 223,512)</u>	<u>(1672)</u>	<u>(\$ 594,872)</u>	<u>(1324)</u>	<u>(\$ 611,349)</u>	<u>(1642)</u>
	Total comprehensive loss attributable to:									
8710	Owners of the parent		<u>(\$ 197,120)</u>	<u>(1290)</u>	<u>(\$ 223,306)</u>	<u>(1670)</u>	<u>(\$ 595,575)</u>	<u>(1325)</u>	<u>(\$ 613,468)</u>	<u>(1647)</u>
	Loss per share of common stock	6(24)								
9750	Basic loss per share (in dollars)		<u>(\$ 3.52)</u>		<u>(\$ 4.03)</u>		<u>(\$ 10.68)</u>		<u>(\$ 11.02)</u>	
9850	Diluted loss per share (in dollars)		<u>(\$ 3.52)</u>		<u>(\$ 4.03)</u>		<u>(\$ 10.68)</u>		<u>(\$ 11.02)</u>	

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

TAIWAN LIPOSOME COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED BUT REVIEWED)

Equity attributable to owners of the parent									
	Capital surplus						Other equity interest		
							Exchange difference on translation of foreign financial statements	Unearned compensation	Total equity
Notes	Common share	Additional paid- in capital	Treasury stocks	Share options	Restricted stocks	Accumulated deficit			
<u>2017</u>									
Balance at January 1, 2017	\$ 557,306	\$ 1,835,958	\$ 7,009	\$ 213,379	\$ 22,562	(\$ 824,662)	\$ 1,684	(\$ 9,694)	\$ 1,803,542
Net loss	-	-	-	-	-	(611,349)	-	-	(611,349)
Other comprehensive loss	-	-	-	-	-	-	(2,119)	-	(2,119)
Total comprehensive loss	-	-	-	-	-	(611,349)	(2,119)	-	(613,468)
Share-based payments 6(12)	-	-	-	43,158	-	-	-	2,657	45,815
Share options forfeited	-	28,047	-	(28,047)	-	-	-	-	-
Cancellation of restricted stocks 6(14)	(175)	-	-	-	16	-	-	-	(159)
Restricted stocks vested	-	9,849	-	-	(9,849)	-	-	-	-
Capital surplus used to cover accumulated deficit 6(16)	-	(824,662)	-	-	-	824,662	-	-	-
Balance at September 30, 2017	\$ 557,131	\$ 1,049,192	\$ 7,009	\$ 228,490	\$ 12,729	(\$ 611,349)	(\$ 435)	(\$ 7,037)	\$ 1,235,730
<u>2018</u>									
Balance at January 1, 2018	\$ 561,990	\$ 1,058,608	\$ 7,009	\$ 229,214	\$ 27,794	(\$ 874,086)	(\$ 1,712)	(\$ 21,533)	\$ 987,284
Effects of retrospective application of new standards	-	-	-	-	-	(7,941)	-	-	(7,941)
Balance at January 1, 2018 after adjustments	561,990	1,058,608	7,009	229,214	27,794	(882,027)	(1,712)	(21,533)	979,343
Net loss	-	-	-	-	-	(594,872)	-	-	(594,872)
Other comprehensive loss	-	-	-	-	-	-	(703)	-	(703)
Total comprehensive loss	-	-	-	-	-	(594,872)	(703)	-	(595,575)
Issuance of restricted stocks to employees 6(14)	500	-	-	-	3,358	-	-	(3,421)	437
Share-based payments 6(12)	-	-	-	17,812	-	-	-	9,353	27,165
Share options forfeited	-	20,504	-	(20,504)	-	-	-	-	-
Cancellation of restricted stocks 6(14)	(250)	-	-	-	250	-	-	-	-
Capital surplus used to cover accumulated deficit 6(16)	-	(874,086)	-	-	-	874,086	-	-	-
Balance at September 30, 2018	\$ 562,240	\$ 205,026	\$ 7,009	\$ 226,522	\$ 31,402	(\$ 602,813)	(\$ 2,415)	(\$ 15,601)	\$ 411,370

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

TAIWAN LIPOSOME COMPANY, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS PERIODS ENDED SEPTEMBER 30
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED BUT REVIEWED)

	Notes	Nine months ended September 30,	
		2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(\$ 594,192)	(\$ 610,659)
Adjustments			
Adjustments to reconcile profit (loss)			
Provision for doubtful accounts	12(4)	-	9,066
Share-based payments	6(12)	27,165	45,815
Depreciation	6(21)	29,087	32,188
Amortization	6(21)	6,931	7,989
Interest expense	6(20)	7,467	2,593
Interest income	6(18)	(1,679)	(4,127)
Gain on disposal of property, plant and equipment	6(19)	-	(20)
Prepayments for equipment being transferred to other expenses		780	-
Contract liabilities - current being transferred to/ recognized as revenue	6(17)	(7,909)	-
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable, net		487	(543)
Other receivables		17,581	(12,972)
Prepayments		3,112	(5,588)
Changes in operating liabilities			
Notes payable		-	544
Other payables		(16,573)	333
Other current liabilities		4,129	71
Provisions for liabilities - non-current		-	(74)
Cash outflow generated from operations		(523,614)	(535,384)
Interest received		1,783	4,201
Interest paid		(5,891)	(2,565)
Income tax paid		(291)	(183)
Tax refunds received		-	2,476
Net cash flows used in operating activities		(528,013)	(531,455)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in other financial assets		-	1,817
Acquisition of property, plant and equipment	6(25)	(43,218)	(15,576)
Proceeds from disposal of property, plant and equipment		-	24
Acquisition of intangible assets	6(25)	(2,240)	(4,691)
Decrease (increase) in refundable deposits		5,011	(4,931)
Net cash flows used in investing activities		(40,447)	(23,357)
CASH FLOWS FROM FINANCING ACTIVITIES			
Prepayments		(49,621)	-
Proceeds from short-term borrowings		30,000	30,000
Payments of short-term borrowings		(30,000)	(30,000)
Proceeds from long-term borrowings		366,300	-
Payments of long-term borrowings		(3,400)	(1,700)
Proceeds from financial lease liabilities		-	48,000
Payments of financial lease liabilities		(37,000)	(34,500)
Issuance of restricted stocks		500	-
Cancellation of restricted stocks		(250)	(175)
Net cash flows from financing activities		276,529	11,625
Effect from foreign currency exchange		(764)	(1,739)
Net decrease in cash and cash equivalents		(292,695)	(544,926)
Cash and cash equivalents at beginning of period		951,713	1,798,800
Cash and cash equivalents at end of period		<u>\$ 659,018</u>	<u>\$ 1,253,874</u>

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

TAIWAN LIPOSOME COMPANY, LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)
(UNAUDITED BUT REVIEWED)

1. HISTORY AND ORGANIZATION

Taiwan Liposome Company, Ltd. (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 on December 21, 2012. The Company and its subsidiaries (collectively referred herein as the “Group”) are mainly engaged in the development and commercialization of pharmaceutical products based on its proprietary lipid-assembled drug delivery platform technologies.

The Group’s financial statements have been prepared assuming that the Group will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Group has financed its operations to date primarily through the issuance of common stock. The Group has incurred net losses of \$594,872 for the nine months ended September 30, 2018. As of September 30, 2018, the Group had an accumulated deficit of \$602,813 after taking into account of capital surplus to cover accumulated deficit amounted to \$874,086. The Group has reported a net loss in all fiscal periods since inception and expects to incur substantial and increased expenses to expand its development activities and advance its clinical programs. The Group expects to continue to generate operating losses in the foreseeable future.

As of September 30, 2018, the Group had cash and cash equivalents of \$659,018, including the funding from a loan and security agreement of \$366,300 (US\$12 million) from Cathay Bank that has a maturity date in 2020. As disclosed in Notes 6(9) and 11(2), the Group has repaid the above loan in full on October 31, 2018.

As the Group is in the research and development phase, the Group may seek future funding based on the need of capital. The Group is able to exercise discretion and flexibility to deploy its capital resources in the progress of the research and development according to the schedule of fund raising. Based on the Group’s business plans, management believes that this is sufficient to fund its operating expenses and capital expenditure requirements and meet its obligations for at least the next twelve months from September 30, 2018. However, the future viability of the Group beyond that date is dependent on its ability to raise additional capital to finance its operations. As disclosed in Note 11(1), the Group is seeking to complete an initial public offering of its common stock in the United States.

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

These consolidated financial statements were reported to the Board of Directors on October 31, 2018.

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”)

New standards, interpretations and amendments endorsed by FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board ("IASB")
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealized losses’	January 1, 2017
Amendments to IAS 40, ‘Transfers of investment property’	January 1, 2018
IFRIC 22, ‘Foreign currency transactions and advance consideration’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, ‘First-time Adoption of International Financial Reporting Standards’	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, ‘Disclosure of interests in other entities’	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, ‘Investments in associates and joint ventures’	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

A. IFRS 15, ‘Revenue from contracts with customers’

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

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

Step 1: Identify contracts with customer.

