**OBI PHARMA, INC. AND SUBSIDIARIES**

**Consolidated Financial Statements and**

**Report of Independent Accountants**

**December 31, 2013 and 2012**

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

Independent Accountants' Report

To the Board of Directors and Shareholders of OBI PHARMA, INC.:

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of OBI PHARMA, INC. and its subsidiaries as of December 31, 2013, December 31, 2012 and January 1, 2012, and their financial performance and cash flows for the years ended December 31, 2013 and 2012, in conformity with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

We have also audited the parent company only financial statements of OBI PHARMA, INC. (not presented herein) as of and for the years ended December 31, 2013 and 2012, and have expressed an unqualified opinion on such financial statements.

PricewaterhouseCoopers, Taiwan

March 26, 2014

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The accompanying consolidated financial statements are not intended to present the financial position, and results of operations and cash flows in accordance with accounting principles in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice. As the consolidated financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013, DECEMBER 31, 2012 AND JANUARY 1, 2012
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|---|---|
| ASSETS | Notes | Amount | % | Amount | % | Amount | % |
| **Current assets** | | | | | | | |
| Cash and cash equivalents | 6(1) | $ 1,273,011 | 65 | $ 450,338 | 51 | $ 56,149 | 11 |
| Financial assets at fair value through | 6(2) | | | | | | |
| profit or loss - current | | - | - | 269,965 | 31 | 386,648 | 74 |
| Other receivables | 7 | 630 | - | 191 | - | 1,683 | 1 |
| Prepayments | | 19,989 | 1 | 44,482 | 5 | 6,190 | 1 |
| Other current assets | 8 | 9,900 | - | 14,840 | 2 | 12,111 | 2 |
| **Total current assets** | | 1,303,530 | 66 | 779,816 | 89 | 462,781 | 89 |
| **Non-current assets** | | | | | | | |
| Available-for-sale financial assets - | 6(3) | | | | | | |
| non-current | | 22,500 | 1 | - | - | - | - |
| Investments in bonds without active | 6(4) | | | | | | |
| markets - non-current | | 500,000 | 25 | - | - | - | - |
| Property, plant and equipment | 6(5) | 33,224 | 2 | 11,916 | 2 | 7,046 | 1 |
| Intangible assets | 6(6) and 7 | 73,924 | 4 | 80,499 | 9 | 51,576 | 10 |
| Other non-current assets | 8 | 37,482 | 2 | 1,943 | - | 1,314 | - |
| **Total non-current assets** | | 667,130 | 34 | 94,358 | 11 | 59,936 | 11 |
| **TOTAL ASSETS** | | $ 1,970,660 | 100 | $ 874,174 | 100 | $ 522,717 | 100 |

(Continued)

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013, DECEMBER 31, 2012 AND JANUARY 1, 2012
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | | December 31, 2013 | | December 31, 2012 | | January 1, 2012 | |
|---|---|---|---|---|---|---|---|
| LIABILITIES AND EQUITY | Notes | Amount | % | Amount | % | Amount | % |
| **Current Liabilities** | | | | | | | |
| Notes payable | | $ 1,265 | - | $ 1,573 | - | $ - | - |
| Other payables | | 40,144 | 2 | 42,823 | 5 | 2,162 | 1 |
| Other current liabilities | | 49 | - | 6 | - | 12,111 | 2 |
| **Total liabilities** | | 41,458 | 2 | 44,402 | 5 | 14,273 | 3 |
| **Equity attributable to shareholders of the parent** | | | | | | | |
| **Share capital** | 6(8) and 6(9) | | | | | | |
| Common stock | | 1,489,959 | 76 | 1,382,520 | 158 | 1,000,000 | 191 |
| **Capital surplus** | 6(8), 6(9), and 6(10) | 1,634,249 | 83 | 203,473 | 23 | 9,390 | 2 |
| **Accumulated deficit** | 6(11) and 6(16) | | | | | | |
| Accumulated deficit | | ( 1,194,805) | ( 61) | ( 756,221) | ( 86) | ( 500,946) | ( 96) |
| Other equity | | ( 201) | - | - | - | - | - |
| **Total equity** | | 1,929,202 | 98 | 829,772 | 95 | 508,444 | 97 |
| **Significant contingent liabilities and unrecognized contract commitments** | 6(6) and 9 | | | | | | |
| **TOTAL LIABILITIES AND EQUITY** | | $ 1,970,660 | 100 | $ 874,174 | 100 | $ 522,717 | 100 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 26, 2014.