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

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

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

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

- (b) The Group has elected not to restate prior period financial statements and recognized the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The Group applied retrospectively IFRS 15 only to incomplete contracts as of January 1, 2018, by adopting an optional transition expedient. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

Consolidated balance sheet

Affected items	Book value under previous revenue standard	Adjustment for initial application of IFRS 15	Adjustment amount after IFRS 15 application
January 1, 2018			
Contract liabilities	\$ -	\$ 7,941	\$ 7,941
Total affected liabilities	-	7,941	7,941
Accumulated deficit	(874,086)	(7,941)	(882,027)
Total affected equity	(874,086)	(7,941)	(882,027)
Total affected liabilities and equity	(\$ 874,086)	\$ -	(\$ 874,086)

The Group's authorization collaboration and development transactions generally authorizes intellectual property rights of the drug products to pharmaceutical companies. Though the Group will continuously provide research and development services on the drug products, pharmaceutical companies could make use of the research and development outcome at any time. Pharmaceutical companies pay a non-refundable up-front payment upon the signing of the contracts, and make milestone payments upon each milestone achieved. Pharmaceutical companies would have difficulty finding another service provider who offers the same services in terms of continuing research and development on the authorized drug products. Under the previous original accounting policy, the Group recognized milestone payment revenue upon each milestone achieved, without distinguishing between authorization and continuing research and development services. After adopting IFRS 15, due to the authorization and following milestones of research and development being not able to meet

the criteria of distinction, therefore, the Group shall account for all the authorization and continuing research and development services as a single performance obligation and recognizes the transaction price according to the progress of performance obligations satisfied.

(c) Please refer to Note 12(5) for other disclosures in relation to the first application of IFRS 15.

B. Amendments to IAS 7, 'Disclosure initiative'

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

Please refer to Note 6(26) for additional disclosures to explain the changes in liabilities arising from financing activities.

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

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases'

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

In the first quarter of 2018, the Group reported to the Board of Directors that IFRS 16 has material impact to the Group.

The Group expects to recognize the lease contract of lessees in line with IFRS 16. However, the Group does not intend to restate the financial statements of prior period (collectively referred herein

as the “modified retrospective approach”). It is expected that ‘right-of-use asset’ and lease liability will be increased by \$80,999, and no significant impact to the Group’s retained earnings as of January 1, 2019.

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

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

New Standards, Interpretations and Amendments	Effective date by IASB
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by IASB
IFRS 17, ‘Insurance contracts’	January 1, 2021

The above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2017, except for the compliance statement, basis of preparations, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standard 34, ‘Interim financial reporting’ as endorsed by the FSC. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

(2) Basis of preparation

- A. Except for defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation, these consolidated financial statements have been prepared under the historical cost convention.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply

modified retrospective approach whereby the cumulative impact of the application was recognized as retained earnings or other equity as of January 1, 2018 and the financial statements for the nine-month period ended September 30, 2017 and for the year ended December 31, 2017 were not restated. The financial statements for the nine-month period ended September 30, 2017 and for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 ('IAS 39'), International Accounting Standard 11 ('IAS 11'), International Accounting Standard 18 ('IAS 18') and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and related footnotes.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

Basis for preparation of consolidated financial statements is the same as those disclosed to the consolidated financial statements as of and for the year ended December 31, 2017.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)		
			September 30, 2018	December 31, 2017	September 30, 2017
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals, Inc.	Research on new anti-cancer drugs and biotechnology services	100	100	100
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals B.V.	Technical authorization and product development	100	100	100
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals, (H.K.) Limited	Biotechnology services and reinvestment	100	100	100
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals, Pty Ltd.	Technical authorization and product development	100	100	100
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals, Japan Co., Ltd.	Technical authorization and product development	100	100	100
TLC Biopharmaceuticals, (H.K.) Limited	TLC Biopharmaceuticals, (Shanghai) Limited	Consulting and technical service of medication	100	100	100

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

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

E. Significant restrictions: None.

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

(4) Accounts receivable

- A. In accordance with contracts, accounts receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts receivable not bearing interest are measured at initial invoice amount as the effect of discounting is immaterial.

(5) Impairment of financial assets

For financial assets at amortized cost, at each reporting date, the Group recognizes the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognizes the impairment provision for the lifetime expected credit losses (“ECLs”) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Group recognizes the impairment provision for lifetime ECLs.

(6) 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 recognized as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurements arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Pension cost for the interim period is calculated on a year-to-date basis by using the

pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

(7) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity, respectively.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 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 recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.
- D. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred tax assets are reassessed.
- E. Current income 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 recognized amounts and there is an intention to settle on a net basis or realize 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 realize the asset and settle the liability simultaneously.

- F. A deferred tax asset shall be recognized 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 utilized.
- G. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- H. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognizes the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognized outside profit or loss is recognized in other comprehensive income or equity while the effect of the change on items recognized in profit or loss is recognized in profit or loss.

(8) Revenue recognition

The Group's revenue is comprised of up-front payments and milestone payments under authorization collaboration and development contracts, and sales-based royalty payment under royalty contracts.

- A. The Group's authorization collaboration and development transactions generally authorizes intellectual property rights of the drug products to pharmaceutical companies. Though the Group will continuously provide research and development services on the drug products, pharmaceutical companies could make use of the research outcome at any time. Pharmaceutical companies pay a non-refundable up-front payment upon signing of the contracts, and make milestone payments upon each milestone achieved. Based on the Group's assessment, the Group uses its proprietary drug delivery technologies to continue the research and development related services, which are unique such that pharmaceutical companies would have difficulty finding another service provider who offers the same services in terms of continuing research and development on the authorized drug products. The authorization and subsequent research and development services provided by the Group are bonded and highly interrelated and therefore not distinct and as such are accounted for as one performance obligation to be delivered over time. The revenue is recognized based on the transaction price, excluding variable considerations considered not achievable, and the stage of completion, which is measured by the proportion of contract costs incurred for research and development services as of the financial reporting date to the estimated total research and development costs for the authorization collaboration and development contracts. As the Group's inputs, including costs of Contract Research Organizations, Contract Manufacture Organizations, and medicines, which have direct relationship with the transfer of control of services to customers, the Group uses the cost incurred method to measure progress towards complete satisfaction of a performance obligation. The revenue is only recognized to the extent that it is highly probable that a significant reversal of the cumulative revenue recognized will not occur. The customer pays at the time specified in the

payment schedule. If the services rendered exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized. A contract liability is recognized as revenue through the performance obligation is satisfied over time.

- B. The Group also entered into contracts with customers, where the Group is entitled to a sales-based royalty in exchange for a license of manufacturing and the right to sell pharmaceutical products. In accordance with the contracts, the Group will not undertake any activities that will significantly affect the intellectual property to which the customer has rights. The nature of the Group's promise in granting a license is a promise to provide a right to use the Group's intellectual property and therefore the revenue is recognized when transferring the license to a customer at a point in time. The Group recognizes revenue when the performance obligation has been satisfied and the subsequent sale occurs.
- C. Given that the period between the transfer of promised services to customers and payment by customers exceed one year for authorization collaboration and development contracts, the transaction price is adjusted using the discount rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception. The discount rate would reflect the credit characteristics of the Group receiving funding from financial institution.

5. CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The additional disclosures are set out below. For the rest of the information, please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2017.

(1) Critical judgements in applying the Group's accounting policies:

The Group provides authorization collaboration and development services to its customers, which generally includes authorization of intellectual property rights of drug products to pharmaceutical companies together with continuing research and development services, which pharmaceutical companies can access and make use of the research outcome at any time. In determining the performance obligations under authorization collaboration and development contracts, the Group takes into account the guidance IFRS 15 par. 29:

Factors that indicate that an entity's promise to transfer a good or service to a customer is separately identifiable (in accordance with paragraph 27(b)) include, but are not limited to, the following:

- a. The entity does not provide a significant service of integrating the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. In other words, the entity is not using the good or service as an input to produce or deliver the combined output specified by the customer.
- b. The good or service does not significantly modify or customize another good or service promised in the contract.

- c. The good or service is not highly dependent on, or highly interrelated with, other goods or services promised in the contract. For example, the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services.

Based on the Group's assessment, the Group uses its proprietary drug delivery technologies to continue the research and development related services, which are unique, and based on the intellectual property rights authorized and therefore, pharmaceutical companies would have difficulty finding alternative service provider in offering the same services. In addition, the authorization and subsequent research and development services provided by the Group are bonded and highly interrelated and therefore not distinct and are identified as one performance obligation to be delivered over time.

(2) Critical accounting estimates and assumptions

Revenue recognition

The Group accounts for all the authorization and subsequent research and development services as one performance obligation and recognizes revenue based on the transaction price and the stage of completion, which is measured by the proportion of contract costs incurred for research and development services as of the financial reporting date to the estimated total research and development costs for the authorization collaboration and development contracts. The estimated total research and development costs would be affected by the progress of research and development, development of pharmaceutical products, collaboration with pharmaceutical companies, clinical trials, etc. The Group reassesses the reasonableness of estimates periodically.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Cash on hand	\$ 65	\$ 81	\$ 87
Checking and demand deposits	539,553	547,232	779,387
Time deposits	119,400	404,400	474,400
	<u>\$ 659,018</u>	<u>\$ 951,713</u>	<u>\$ 1,253,874</u>

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

(2) Accounts receivable

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Accounts receivable	\$ 26,267	\$ 26,754	\$ 26,596
Less: Allowance for uncollectible accounts	(18,132)	(18,132)	(18,133)
	<u>\$ 8,135</u>	<u>\$ 8,622</u>	<u>\$ 8,463</u>

A. The Group does not hold any collateral as security.

B. The ageing analysis of accounts receivable is as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Not past due	\$ 8,135	\$ 8,622	\$ 8,463
Up to 30 days	-	-	-
31 to 90 days	-	-	-
91 to 180 days	-	-	-
Over 181 days	<u>18,132</u>	<u>18,132</u>	<u>18,133</u>
	<u>\$ 26,267</u>	<u>\$ 26,754</u>	<u>\$ 26,596</u>

The above ageing analysis was based on past due date.

C. Information relating to credit risk is provided in Note 12(2).

(3) Prepayments

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Prepaid service charges	\$ 65,695	\$ 15,742	\$ -
Net input VAT	39,321	36,103	34,121
Prepaid insurance expenses	2,581	1,068	1,729
Prepaid repair expense	660	7,042	2,639
Prepaid rent	575	301	1,033
Prepaid handling charges	380	1,352	1,690
Prepaid expense for medical research	160	1,850	1,365
Prepaid training expense	-	-	2,507
Others	<u>11,003</u>	<u>7,942</u>	<u>6,526</u>
	<u>\$ 120,375</u>	<u>\$ 71,400</u>	<u>\$ 51,610</u>

(4) Property, plant and equipment

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

	Land	Buildings	Testing equipment	Office equipment	Leasehold assets	Leasehold improvements	Total
<u>At January 1, 2018</u>							
Cost	\$ 14,962	\$ 29,532	\$ 40,708	\$ 18,329	\$ 98,170	\$ 73,014	\$ 274,715
Accumulated depreciation	-	(5,360)	(25,771)	(12,277)	(23,681)	(53,791)	(120,880)
	<u>\$ 14,962</u>	<u>\$ 24,172</u>	<u>\$ 14,937</u>	<u>\$ 6,052</u>	<u>\$ 74,489</u>	<u>\$ 19,223</u>	<u>\$ 153,835</u>
<u>2018</u>							
Opening net book amount	\$ 14,962	\$ 24,172	\$ 14,937	\$ 6,052	\$ 74,489	\$ 19,223	\$ 153,835
Additions	-	-	8,822	1,316	-	5,915	16,053
Reclassifications	-	-	-	1,836	-	(1,836)	-
Transfers (Note)	-	-	5,260	-	-	-	5,260
Depreciation charges	-	(492)	(3,974)	(2,338)	(15,183)	(7,100)	(29,087)
Net exchange differences	-	-	58	(3)	-	7	62
Closing net book amount	<u>\$ 14,962</u>	<u>\$ 23,680</u>	<u>\$ 25,103</u>	<u>\$ 6,863</u>	<u>\$ 59,306</u>	<u>\$ 16,209</u>	<u>\$ 146,123</u>
<u>At September 30, 2018</u>							
Cost	\$ 14,962	\$ 29,532	\$ 54,886	\$ 19,858	\$ 98,170	\$ 77,167	\$ 294,575
Accumulated depreciation	-	(5,852)	(29,783)	(12,995)	(38,864)	(60,958)	(148,452)
	<u>\$ 14,962</u>	<u>\$ 23,680</u>	<u>\$ 25,103</u>	<u>\$ 6,863</u>	<u>\$ 59,306</u>	<u>\$ 16,209</u>	<u>\$ 146,123</u>

Note: Transferred from prepayments for equipment (shown as “Other non-current assets”).

	Land	Buildings	Testing equipment	Office equipment	Leasehold assets	Leasehold improvements	Total
<u>At January 1, 2017</u>							
Cost	\$ 14,962	\$ 29,532	\$ 66,266	\$ 16,235	\$ 100,070	\$ 72,504	\$ 299,569
Accumulated depreciation	-	(4,703)	(34,843)	(9,458)	(30,239)	(41,383)	(120,626)
	<u>\$ 14,962</u>	<u>\$ 24,829</u>	<u>\$ 31,423</u>	<u>\$ 6,777</u>	<u>\$ 69,831</u>	<u>\$ 31,121</u>	<u>\$ 178,943</u>
<u>2017</u>							
Opening net book amount	\$ 14,962	\$ 24,829	\$ 31,423	\$ 6,777	\$ 69,831	\$ 31,121	\$ 178,943
Additions	-	-	10,652	2,421	-	495	13,568
Disposals	-	-	-	(4)	-	-	(4)
Reclassifications	-	-	(25,385)	-	25,642	(257)	-
Transfers (note)	-	-	1,256	-	-	-	1,256
Depreciation charges	-	(493)	(3,007)	(2,779)	(15,684)	(10,225)	(32,188)
Net exchange differences	-	-	(325)	21	-	(42)	(346)
Closing net book amount	<u>\$ 14,962</u>	<u>\$ 24,336</u>	<u>\$ 14,614</u>	<u>\$ 6,436</u>	<u>\$ 79,789</u>	<u>\$ 21,092</u>	<u>\$ 161,229</u>
<u>At September 30, 2017</u>							
Cost	\$ 14,962	\$ 29,532	\$ 39,501	\$ 17,928	\$ 98,170	\$ 72,487	\$ 272,580
Accumulated depreciation	-	(5,196)	(24,887)	(11,492)	(18,381)	(51,395)	(111,351)
	<u>\$ 14,962</u>	<u>\$ 24,336</u>	<u>\$ 14,614</u>	<u>\$ 6,436</u>	<u>\$ 79,789</u>	<u>\$ 21,092</u>	<u>\$ 161,229</u>

Note: Transferred from prepayments for equipment (shown as “Other non-current assets”).

- B. Information about the investing activities that were partially paid by cash is provided in Note 6(25).
- C. Information about the leasehold assets is provided in Note 6(10).
- D. Information about the property, plant and equipment that were pledged to others as collateral is provided in Note 8.

(5) Intangible assets

A. The details of intangible assets are as follows:

	Professional technology	Computer software	Total
<u>At January 1, 2018</u>			
Cost	\$ 49,114	\$ 23,522	\$ 72,636
Accumulated amortization	(46,315)	(17,684)	(63,999)
	<u>\$ 2,799</u>	<u>\$ 5,838</u>	<u>\$ 8,637</u>
<u>2018</u>			
Opening net book amount	\$ 2,799	\$ 5,838	\$ 8,637
Additions	-	2,581	2,581
Amortization charges	(2,798)	(4,133)	(6,931)
Net exchange differences	(1)	-	(1)
Closing net book amount	<u>\$ -</u>	<u>\$ 4,286</u>	<u>\$ 4,286</u>
<u>At September 30, 2018</u>			
Cost	\$ 49,191	\$ 26,103	\$ 75,294
Accumulated amortization	(49,191)	(21,817)	(71,008)
	<u>\$ -</u>	<u>\$ 4,286</u>	<u>\$ 4,286</u>
	Professional technology	Computer software	Total
<u>At January 1, 2017</u>			
Cost	\$ 49,239	\$ 17,589	\$ 66,828
Accumulated amortization	(41,299)	(12,216)	(53,515)
	<u>\$ 7,940</u>	<u>\$ 5,373</u>	<u>\$ 13,313</u>
<u>2017</u>			
Opening net book amount	\$ 7,940	\$ 5,373	\$ 13,313
Additions	-	3,717	3,717
Amortization charges	(3,828)	(4,161)	(7,989)
Net exchange differences	(35)	-	(35)
Closing net book amount	<u>\$ 4,077</u>	<u>\$ 4,929</u>	<u>\$ 9,006</u>
<u>At September 30, 2017</u>			
Cost	\$ 49,164	\$ 21,306	\$ 70,470
Accumulated amortization	(45,087)	(16,377)	(61,464)
	<u>\$ 4,077</u>	<u>\$ 4,929</u>	<u>\$ 9,006</u>

B. Information about the investing activities that were partially paid by cash is provided in Note 6(25).

C. The details of the amortization charges of intangible assets (recorded in “Operating expenses”) are as follows:

	Three months ended September 30,	
	2018	2017
General and administrative expenses	\$ 717	\$ 706
Research and development expenses	979	1,941
	<u>\$ 1,696</u>	<u>\$ 2,647</u>
	Nine months ended September 30,	
	2018	2017
General and administrative expenses	\$ 2,357	\$ 2,238
Research and development expenses	4,574	5,751
	<u>\$ 6,931</u>	<u>\$ 7,989</u>

(6) Other non-current assets

	September 30, 2018	December 31, 2017	September 30, 2017
Refundable deposits	\$ 22,177	\$ 27,188	\$ 26,121
Prepaid expense for medical research - non-current	20,000	20,000	20,000
Prepayments for equipment	28,718	923	1,006
	<u>\$ 70,895</u>	<u>\$ 48,111</u>	<u>\$ 47,127</u>

(7) Short-term borrowings

Type of borrowings	September 30, 2018	December 31, 2017	September 30, 2017
Bank unsecured borrowings	\$ 46,000	\$ 46,000	\$ 46,000
Interest rate	1.95%~2.10%	1.95%~2.10%	1.95%~2.10%
Credit line	\$ -	\$ -	\$ -

Interest expense recognized in profit or loss amounted to \$238, \$238, \$705 and \$705 for the three-month and nine month periods ended September 30, 2018 and 2017, respectively.

(8) Other payables

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Research expenses	\$ 32,423	\$ 33,742	\$ 48,734
Salaries and bonuses	26,193	30,539	33,625
Service expenses	7,699	9,825	6,041
Payables on machinery, equipment and intangible assets	7,011	-	521
Labor and health insurance	2,234	2,218	2,391
Medical research expenses	2,228	4,697	14,763
Repair expenses	1,000	6,668	2,370
Other accrued expenses	9,439	5,852	8,687
	<u>\$ 88,227</u>	<u>\$ 93,541</u>	<u>\$ 117,132</u>

(9) Long-term borrowings

<u>Type of loans</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>September 30, 2018</u>
Taiwan Cooperative Bank -secured borrowings	Note 1	1.85%	Note 4	\$ 37,750
Taiwan Cooperative Bank -secured borrowings	Note 2	1.85%	Note 4	28,900
Cathay Bank -secured borrowings	Note 3	4.1%~5.25%	Note 4	366,300
Less: Current portion (Shown as “Other current liabilities”)				432,950
				(92,646)
				<u>\$ 340,304</u>

<u>Type of loans</u>	<u>Borrowing period and repayment term</u>	<u>Interest rate</u>	<u>Collateral</u>	<u>December 31, 2017</u>
Taiwan Cooperative Bank -secured borrowings	Note 1	1.85%	Note 4	\$ 37,750
Taiwan Cooperative Bank -secured borrowings	Note 2	1.85%	Note 4	32,300
Less: Current portion (Shown as “Other current liabilities”)				70,050
				(3,873)
				<u>\$ 66,177</u>

Type of loans	Borrowing period and repayment term	Interest rate	Collateral	September 30, 2017
Taiwan Cooperative Bank -secured borrowings	Note 1	1.85%	Note 4	\$ 37,750
Taiwan Cooperative Bank -secured borrowings	Note 2	1.85%	Note 4	32,300
Less: Current portion (Shown as “Other current liabilities”)				\$ 70,050 (3,400) \$ 66,650

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

Note 2: The Company entered into a mid-term loan contract with Taiwan Cooperative Bank on September 4, 2015 in the amount of \$34,000. The contract period is from September 2015 to September 2022. The interest is payable monthly for the first 2 years and payable semi-annually along with 5% of the principal starting from September 2017. The remaining 50% of principal is required to be repaid in September 2022.