OBI PHARMA, INC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT LOSS PER SHARE DATA)

| | | 2013 | | 2012 | |
|---|---|---|---|---|---|
| Items | Notes | Amount | % | Amount | % |
| **Operating expenses** | 6(6), 6(7), 6(8), 6(14), 6(15), 6(18) and 7 | | | | |
| General and administrative expenses | | ($ 122,168) | ( 28) | ($ 90,935) | ( 35) |
| Research and development expenses | | ( 345,482) | ( 79) | ( 193,167) | ( 76) |
| **Total operating expenses** | | ( 467,650) | ( 107) | ( 284,102) | ( 111) |
| **Operating loss** | | ( 467,650) | ( 107) | ( 284,102) | ( 111) |
| **Non-operating income and expenses** | | | | | |
| Other income | 6(4) and 6(12) | 26,375 | 6 | 26,949 | 10 |
| Other gains (losses) | 6(2) and 6(13) | 2,691 | 1 | 1,878 | 1 |
| **Total non-operating income and expenses** | | 29,066 | 7 | 28,827 | 11 |
| **Consolidated net loss** | | ($ 438,584) | ( 100) | ($ 255,275) | ( 100) |
| **Other comprehensive loss** | | | | | |
| Financial statements translation differences of foreign operations | | ( 201) | - | - | - |
| **Total comprehensive loss for the year** | | ($ 438,785) | ( 100) | ($ 255,275) | ( 100) |
| **Loss per share (in dollars)** | 6(17) | | | | |
| **Basic and diluted loss per share** | | ($ 3.11) | | ($ 1.95) | |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 26, 2014.

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | | Equity attributable to shareholders of the parent | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Capital surplus | | | | | |
| | Notes | Common stock | Share premium | Employee stock options | Others | Accumulated deficit | Financial statements translation differences of foreign operations | Total |
| 2012 | | | | | | | | |
| Balance at January 1, 2012 | | $ 1,000,000 | $ - | $ 9,390 | $ - | ($ 500,946) | $ - | $ 508,444 |
| Net loss for the year | | - | - | - | - | ( 255,275) | - | ( 255,275) |
| Issuance of common stock | 6(9) | 360,000 | 180,000 | - | - | - | - | 540,000 |
| Share-based payment transactions | 6(8) and 6(10) | 22,520 | 7,737 | 6,255 | 91 | - | - | 36,603 |
| Balance at December 31, 2012 | | $ 1,382,520 | $ 187,737 | $ 15,645 | $ 91 | ($ 756,221) | $ - | $ 829,772 |
| 2013 | | | | | | | | |
| Balance at January 1, 2013 | | $ 1,382,520 | $ 187,737 | $ 15,645 | $ 91 | ($ 756,221) | $ - | $ 829,772 |
| Net loss for the year | | - | - | - | - | ( 438,584) | - | ( 438,584) |
| Issuance of common stock | 6(9) | 94,937 | 1,405,063 | - | - | - | - | 1,500,000 |
| Other comprehensive loss | | - | - | - | - | - | ( 201) | ( 201) |
| Share-based payment transactions | 6(8) and 6(10) | 12,502 | 15,651 | 7,258 | 2,804 | - | - | 38,215 |
| Balance at December 31, 2013 | | $ 1,489,959 | $ 1,608,451 | $ 22,903 | $ 2,895 | ($ 1,194,805) | ( $ 201) | $ 1,929,202 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 26, 2014.

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Consolidated loss before tax for the year | | ($ 438,584 ) | ($ 255,275 ) |
| Adjustments to reconcile consolidated loss before tax to net cash used in operating activities | | | |
| Income and expenses that result in non-cash flows | | | |
| Depreciation | 6(5) and 6(14) | 6,612 | 2,340 |
| Amortization | 6(6) and 6(14) | 9,575 | 13,935 |
| Net gain on financial assets at fair value through profit or loss | 6(2) and 6(13) | - | ( 3,344 ) |
| Interest income | 6(12) | ( 6,234 ) | ( 2,287 ) |
| Compensation cost for share-based payment transactions | 6(8) and 6(15) | 25,713 | 14,083 |
| Changes in assets/liabilities relating to operating activities | | | |
| Net changes in assets relating to operating activities | | | |
| Decrease in financial assets at fair value through profit or loss | | 269,965 | 120,027 |
| (Increase) decrease in other receivables | | ( 439 ) | 1,492 |
| Decrease (increase) in prepayments | | 24,185 | ( 36,719 ) |
| Net changes in liabilities relating to operating activities | | | |
| (Decrease) increase in other payables | | ( 1,226 ) | 40,661 |
| Increase (decrease) in other current liabilities | | 43 | ( 12,105 ) |
| Cash used in operations | | ( 110,390 ) | ( 117,192 ) |
| Receipts of interest | | 6,234 | 2,287 |
| Net cash used in operating activities | | ( 104,156 ) | ( 114,905 ) |
| Cash flows from investing activities | | | |
| Acquisition of available-for-sale financial assets | | ( 22,500 ) | - |
| Acquisition of investments in bonds without active markets | | ( 500,000 ) | - |
| Acquisition of property, plant and equipment | 6(5) | ( 28,766 ) | ( 7,210 ) |
| Increase in refundable deposits | | ( 43,230 ) | ( 14,932 ) |
| Decrease in refundable deposits | | 14,855 | 12,181 |
| Acquisition of intangible assets | 6(6) | ( 3,000 ) | ( 42,858 ) |
| Increase in other non-current assets | | ( 2,831 ) | ( 607 ) |
| Net cash used in investing activities | | ( 585,472 ) | ( 53,426 ) |