Note 3: The Company and its subsidiary, TLC Biopharmaceuticals, Inc. (“TLC US”) entered into a mid-term loan contract with Cathay Bank on June 14, 2018 in the amount of US\$12 million. The contract period is from June 2018 to December 2020. The interest is payable monthly for the first six months and payable monthly along with the same amount of principal starting from January 2019.

Note 4: Information about the collateral provided for the loans is provide in Note 8.

- A. According to the above two bank loan contracts with Taiwan Cooperative Bank, the Company is restricted from paying cash dividends or other distributions on the common shares and Taiwan Cooperative Bank retains the right in requesting the Company to raise paid-in capital or to improve financial structure if certain conditions are met.
- B. According to the above bank loan contract with Cathay Bank, if the Company and its subsidiary violate any of the following covenants, Cathay Bank has the right to ask the Company and its subsidiary to repay early the outstanding loan:
 - (a) The Group fails to maintain a quick ratio of at least 1.50 to 1.00 and a maximum leverage ratio of no more than 1.50 to 1.00 as per its consolidated financial statements;
Quick ratio is a ratio of cash plus net trade receivable to current liabilities.

- (b) The Company or its subsidiary, TLC Biopharmaceuticals, (H.K.) Limited (“TLC HK”) does not receive at least US\$20.0 million in cash either from the sale or issuance of the equity securities of TLC HK before October 31, 2018, or does not receive a royalty payment of at least US\$15.0 million in cash from its license in China before October 31, 2018;
- (c) The Company does not receive at least US\$50.0 million in cash from the sale or issuance of the Company’s equity before December 31, 2018.

The Company was in compliance with all of the loan covenants as of September 30, 2018. Accordingly, the entire debt balance for this loan has been classified as non-current liability at September 30, 2018.

The bank loan contract with Cathay Bank also prohibits the Company from paying cash dividends or making distributions on account of the Company’s capital stock without the consent of Cathay Bank, subject to certain exceptions.

Based on the Company’s operation strategy, the Company had transferred full amount of the principal and accrued interest of loan to the reserved account of Cathay Bank, and informed Cathay Bank the repayment and received Cathay Bank confirmation on October 31, 2018. Cathay Bank made the deduction from the reserved amount on November 1, 2018. The Company had repaid the loan with Cathay Bank in full amount of US\$12 million. Please refer to Note 11(2).

- C. As of September 30, 2018, December 31, 2017 and September 30, 2017, the undrawn loan facilities amounted to \$6,150, \$2,750 and \$2,750, respectively. The information about the Group’s liquidity risk is provided in Note 12(2)C(c).

(10) Finance lease liabilities

The Group leases testing equipment under finance leases. Based on the terms of the lease agreements, ownership of all leased equipment will be transferred to the Group at no consideration when the leases expire. Future minimum lease payments and their present values as of September 30, 2018, December 31, 2017 and September 30, 2017 are as follows:

	September 30, 2018		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
Not later than one year (Note)	\$ 15,049	(\$ 49)	\$ 15,000

December 31, 2017			
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
Not later than one year (Note)	\$ 48,466	(\$ 466)	\$ 48,000
<u>Non-current</u>			
Later than one year but not later than two years (Note)	4,008	(8)	4,000
	<u>\$ 52,474</u>	<u>(\$ 474)</u>	<u>\$ 52,000</u>
September 30, 2017			
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<u>Current</u>			
Not later than one year (Note)	\$ 49,661	(\$ 661)	\$ 49,000
<u>Non-current</u>			
Later than one year but not later than two years (Note)	15,049	(49)	15,000
	<u>\$ 64,710</u>	<u>(\$ 710)</u>	<u>\$ 64,000</u>

Note: Shown as “Other current liabilities” and “Other non-current liabilities”, respectively.

(11) Pensions

A. Defined benefit plan

- (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Act, 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 Labor Standards Act. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees’ monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned methods to the employees expected to qualify for retirement in the following year, the Company will make contributions to cover

for the deficit by next March.

- (b) For the aforementioned pension plan, the Group recognized pension costs of \$49, \$55, \$145 and \$172 for the three-month and nine-month periods ended September 30, 2018 and 2017, respectively.
- (c) Expected contributions to the defined benefit pension plan of the Company for the year ended December 31, 2019 amounts to \$187.

B. Defined contribution plans

Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company for the three-month and nine-month periods ended September 30, 2018 and 2017 are \$2,209, \$2,222, \$6,641, and \$6,473, respectively.

- C. The subsidiaries have defined contribution plans in accordance with the local regulations, and contributions are based on a certain percentage of employees’ salaries and wages. Other than the yearly contributions, the subsidiaries have no further obligations. The pension costs of the subsidiaries for the three month and nine-month periods ended September 30, 2018 and 2017 were \$389, \$353, \$1,139, and \$1,077, respectively.

(12) Share-based payment

A. For the nine-month periods ended September 30, 2018 and 2017, the Company's equity-settled share-based payment arrangements are as follows:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions
Employee stock options	2012.05.08	62.8	5 years	Gradually vested after 2 years service (Note 1)
"	2013.11.14	883.0	5 years	"
"	2014.03.20	153.0	5 years	"
"	2014.08.15	82.3	5 years	"
"	2015.02.26	1,102.0	5 years	"
"	2015.04.30	16.0	5 years	"
"	2015.05.04	35.0	5 years	"
"	2015.07.30	50.0	5 years	"
"	2015.10.29	180.0	5 years	"
"	2016.02.25	1,391.0	5 years	"
"	2016.08.11	140.0	5 years	"
"	2016.11.03	73.0	5 years	"
"	2018.06.29	1,320.0	5 years	"
"	2018.07.02	65.0	5 years	"
Restricted stocks to employees (Note 2)	2014.08.15	307.0	3 years	Service and performance (Note 3)
"	2014.11.14	43.0	3 years	"
"	2017.11.16	500.0	3 years	(Note 4)
"	2018.07.02	50.0	3 years	"

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

(Note 2) The restricted stocks issued by the Company cannot be transferred within the vesting period, but voting rights and dividend rights are not restricted on these stocks. Employees are required to return the stocks but not required to return the dividends received if they resign during the vesting period.

(Note 3) For the employees who are currently working in the Company and whose services have reached 1 year, 2 years and 3 years while achieving targeted performance, which are mainly based on the progress of research and development projects, and they have made certain contribution. The applicable accumulated maximum vested share ratio is 30%, 60% and 100%, respectively.

(Note 4) For the employees who are currently working in the Company and whose services have reached 1 year, 2 years and 3 years without violating the terms of employment agreements entered into between the Company and employees, they are entitled to 20%, 30% and 50%, respectively.

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

(a) Employee stock options

Stock options	2018		2017	
	No. of units	Weighted-average exercise price	No. of units	Weighted-average exercise price
	(in thousands)	(in dollars)	(in thousands)	(in dollars)
Options outstanding at beginning of the period	3,513	\$ 239	4,168	\$ 231
Options granted	1,385	101	-	-
Options forfeited	(379)	258	(512)	183
Options outstanding at end of the period	<u>4,519</u>	195	<u>3,656</u>	238
Options exercisable at end of the period	<u>2,528</u>	254	<u>1,710</u>	309
Options permitted but not yet granted at end of the period	<u>-</u>		<u>-</u>	

(b) Restricted stocks to employees

	2018		2017	
	Shares (in thousands)		Shares (in thousands)	
At January 1		500		111
Issuance for the period (Note 1)		50		-
Expired for the period (Note 2)	(25)	(19)
Vested for the period		-		(76)
At September 30		<u>525</u>		<u>16</u>

Note 1: For the restricted stocks granted with the compensation cost accounted for using the fair value method, the fair values on the grant date are calculated based on the closing price on the grant date subtracting the subscription price of \$10 (in dollars).

Note 2: Please refer to Note 6(14)C.

C. No employee stock options were exercised for the nine-month periods ended September 30, 2018 and 2017.

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

September 30, 2018					
Options outstanding at end of period			Options exercisable at end of period		
Exercise price (in dollars)	Quantity (in thousands)	Remaining contractual life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)
\$ 379	724.0	0.12	\$ 379	724.0	\$ 379
272	119.0	0.47	272	119.0	272
206	52.0	0.87	206	52.0	206
246.5	832.0	1.41	246.5	746.0	246.5
225	16.0	1.58	225	14.0	225
225	35.0	1.59	225	30.0	225
148	38.0	1.83	148	30.0	148
141	138.0	2.08	141	100.0	141
159	1,079.0	2.40	159	699.0	159
128.5	28.0	2.86	128.5	14.0	128.5
122	73.0	3.09	122	-	-
100.5	1,320.0	4.75	100.5	-	-
102.5	65.0	4.76	102.5	-	-
	<u>4,519.0</u>			<u>2,528.0</u>	
December 31, 2017					
Options outstanding at end of year			Options exercisable at end of year		
Exercise price (in dollars)	Quantity (in thousands)	Remaining contractual life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)
\$ 379	831.4	0.87	\$ 379	831.4	\$ 379
272	150.2	1.22	272	142.0	272
206	59.7	1.62	206	51.0	206
246.5	954.7	2.16	246.5	688.3	246.5
225	16.0	2.33	225	10.7	225
225	35.0	2.34	225	22.6	225
148	38.0	2.58	148	23.0	148
141	138.0	2.83	141	74.0	141
159	1,148.0	3.15	159	-	-
128.5	69.0	3.61	128.5	-	-
122	73.0	3.84	122	-	-
	<u>3,513.0</u>			<u>1,843.0</u>	

September 30, 2017						
			Options outstanding at end of period		Options exercisable at end of period	
Exercise price (in dollars)	Quantity (in thousands)	Remaining contractual life (years)	Exercise price (in dollars)	Quantity (in thousands)	Exercise price (in dollars)	
\$ 379	853.2	1.12	\$ 379	818.4	\$ 379	
272	150.2	1.47	272	133.9	272	
206	59.7	1.87	206	47.8	206	
246.5	992.2	2.41	246.5	653.0	246.5	
225	16.0	2.58	225	9.7	225	
225	35.0	2.59	225	20.4	225	
148	44.0	2.83	148	26.6	148	
141	138.0	3.08	141	-	-	
159	1,210.0	3.41	159	-	-	
128.5	85.0	3.87	128.5	-	-	
122	73.0	4.10	122	-	-	
	3,656.3			1,709.8		

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	June 29, 2018	July 2, 2018
Dividend yield	-	-
Expected volatility	43.59%~44.04%	43.60%~44.03%
Risk-free interest rate	0.65%~0.69%	0.65%~0.70%
Expected option life (years)	3.5~4.5	3.5~4.5
Per share exercise price (in dollars)	\$100.5	\$102.5
Weighted average stock options fair value (in dollars)	\$33~\$37	\$33~\$38

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

Three months ended September 30,		
	2018	2017
Equity-settled	\$ 11,719	\$ 15,079
Nine months ended September 30,		
	2018	2017
Equity-settled	\$ 27,165	\$ 45,815

(13) Provisions (decommissioning liabilities)

	2018	2017
At January 1	\$ 6,922	\$ 6,996
Used during the period	-	(74)
At September 30	<u>\$ 6,922</u>	<u>\$ 6,922</u>

Analysis of total provisions is shown below:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Non-current	<u>\$ 6,922</u>	<u>\$ 6,922</u>	<u>\$ 6,922</u>

In accordance with the requirements specified in the agreements, the Group bears the obligation for the costs of dismantling, removing the asset and restoring the site of its rented office in the future. A provision is recognized 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 1 to 4 years.

(14) Common stock

A. As of September 30, 2018, the Company's authorized capital was \$600,000, and the paid-in capital was \$562,240 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 common shares outstanding are as follows (Unit: thousand shares):

	2018	2017
At January 1	56,199	55,730
Issuance of restricted stocks	50	-
Cancellation of restricted stocks	(25)	(17)
At September 30	<u>56,224</u>	<u>55,713</u>

B. To increase the Company's working capital, the shareholders 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 was 4,711 thousand shares at a 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 Act of the ROC, the common 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 applied for retroactive handling of public issuance procedures. Other than these restrictions, the rights and obligations of the common shares raised through the private placement are the same as other issued common shares.

C. Employee restricted stocks

- (a) The Board of Directors during its meeting on June 18, 2014 adopted a resolution to issue employee restricted stocks (see Note 6(12)) with the effective date set on August 21, 2014 and November 20, 2014, respectively. The subscription price was \$10 (in dollars) per share. The employee restricted stocks 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 common shares.
- (b) As 2,000 shares of employee restricted stocks granted to certain employees in March 2017 did not meet the vesting conditions in accordance with the terms of restricted stocks, the Board of Directors has resolved on May 11, 2017 to buy back the restricted stocks to retire for capital reduction. The registration was completed on June 23, 2017.
- (c) As 15,000 shares of employee restricted stocks granted to certain employees in July and August 2017 did not meet the vesting conditions in accordance with the terms of restricted stocks, the Board of Directors has resolved on August 10, 2017 to buy back the restricted stocks to retire for capital reduction. The registration was completed on September 7, 2017.
- (d) As 14,000 shares of employee restricted stocks granted to certain employees in September and November 2017 did not meet the vesting conditions in accordance with the terms of restricted stocks, the Board of Directors has resolved on November 1, 2017 to buy back the restricted stocks to retire for capital reduction. The registration was completed on December 8, 2017.
- (e) As 25,000 shares of employee restricted stocks granted to certain employees in June and July 2018 did not meet the vesting conditions in accordance with the terms of restricted stocks, the Board of Director has resolved on August 1, 2018 to buy back the restricted stocks to retire for capital reduction. The registration was completed in August 2018.
- (f) The stockholders at their annually stockholders' meeting on May 31, 2017 adopted a resolution to issue employee restricted stocks (see Note 6(12)) with the effective date set on November 16, 2017 and July 2, 2018. The subscription price is \$10 (in dollars) per share. The employee restricted stocks 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 common shares.

(15) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus 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 Act requires that

the amount of capital surplus to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(16) Accumulated deficit

- A. Under the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:
 - (a) Payment of taxes and duties;
 - (b) Cover prior years' accumulated deficit, if any;
 - (c) After deducting items a and b, set aside 10% of the remaining amount as legal reserve;
 - (d) Appropriate or reverse special reserve in accordance with the relevant laws and regulations, if necessary; and
 - (e) After deducting items a to d, the remainder, if any, to be retained or to be appropriated shall be resolved by the shareholders at the shareholders' meeting.
- B. The Company's dividend policy is summarized below:

As the Company operates in a volatile business environment and is in the 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 Act, when the accumulated deficit exceeds 50% of the capital, the directors should convene a meeting of the shareholders and report the situation.
- D. The shareholders during their meetings on June 26, 2018 and May 31, 2017 adopted a resolution to use capital surplus amounting to \$874,086 and \$824,662 to cover accumulated deficit, respectively.

Information on the above as proposed by the Board of Directors and resolved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.
- E. As of September 30, 2018, the Company had an accumulated deficit. Therefore, the earnings distribution information disclosure is not applicable.
- F. For the information relating to employees' compensation and directors' remuneration, please refer to Note 6(22).

(17) Operating revenue

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Revenue from contracts with customers	\$ <u>15,279</u>	\$ <u>44,942</u>

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following types:

	Royalty revenue	Authorization collaboration and development revenue	Total
Three months ended September 30, 2018			
Timing of revenue recognition			
At a point in time	\$ 13,013	\$ -	\$ 13,013
Over time	-	2,266	2,266
Total	\$ <u>13,013</u>	\$ <u>2,266</u>	\$ <u>15,279</u>

	Royalty revenue	Authorization collaboration and development revenue	Total
Nine months ended September 30, 2018			
Timing of revenue recognition			
At a point in time	\$ 37,033	\$ -	\$ 37,033
Over time	-	7,909	7,909
Total	\$ <u>37,033</u>	\$ <u>7,909</u>	\$ <u>44,942</u>

B. Contract liabilities

The Group has recognized the following revenue-related contract liabilities:

	September 30, 2018
Contract liabilities – authorization collaboration and development revenue	\$ <u>32</u>

(a) Revenue recognized that was included in the contract liability balance at the beginning of the period:

	Three months ended September 30, 2018	Nine months ended September 30, 2018
Revenue recognized that was included in the contract liability balance at the beginning of the period		
Authorization collaboration and development contracts	\$ <u>2,266</u>	\$ <u>7,909</u>

(b) Unfulfilled long-term authorization collaboration and development contracts

Aggregate amount of the transaction price allocated to long-term authorization collaboration and development contracts that are partially unsatisfied as of September 30, 2018 amounted to \$32. Considering the progress of research and development, management expects that the transaction price allocated to the unsatisfied contracts amounting to \$38,105 as of September 30, 2018 will be recognized as revenue in the next three years.

C. Related disclosures in relation to operating revenue for the three months and nine months ended September 30, 2017 are provided in Note 12(5)B.

D. Authorization collaboration and development revenue is the revenue arising from authorization collaboration and development of generic drugs. The details are as follows:

In December 2013, the Company entered into a license and collaboration agreement with Sandoz AG. (“Sandoz”) for the development and commercialization of products in Europe and in the USA. Under the terms of the agreement, the Company received an upfront, non-refundable payment of US\$0.1 million in January 2014, and aggregated milestone payments of US\$2.275 million related to the Europe submission in March and April 2014, and January 2015, respectively.

Under IFRS 15, the revenue, based on the proportion of transaction price, is recognized on the basis of costs incurred relative to the total expected costs of the performance obligation. Once the new drug is launched in the market, a royalty fee will be received by the Company, which is equal to an agreed upon percentage of net sales. The Company will recognize performance-based milestone payment revenue upon entering the local market in Europe and in the USA, and upon achieving a certain net sales volume and market position within five years.

E. The details of royalty 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 net product sales.

(b) The Company authorizes Yung Shin Pharm. Ind. Co., Ltd. (“YSP”) the exclusive right in Taiwan to produce and promote generic drugs. Under the contract, the Company will receive a royalty payment based on a certain percentage of the net sales.