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Cash flows from financing activities

OBI PHARMA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Issuance of common stock | 6(9) | 1,500,000 | 540,000 |
| Employee stock options exercised | 6(8) and 6(9) | 12,502 | 22,520 |
| Net cash provided by financing activities | | 1,512,502 | 562,520 |
| Effects due to changes in exchange rate | | ( 201 ) | - |
| Increase in cash and cash equivalents | | 822,673 | 394,189 |
| Cash and cash equivalents at beginning of the year | | 450,338 | 56,149 |
| Cash and cash equivalents at end of the year | | $ 1,273,011 | $ 450,338 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 26, 2014.

OBI PHARMA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,

EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

OBI PHARMA, INC. (the "Company") was established on April 29, 2002 upon approval by the Ministry of Economic Affairs. The Company conducted the initial public offering in May 2012, and traded its shares on the Emerging Stock Market of the Taiwan GreTai Securities Market since December 12, 2012. Its main activity is to conduct new drugs research.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 26, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

A. The International Accounting Standards Board ("IASB") published IFRS 9, "Financial Instruments", in November 2009, which will take effect on January 1, 2013 with early application permitted (Through the amendments to IFRS 9 published on November 19, 2013, the IASB has removed the previous mandatory effective date, but the standard is available for immediate application). Although the FSC has endorsed IFRS 9, FSC does not permit early application of IFRS 9 when IFRSs are adopted in R.O.C. in 2013. Instead, enterprises should apply International Accounting Standard No. 39 ("IAS 39"), "Financial Instruments: Recognition and Measurement" reissued in 2009.

B. IFRS 9 was issued as the first step to replace IAS 39. IFRS 9 outlines the new classification and measurement requirements for financial instruments, which might affect the accounting treatments for financial instruments of the Group.

C. The Group has not yet evaluated the overall effect of the IFRS 9 adoption. However, based on our preliminary evaluation, it was noted that the IFRS 9 adoption might have an impact on those instruments classified as "available-for-sale financial assets" held by the Group, as IFRS 9 specifies that the fair value changes in the equity instruments that meet certain criteria may be reported in other comprehensive income, and such amount that has been recognized in other comprehensive income should not be reclassified to profit or loss when such assets are derecognized.

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

A. The following are the assessment of new standards, interpretations and amendments issued by IASB that are effective but not yet endorsed by the FSC and have not been adopted by the Group (application of the new standards, interpretations and amendments should follow the regulations of the FSC):

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

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

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

| New Standards, Interpretations and Amendments | Main Amendments | IASB Effective Date |
|---|---|---|
| Offsetting financial assets and financial liabilities (amendment to IAS 32) | The amendment clarifies criterion that an entity "currently has a legally enforceable right to set off the recognized amounts" and a "gross settlement mechanisms with particular features are effectively equivalent to net settlement"; they would therefore satisfy the IAS 32 criterion in these instances. | January 1, 2014 |
| Government loans (amendment to IFRS 1) | The amendment provides deferment to first-time adopters to apply the requirements in IFRS 9, "Financial instruments", and IAS 20, "Accounting for government grants and disclosure of government assistance", prospectively to government loans that exist at the date of transition to IFRS, and the gain of goverment loans from the existing lower market rate should not be recognized as a goverment grant. | January 1, 2013 |
| Improvements to IFRSs 2009-2011 | Amendments to IFRS 1 and IAS 1, IAS 16, IAS 32 and IAS 34. | January 1, 2013 |
| Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance (amendments to IFRS 10, IFRS 11 and IFRS 12) | The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10, 11 and 12 is adopted. | January 1, 2013 |
| Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27) | The amendments define "Investment Entities" and their characteristics. The parent company that meets the definition of investment entities should measure its subsidiaries using fair value through profit or loss instead of consolidating them. | January 1, 2014 |
| IFRIC 21, "Levies" | The interpretation addresses the accounting for levies imposed by governments in accordance with legislation (other than income tax). A liability to pay a levy shall be recognized in accordance with IAS 37, "Provisions, contingent liabilities and contingent assets". | January 1, 2014 |
| Recoverable amount disclosures for non-financial assets (amendments to IAS 36) | The amendments remove the requirement to disclose recoverable amount when a cash generating unit contains goodwill or intangible assets with indefinite useful lives that were not impaired. | January 1, 2014 |