(18) Other income

	Three months ended September 30,	
	2018	2017
Interest income	\$ 627	\$ 1,012
Government subsidy income (Notes 1 and 2)	13,861	7,494
Others	616	971
	<u>\$ 15,104</u>	<u>\$ 9,477</u>

	Nine months ended September 30	
	2018	2017
Interest income	\$ 1,679	\$ 4,127
Government subsidy income (Notes 1 and 2)	15,658	8,782
Others	4,700	2,075
	<u>\$ 22,037</u>	<u>\$ 14,984</u>

Note 1: The Company has entered into contracts of “A phase IIa trial of lipid-based investigational drug TLC399 in the subjects with macular edema due to retinal vein occlusion in the United States” and “A phase I/II trial of lipid-based, sustained release investigational drug TLC399 (ProDex®) for treating macular edema due to retinal vein occlusion” with the Institute for Information Industry in 2014 and 2017, respectively. The Company has accrued government subsidy income in accordance with the progress of the plan. The aforesaid subsidy plan has recognized income of \$298, \$7,494, \$2,095 and \$8,782 for the three months and nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, the Company has not received government subsidy of \$1,489 (shown as “Other receivables”).

Note 2: The Company’s subsidiary, TLC Biopharmaceuticals, Pty Ltd. received the financial incentives from Australian government in August 2018 of \$13,563 for its research and development activities.

(19) Other gains and losses

	Three months ended September 30,	
	2018	2017
Net currency exchange loss	(\$ 1,603)	(\$ 199)
Other losses	(16)	(9)
	<u>(\$ 1,619)</u>	<u>(\$ 208)</u>
	Nine months ended September 30,	
	2018	2017
Net currency exchange (loss) gain	(\$ 28)	\$ 1,734
Gain on disposal of property, plant and equipment	-	20
Other losses	(147)	(9)
	<u>(\$ 175)</u>	<u>\$ 1,745</u>

(20) Finance cost

	Three months ended September 30,	
	2018	2017
Bank borrowings	\$ 5,484	\$ 567
Finance lease liabilities	86	276
	<u>\$ 5,570</u>	<u>\$ 843</u>

	Nine months ended September 30,	
	2018	2017
Bank borrowings	\$ 7,065	\$ 1,692
Finance lease liabilities	402	901
	<u>\$ 7,467</u>	<u>\$ 2,593</u>

(21) Expenses by nature (Shown as “Operating expenses”)

	Three months ended September 30,	
	2018	2017
Employee benefit expenses	\$ 80,797	\$ 83,787
Depreciation charges	\$ 9,803	\$ 10,593
Amortization charges	<u>\$ 1,696</u>	<u>\$ 2,647</u>

	Nine months ended September 30,	
	2018	2017
Employee benefit expenses	\$ 233,240	\$ 246,071
Depreciation charges	\$ 29,087	\$ 32,188
Amortization charges	<u>\$ 6,931</u>	<u>\$ 7,989</u>

(22) Employee benefit expenses

	Three months ended September 30,	
	2018	2017
Wages and salaries	\$ 59,604	\$ 59,313
Share-based payment compensation costs	11,719	15,079
Labor and health insurance fees	4,868	4,754
Pension costs	2,647	2,630
Other personnel expenses	1,959	2,011
	<u>\$ 80,797</u>	<u>\$ 83,787</u>

	Nine months ended September 30,	
	2018	2017
Wages and salaries	\$ 176,852	\$ 171,774
Share-based payment compensation costs	27,165	45,815
Labor and health insurance fees	14,303	14,401
Pension costs	7,925	7,722
Other personnel expenses	6,995	6,359
	<u>\$ 233,240</u>	<u>\$ 246,071</u>

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated deficit, shall be distributed as employees’ compensation and directors’ and supervisors’ remuneration. The ratio shall be 2%~8% for employees’ compensation and shall not be higher than 2% for directors’ and supervisors’ remuneration.

- B. Through September 30, 2018, the Company had an accumulated deficit and did not accrue employees' compensation and directors' remuneration.

Information about the appropriation of employees' compensation and directors' remuneration by the Company as resolved by the Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(23) Income tax

A. Components of income tax expense:

		Three months ended September 30,	
		2018	2017
Current tax:			
Current income tax on profits for the period	\$	96	\$ 10
Prior year income tax underestimation		173	-
Total current tax		269	10
Deferred tax:			
Origination and reversal of temporary difference		-	(2)
Income tax expense	\$	269	\$ 8
		Nine months ended September 30,	
		2018	2017
Current tax:			
Current income tax on profits for the period	\$	351	\$ 473
Prior year income tax underestimation		329	134
Total current tax		680	607
Deferred tax:			
Origination and reversal of temporary difference		-	83
Income tax expense	\$	680	\$ 690

- B. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.
- C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China on February 7, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(24) Loss per share

Three months ended September 30, 2018			
	Amount after tax	Weighted average number of common shares outstanding (in thousands of shares)	Loss per share (in dollars)
<u>Basic loss per share</u>			
Loss attributable to common shareholders of the Company	(\$ 196,000)	55,699	(\$ <u>3.52</u>)
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(Note)	
Restricted stocks	-	(Note)	
<u>Diluted loss per share</u>			
Loss attributable to common shareholders of the Company plus assumed conversion of all dilutive potential common shares	(\$ <u>196,000</u>)	<u>55,699</u>	(\$ <u>3.52</u>)

Three months ended September 30, 2017			
	Amount after tax	Weighted average number of common shares outstanding (in thousands of shares)	Loss per share (in dollars)
<u>Basic loss per share</u>			
Loss attributable to common shareholders of the Company	(\$ 223,512)	55,472	(\$ <u>4.03</u>)
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(Note)	
Restricted stocks	-	(Note)	
<u>Diluted loss per share</u>			
Loss attributable to common shareholders of the Company plus assumed conversion of all dilutive potential common shares	(\$ <u>223,512</u>)	<u>55,472</u>	(\$ <u>4.03</u>)

Note: Employee stock options and employee restricted stocks have no dilutive effect for any period.

Nine months ended September 30, 2018			
	Amount after tax	Weighted average number of common shares outstanding (in thousands of shares)	Loss per share (in dollars)
<u>Basic loss per share</u>			
Loss attributable to common shareholders of the Company	(\$ 594,872)	55,699	(\$ <u>10.68</u>)
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(Note)	
Restricted stocks	-	(Note)	
<u>Diluted loss per share</u>			
Loss attributable to common shareholders of the Company plus assumed conversion of all dilutive potential common shares	(\$ <u>594,872</u>)	<u>55,699</u>	(\$ <u>10.68</u>)

Nine months ended September 30, 2017			
	Amount after tax	Weighted average number of common shares outstanding (in thousands of shares)	Loss per share (in dollars)
<u>Basic loss per share</u>			
Loss attributable to common shareholders of the Company	(\$ 611,349)	55,495	(\$ <u>11.02</u>)
Dilutive effect of common stock equivalents:			
Employees' stock options	-	(Note)	
Restricted stocks	-	(Note)	
<u>Diluted loss per share</u>			
Loss attributable to common shareholders of the Company plus assumed conversion of all dilutive potential common shares	(\$ <u>611,349</u>)	<u>55,495</u>	(\$ <u>11.02</u>)

Note: Employee stock options and employee restricted stocks have no dilutive effect for any period.

(25) Supplemental cash flow information

Investing activities with partial cash payments:

	Nine months ended September 30,	
	2018	2017
Acquisition of property, plant and equipment (including transfers)	\$ 21,313	\$ 14,824
Add: Opening balance of payables on machinery, equipment and intangible assets	-	1,229
Ending balance of prepayments for equipment	28,718	779
Opening balance of prepayments for equipment being transferred to other expenses	780	-
Opening balance of prepayments for equipment being transferred to intangible assets	-	227
Less: Ending balance of payables on machinery, equipment and intangible assets	(6,670)	-
Opening balance of prepayments for equipment	(923)	(1,483)
Cash paid	<u>\$ 43,218</u>	<u>\$ 15,576</u>

	Nine months ended September 30,	
	2018	2017
Acquisition of intangible assets (including transfers)	\$ 2,581	\$ 3,717
Add: Opening balance of payables on machinery, equipment and intangible assets	-	1,495
Ending balance of prepayments for equipment	-	227
Less: Ending balance of payables on machinery, equipment and intangible assets	(341)	(521)
Opening balance of prepayments for equipment	-	(227)
Cash paid	<u>\$ 2,240</u>	<u>\$ 4,691</u>

(26) Changes in liabilities from financing activities

	Short-term borrowings	Long-term borrowings (including current portion)	Finance lease liabilities (including current portion)	Liabilities from financing activities
At January 1, 2018	\$ 46,000	\$ 70,050	\$ 52,000	\$ 168,050
Changes in cash flow from financing activities	-	362,900	(37,000)	325,900
At September 30, 2018	<u>\$ 46,000</u>	<u>\$ 432,950</u>	<u>\$ 15,000</u>	<u>\$ 493,950</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Keelung Hong	The Group's Chairman
George Yeh	The Group's General Manager

(2) Significant transactions and balances with related parties

- A. The Company's Chairman provided guarantees for the Company's long-term and short-term borrowings with Taiwan Cooperative Bank.
- B. The Company's Chairman and General Manager provided guarantees for the Company's short-term borrowings with E.SUN Commercial Bank.
- C. The Company's Chairman provided guarantees to Taiwan Cooperative Bank for the Company's government grant in relation to the research and development program from the Institute of Information Industry.

As of September 30, 2018, December 31, 2017 and September 30, 2017, details of loans are described in Notes 6(7) and 6(9).