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

B. The Group is assessing the potential impact of the new standards, interpretations and amendments above and has not yet been able to reliably estimate their impact on the consolidated financial statements.

## 4. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>

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

### (1) <u>Compliance statement</u>

A. These consolidated financial statements are the first consolidated financial statements prepared by the Group in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International

Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

B. In the preparation of the balance sheet as of January 1, 2012 (the opening IFRS balance sheet) (the Group's date of transition to IFRSs), the Group has adjusted the amounts that were reported in the consolidated financial statements in accordance with previous generally accepted accounting principles in the Republic of China (R.O.C. GAAP.) Please refer to Note 14 for the impact of transitioning from R.O.C. GAAP to IFRSs on the Group's financial position, financial performance and cash flows.

(2) Basis of preparation

A. Except for the following significant items, these consolidated financial statements have been prepared under the historical cost convention:

a) Financial assets at fair value through profit or loss.

b) Available-for-sale financial assets measured at fair value.

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

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

(a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. In general, control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. The existence and effect of potential voting rights that are currently exercisable or convertible have been considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(b) Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.

(c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity.

(e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss. All amounts previously recognized in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognized in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

| | | | Ownership (%) | | | |
|---|---|---|---|---|---|---|
| Name of investor | Name of subsidiary | Main business activities | December 31, 2013 | December 31, 2012 | January 1, 2012 | Remark |
| The Company | OBI Pharma Limited | Investing and trading | 100.00 | - | - | Note 1 |
| The Company | OBI Pharma USA, Inc. | Biotechnolgoy development | 100.00 | - | - | Note 2 |
| OBI Pharma Limited | OBI Pharma (Shanghai) Limited | Biotechnolgoy development | 100.00 | - | - | Note 1 |

Note 1: The subsidiary was established through investment in June 2013.

Note 2: The subsidiary was established with USD 1 through investment in April 2013, and completed the registration in August 2013.

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

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

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency translation

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

A. Foreign currency transactions and balances

(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in profit or loss in the period in which they arise.

(b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognized in profit or loss.

(c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognized in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(d) All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within “other gains and losses”.

B. Translation of foreign operations

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

i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;

ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and

iii. All resulting exchange differences are recognized in other comprehensive income.

(b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) <u>Classification of current and non-current items</u>

A. Assets that meet one of the following criteria are classified as current assets;

(a) Assets arising from operating activities that are expected to be realized, or are intended to be sold or consumed within the normal operating cycle;

(b) Assets held mainly for trading purposes;

(c) Assets that are expected to be realized within twelve months from the balance sheet date;

(d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

Otherwise they are classified as non-current assets.

B. Liabilities that meet one of the following criteria are classified as current liabilities;

(a) Liabilities that are expected to be paid off within the normal operating cycle;

(b) Liabilities arising mainly from trading activities;

(c) Liabilities that are to be paid off within twelve months from the balance sheet date;

(d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Otherwise they are classified as non-current liabilities.

(6) Cash equivalents

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

(7) Financial assets at fair value through profit or loss

A. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term.

B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognized and derecognized using trade date accounting.

C. Financial assets at fair value through profit or loss are initially recognized at fair value. Related transaction costs are expensed in profit or loss. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in profit or loss.

(8) Available-for-sale financial assets

A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

B. On a regular way purchase or sale basis, available-for-sale financial assets are recognized and derecognized using trade date accounting.

C. Available-for-sale financial assets are initially recognized at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognized in other comprehensive income.