(3) Key management personnel compensation

	<u>Three months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 9,724	\$ 6,839
Post-employment benefits	135	108
Share-based payments	2,789	2,183
	<u>\$ 12,648</u>	<u>\$ 9,130</u>
	<u>Nine months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	\$ 29,530	\$ 20,802
Post-employment benefits	351	324
Share-based payments	6,143	6,360
	<u>\$ 36,024</u>	<u>\$ 27,486</u>

8. PLEDGED ASSETS

(1)

<u>Assets pledged</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>	<u>Pledge purpose</u>
Shown as "Property, plant and equipment"				
Land	\$ 14,962	\$ 14,962	\$ 14,962	Note
Buildings	23,680	24,172	24,336	Note
	<u>\$ 38,642</u>	<u>\$ 39,134</u>	<u>\$ 39,298</u>	

Note: Provided as collateral for long-term borrowings with Taiwan Cooperative Bank.

- (2) Pursuant to the bank loan contract entered between Cathay Bank and the Company and its subsidiary, TLC US, on June 14, 2018, except for the Intellectual Property, including trademarks, patents, copyrights, servicemarks, technology, trade secret, and etc., defined in the loan contract, all other personal property, including tangible and intangible assets of the Company and TLC US are pledged as collateral for borrowings. Cathay Bank constitutes a first priority security interest in the personal property of the Company and TLS US located in the United States and does not constitute a first priority security interest in the personal property of the Company located outside of the United States.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) Contingencies

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

(2) Commitments

In addition to the commitments mentioned in Note 6(9)A and B, the Group's significant commitments are as follows:

- A. Capital expenditures contracted for at the balance sheet date but not yet incurred and are cancelable without cause are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Property, plant and equipment	\$ <u>24,909</u>	\$ <u>1,781</u>	\$ <u>1,781</u>

- B. Operating lease commitments

The Group leases offices with lease terms between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease terms at market rate. The future aggregate minimum lease payments are as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Not later than one year	\$ 29,788	\$ 32,999	\$ 26,734
Later than one year but not later than five years	<u>55,976</u>	<u>75,450</u>	<u>63,190</u>
	\$ <u>85,764</u>	\$ <u>108,449</u>	\$ <u>89,924</u>

- C. The Company had outstanding commitments on purchase contracts for the research and manufacturing of medicines which are cancelable without cause as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
	\$ <u>108,256</u>	\$ <u>31,577</u>	\$ <u>42,082</u>

- D. The Company had outstanding commitments on research and development which are cancelable without cause as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
	\$ <u>668,940</u>	\$ <u>478,977</u>	\$ <u>562,809</u>

- E. The Company has signed a licensing agreement for technology transition with TWI Pharmaceuticals, Inc. with maximum royalty charges of US\$5,000 thousand according to the R&D achievement. Once the new drug is launched in the market, the Company will pay a royalty fee based on a certain percentage of the net product sales.
- F. The Company's subsidiary entered into a synthesis technology of novel camptothecin derivative transfer agreement with Sutter West Bay Hospitals (SWBH, formerly, California Pacific Medical Center). Under the agreement, SWBH charges the Company's subsidiary a patent usage fee of US\$10 thousand per annum, royalty fees up to US\$300 thousand according to the R&D achievement and royalty fees to a certain percentage of relevant product sales volume. Through September 30, 2018, the Company's subsidiary had paid US\$100 thousand.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

- (1) The Company has applied to list the Company's American Depositary Shares on the Nasdaq Global Market in the United States. The Company has filed its prospectus with the U.S. Securities and Exchange Commission on February 17, 2018 (February 16, 2018 Eastern Time in the United States). Through November 2, 2018, the application is still in progress.
- (2) As disclosed in Note 6(9), the Company had transferred the full amount of the principal and accrued interest of the loan to the reserved account of Cathay Bank, and informed Cathay Bank of the repayment and received from Cathay Bank confirmation on October 31, 2018. Cathay Bank made the deduction from the reserved account on November 1, 2018. The Company had fully repaid the loan with Cathay Bank in the amount of US\$12 million.

12. OTHERS

(1) Capital risk management

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

As of September 30, 2018, December 31, 2017 and September 30, 2017, the Group's gearing ratios are as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Total debt	\$ 600,002	\$ 275,255	\$ 311,248
Total capital	\$ 562,240	\$ 561,990	\$ 557,131
Debt ratio	106.72%	48.98%	55.87%

(2) Financial instruments

A. Financial instruments by category

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Financial assets</u>			
Financial assets at amortized cost/loans and receivables			
Cash and cash equivalents	\$ 659,018	\$ 951,713	\$ 1,253,874
Accounts receivable, net	8,135	8,622	8,463
Other receivables	2,041	19,726	13,183
Refundable deposits	22,177	27,188	-
	<u>\$ 691,371</u>	<u>\$ 1,007,249</u>	<u>\$ 1,275,520</u>
	September 30, 2018	December 31, 2017	September 30, 2017
<u>Financial liabilities</u>			
Financial liabilities at amortized cost			
Short-term borrowings	\$ 46,000	\$ 46,000	\$ 46,000
Notes payable	-	-	750
Other payables	88,227	93,541	117,132
Finance lease liabilities (including current portion)	15,000	52,000	-
Long-term borrowings (including current portion)	432,950	70,050	-
	<u>\$ 582,177</u>	<u>\$ 261,591</u>	<u>\$ 163,882</u>

B. Financial risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group adopts overall risk management program and control system to identify all financial risks and seeks to control and balance potential adverse effects from those aforesaid financial risks.
- (b) The goal of market risk management is to appropriately consider the impacts of economic environment, competition and market value risk, in order to achieve the best risk position, to maintain appropriate liquidity position and to centrally manage all market risks.
- (c) To meet its risk management objectives, the Group's procedures of hedge focus on market risk and cash flow interest rate risk.

C. Significant financial risks and degree of financial risks

(a) Market risk

i. Foreign exchange risk

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

(Foreign currency: functional currency)	September 30, 2018		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD) (in thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ 8,019	30.525	\$ 244,780
<u>Non-monetary items</u>			
USD : NTD	1,478	30.525	45,116
AUD : NTD	1,966	22.035	43,321
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	14,448	30.525	441,025
AUD : NTD	919	22.035	20,250
(Foreign currency: functional currency)	December 31, 2017		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD) (in thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ 575	29.76	\$ 17,112
<u>Non-monetary items</u>			
USD : NTD	1,437	29.76	42,762
AUD : NTD	1,084	23.705	25,135
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	741	29.76	22,052
AUD : NTD	1,466	23.705	34,752

(Foreign currency: functional currency)	September 30, 2017		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD) (in thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ 575	30.260	\$ 17,400
<u>Non-monetary items</u>			
USD : NTD	1,434	30.260	43,393
AUD : NTD	1,043	23.705	24,724
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1,516	30.260	45,874
EUR : NTD	189	35.750	6,757

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

(Foreign currency: functional currency)	Nine months ended September 30, 2018		
	Sensitivity analysis		
	Extent of variation	Effect on profit or loss (in thousands)	Effect on other comprehensive income (in thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	1%	\$ 2,448	\$ -
<u>Non-monetary items</u>			
USD : NTD	1%	-	451
AUD : NTD	1%	-	433
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	4,410	-
AUD : NTD	1%	203	-

Nine months September 30, 2017			
Sensitivity analysis			
(Foreign currency: functional currency)	Extent of variation	Effect on profit or loss (in thousands)	Effect on other comprehensive income (in thousands)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	1%	\$ 174	\$ -
<u>Non-monetary items</u>			
USD : NTD	1%	-	434
AUD : NTD	1%	-	247
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	1%	459	-
EUR : NTD	1%	68	-

(iii) The unrealized exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group for the three months and nine months ended September 30, 2018 and 2017 are (\$2,497), \$101, (\$749), and \$57, respectively.

ii. Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term and long-term borrowings. Borrowings issued at floating interest rates expose the Group to cash flow interest rate risk. During the nine months ended September 30, 2018 and 2017, the Group's borrowings at floating interest rate were denominated in the NT dollars.

At September 30, 2018 and 2017, if interest rate had been 0.2% higher/lower with all other conditions held constant, net loss for the nine months ended September 30, 2018 and 2017 would have been \$479 and \$174 higher/lower, respectively. The main factor is that the floating-rate borrowings resulted in changes in interest expense.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from cash and deposits with banks and financial institutions, as well as default by the customers on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only financial institutions with a good credit rating are accepted. According to the Group's credit policy, each entity in the Group is responsible for managing and analyzing the credit risk for each of their new customers before entering into license contracts. Internal risk control assesses the credit quality of

the customers, taking into account their financial positions, past experience and other factors.

- iii. The default occurs when the contract payments are past due based on the agreed terms.
- iv. The Group classifies customers' accounts receivable in accordance with credit rating of customers. The Group applies the simplified approach to estimate expected credit loss under the provision matrix basis.
- v. The Group wrote off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights.
- vi. The Group used the forecastability of Business Indicators released by National Development Council to adjust historical and timely information to assess the default possibility of accounts receivable. On September 30, 2018, the provision matrix is as follows:

<u>September 30, 2018</u>	<u>Without past due</u>	<u>Over 90 days</u>	<u>Total</u>
Expected loss rate	0.03%	100%	
Total book value	\$ 8,135	\$ 18,132	\$ 26,267
Loss allowance	\$ -	\$ 18,132	\$ 18,132

- vii. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	<u>2018</u>
	<u>Accounts receivable</u>
At January 1_IAS 39	\$ 18,132
Adjustments under new standards	-
At January 1_IFRS 9	18,132
Provision for impairment	-
At September 30	<u>\$ 18,132</u>

- viii. Credit risk information for the nine months ended September 30, 2017 is provided in Note 12(4).

(c) Liquidity risk

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

September 30, 2018					
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	\$ 46,421	\$ -	\$ -	\$ -	\$ -
Other payables	88,227	-	-	-	-
Finance lease liabilities (including current portion)	15,049	-	-	-	-
Long-term borrowings (including current portion)	108,773	136,526	160,564	24,210	31,076

December 31, 2017					
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	\$ 46,062	\$ -	\$ -	\$ -	\$ -
Other payables	93,541	-	-	-	-
Finance lease liabilities (including current portion)	48,466	4,008	-	-	-
Long-term borrowings (including current portion)	5,137	6,493	6,430	27,901	33,019

September 30, 2017					
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Short-term borrowings	\$ 46,236	\$ -	\$ -	\$ -	\$ -
Notes payable	750	-	-	-	-
Other payables	117,132	-	-	-	-
Finance lease liabilities (including current portion)	49,661	15,049	-	-	-
Long-term borrowings (including current portion)	4,729	6,602	6,537	28,178	33,442

(3) Fair value information

- A. The Group had no financial instruments measured at fair value, by valuation method, as of September 30, 2018, December 31, 2017 and September 30, 2017.
- B. The management considers that the carrying amounts of financial assets and liabilities not measured at fair value are approximate to their fair values, including cash and cash equivalents, receivables, refundable deposits, short-term borrowings, long-term borrowings (including current portion), payables, and finance lease liabilities (including current portion).

(4) Effects on initial application of IFRS 9 and information in relation to the application of IAS 39 for the year ended December 31, 2017 and for the nine months ended September 30, 2017

- A. Please refer to the consolidated financial statements for the year ended December 31, 2017 for the significant accounting policies of accounts receivable, other receivables, and impairment of financial assets adopted in the nine months ended September 30, 2017.
- B. The reconciliation of allowance for impairment and provision from December 31, 2017, as these are impaired under IAS 39, to January 1, 2018, as these are expected to be impaired under IFRS 9, are as follows:

	<u>Accounts receivable</u>
IAS 39	\$ 18,132
Impairment loss adjustment	-
IFRS 9	<u>\$ 18,132</u>

- C. Credit risk information for the year ended December 31, 2017 and for the nine months ended September 30, 2017 are as follows:
- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the customers on the contract obligations. According to the Group's credit policy, each entity in the Group is responsible for managing and analysing the credit risk for each of their new customers 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 companies, including outstanding receivables. For banks and financial institutions, only financial institutions with a good credit rating are accepted.
- (b) For the year ended December 31, 2017 and for the nine months ended September 30, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The Group's accounts receivable that were neither past due nor impaired were fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability. As of December 31, 2017 and September 30, 2017, the Group's accounts receivable that were neither past due nor impaired amounted to \$8,622 and \$8,643, respectively. The Group deals with counterparties with good credit reputation and has policies in place to ensure that customers have an appropriate credit history when signing the contracts.

(d) The ageing analysis of financial assets that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Up to 30 days	\$ -	\$ -
31 to 90 days	-	-
91 to 180 days	-	-
Over 181 days	-	-
	<u>\$ -</u>	<u>\$ -</u>

The above ageing analysis were based on past due date.

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

- (a) As of December 31, 2017 and September 30 2017, the Group's accounts receivable that were individually determined to be impaired amounted to \$18,132 and \$18,133, respectively.
- (b) Movements on the Group's provision for impairment of accounts receivable for the nine months ended September 30, 2017 are as follows:

	<u>Individually assessed for impairment</u>	<u>Collectively assessed for impairment</u>	<u>Total</u>
At January 1	\$ 9,067	\$ -	\$ 9,067
Provision for impairment	9,066	-	9,066
At September 30	<u>\$ 18,133</u>	<u>\$ -</u>	<u>\$ 18,133</u>

(5) Effects of initial application of IFRS 15 and information in relation to the application of IAS 18 for the nine months ended September 30, 2017

- A. Please refer to the consolidated financial statements for the year ended December 31, 2017 for the significant accounting policies of revenue recognition for the nine months ended September 30, 2017.
- B. The revenue recognized by using previous accounting policies for the three months and nine months ended September 30, 2017 are as follows:

	<u>Three months ended September 30, 2017</u>	<u>Nine months ended September 30, 2017</u>
Royalty revenue	\$ 13,371	\$ 37,238

- C. The effects on and description of current balance sheet and comprehensive income statement items if the Group continued applying previous accounting policies as of and for the nine months ended September 30, 2018 are as follows:

		<u>September 30, 2018</u>		
		<u>Balance by using</u>	<u>Balance by using</u>	<u>Effects from</u>
<u>Balance sheet items</u>	<u>Description</u>	<u>IFRS 15</u>	<u>previous accounting policies</u>	<u>changes in accounting policy</u>
Contract liabilities	Note	\$ 32	\$ -	\$ 32
Retained earnings	Note	(\$ 32)	\$ -	(\$ 32)

		Nine months ended September 30, 2018		
Comprehensive income statement items	Description	Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policies
Operating revenue	Note	\$ 7,909	\$ -	\$ 7,909
Profit or loss - net of tax	Note	\$ 7,909	\$ -	\$ 7,909

Note: The Group accounts for all the authorization and subsequent research and development services provided by the Group as one performance obligation, and recognizes revenue based on the transaction price, and the stage of completion, which is measured by the proportion of contract costs incurred for research and development services performed as of the financial reporting date to the estimated total research and development costs for the authorization collaboration and development contracts.

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): None.
- D. Aggregate purchases or sales of the same securities reaching NT\$300 million or 20% of paid-in capital or more: None.
- E. Acquisition of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching NT\$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more: None.
- I. Derivative financial instruments undertaken during the nine months ended September 30, 2018: None.
- J. Significant inter-Company transactions during the nine months ended September 30, 2018: Please refer to table 1.

(2) Information on investees

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

(3) Information on investments in Mainland China

- A. Basic information: Please refer to table 3.
- B. Significant transactions conducted with investees in Mainland China directly or indirectly through other companies in the third areas: Please refer to table 1.

14. SEGMENT INFORMATION

(1) General information

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

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

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

(3) Reconciliation for segment income (loss)

The segment income (loss) reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. There is no reconciliation because the report provided to the Chief Operating Decision-Maker for business decisions has no difference to the segment income (loss) information.

Taiwan Liposome Company, Ltd. and Subsidiaries
Significant inter-company transactions
Nine months ended September 30, 2018

Table 1

Expressed in thousands of NTD

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount (Note 5)	Transaction terms	
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company, Ltd.	2	Operating revenue	\$ 53,462	(Note 4)	118.96%
2	TLC Biopharmaceuticals, Japan Co., Ltd.	Taiwan Liposome Company, Ltd.	2	Operating revenue	2,133	(Note 4)	4.75%
3	TLC Biopharmaceuticals, (Shanghai) Limitd	Taiwan Liposome Company, Ltd.	2	Operating revenue	2,927	(Note 4)	6.51%
4	TLC Biopharmaceuticals, Pty Ltd.	Taiwan Liposome Company, Ltd.	2	Operating revenue	17,784	(Note 4)	39.57%
1	TLC Biopharmaceuticals, Inc.	Taiwan Liposome Company, Ltd.	2	Accounts receivable	15,945	(Note 4)	1.58%
4	TLC Biopharmaceuticals, Pty Ltd.	Taiwan Liposome Company, Ltd.	2	Accounts receivable	16,281	(Note 4)	1.61%

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

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

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

Note 4: Transaction items follow the agreement.

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

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

Taiwan Liposome Company, Ltd. and Subsidiaries
Names, locations and other information of investee companies (not including investee in Mainland China)
Nine months ended September 30, 2018

Table 2

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as of September 30, 2018			Income of the investee for the nine months ended September 30, 2018	Investment income (loss) recognized by the Company for the nine months ended September 30, 2018	Footnote
				Balance as of September 30, 2018	Balance as of December 31, 2017	Number of shares	Ownership (%)	Book value			
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals, Inc.	USA	Research on new anti-cancer drugs and biotechnology services	\$ 55,433	\$ 55,433	3,100,000	100%	\$ 45,125	\$ 3,944	\$ 1,253	
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals B.V.	Netherlands	Technical authorization and product development	4,410	4,410	1,000,000	100%	1,600	204	204	
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals, (H.K.) Limited	Hong Kong	Biotechnology service and reinvestment	3,023	3,023	780,000	100%	3,575	163	163	
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals, Pty Ltd.	Australia	Technical authorization and product development	23,399	23,399	1,000,000	100%	43,324	19,987	19,987	
Taiwan Liposome Company, Ltd.	TLC Biopharmaceuticals, Japan Co., Ltd.	Japan	Technical authorization and product development	2,670	2,670	1,000	100%	3,389	156	156	

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

Taiwan Liposome Company, Ltd. and Subsidiaries
Information on investments in Mainland China - Basic information
Nine months ended September 30, 2018

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the nine months ended September 30, 2018		Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2018	Income of investee for the nine months ended September 30, 2018	Ownership held by the Company (direct or indirect)	Investment income recognized by the Company for the nine months ended September 30, 2018 (Note 2(2)C)	Book value of investments in Mainland China as of September 30, 2018	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2018	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
TLC Biopharmaceuticals, (Shanghai) Limited	Consulting and technical service of medication	\$ 2,218	Reinvestment in Mainland China through third region company (TLC Biopharmaceuticals, (H.K.) Limited)	\$ 2,225	\$ -	\$ -	\$ 2,225	\$ 158	100	\$ 158	\$ 3,051	\$ -	

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

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

Note 2: In the ‘Investment income recognized by the Company for the nine months ended September 30, 2018’ column:

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

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2018	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 Commision of MOEA
Taiwan Liposome Company, Ltd.	\$ 2,225	\$ 2,225	\$ 246,822

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