(9) Impairment of financial assets - available-for-sale financial assets

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

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

(a) Significant financial difficulty of the issuer or debtor;

(b) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;

(c) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or

(d) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

C. When the Group assesses that there has been objective evidence of impairment and an impairment loss has occurred, the amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss, and is reclassified from "other comprehensive income" to "profit or loss". Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Impairment loss is recognized and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Property, plant and equipment

A. Property, plant and equipment are initially recorded at cost.

B. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors", from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

| | |
|---|---|
| Lab equipment | 3~5 years |
| Office equipment | 3~5 years |
| Leasehold improvements | 4~5 years |

(12) <u>Leased assets/leases (lessee)</u>

An operating lease is a lease that the lessor assumes substantially all the risks and rewards incidental to ownership of the leased asset. Payments made under an operating lease (net of any incentives received from the lessor) are recognized in profit or loss on a straight-line basis over the lease term.

(13) <u>Intangible assets</u>

Patent:

A. Patents acquired in intellectual property right as equity are recognized at fair value at the acquisition date, and amortized on a straight-line basis over their estimated useful lives.

B. Patents acquired in cash are stated at cost and amortized on a straight-line basis over their estimated useful lives.

(14) <u>Impairment of non-financial assets</u>

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

(15) Notes and accounts payable

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

(16) Derecognition of financial liabilities

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

(17) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount 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.

(18) Employee benefits

A. Short-term employee benefits

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

B. Pensions - Defined contribution plans

For defined contribution plans, the contributions are recognized as pension expenses 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.

C. Employees' bonus and directors' and supervisors' remuneration

Employees' bonus and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees' bonus and directors' and supervisors' remuneration are different from the actual distributed amounts as resolved by the shareholders at their shareholders' meeting subsequently, the differences should be recognized based on the accounting for changes in estimates. The Group calculates the number of shares of employees' stock bonus based on the fair value per share at the previous day of the shareholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

(19) Employee share-based payment

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

(20) Income tax

A. The tax expense for the period comprises current and deferred tax. Tax is 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.

B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the shareholders resolve to retain the earnings.

C. Deferred income 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 income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

D. Deferred income 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 income 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 income 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, to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilized.

(21) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(22) Government grants

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

(23) Operating segments

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

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

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

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

Financial assets-impairment of equity investments:

The Group follows the guidance of IAS 39 to determine whether a financial asset-equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(2) Critical accounting estimates and assumptions

A. Impairment assessment of tangible and intangible assets (excluding goodwill)

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

Group strategy might cause material impairment on assets in the future.

B. Financial assets-fair value measurement of unlisted stocks without active market

The fair value of unlisted stocks held by the Group that are not traded in an active market is determined considering those companies' recent funding raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the financial instruments fair value information.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Cash on hand | $ 40 | $ 20 | $ 20 |
| Checking accounts and demand deposits | 328,071 | 125,318 | 56,129 |
| Time deposits | 944,900 | 325,000 | - |
| | $ 1,273,011 | $ 450,338 | $ 56,149 |

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

B. The Group has no cash and cash equivalents pledged to others.

### (2) Financial assets at fair value through profit or loss

| Items | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Current items: | | | |
| Financial assets held for trading | | | |
| Open-end funds | $ - | $ 269,643 | $ 390,353 |
| Valuation adjustment | - | 322 | ( 3,705) |
| | $ - | $ 269,965 | $ 386,648 |

A. The Group recognized net gain of $2,557 and $3,344 on financial assets held for trading for the years ended December 31, 2013 and 2012, respectively.

B. The Group has no financial assets at fair value through profit or loss pledged to others.

### (3) Available-for-sale financial assets

| Items | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Non-current item: | | | |
| Unlisted stocks | $ 22,500 | $ - | $ - |

The Group has no available-for-sale financial assets pledged to others.

(4) Investments in bonds without active markets

| Items | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Non-current item: | | | |
| Time deposits | $ 500,000 | $ - | $ - |

A. The Group recognized interest income of $351 and $0 for time deposits in profit or loss for the years ended December 31, 2013 and 2012, respectively.

B. The Group associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote. The Group's maximum exposure to credit risk at balance sheet date is the carrying amount of all investments in bonds without active markets.

C. The Group has no investments in bonds wihout active markets pledged to others.

(5) Property, plant and equipment

| | Lab equipment | Office equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| At January 1, 2013 | | | | |
| Cost | $ 6,847 | $ 5,178 | $ 7,099 | $ 19,124 |
| Accumulated depreciation | ( 455) | ( 2,619) | ( 4,134) | ( 7,208) |
| | $ 6,392 | $ 2,559 | $ 2,965 | $ 11,916 |
| 2013 | | | | |
| At January 1 | $ 6,392 | $ 2,559 | $ 2,965 | $ 11,916 |
| Additions | 21,366 | 637 | 6,763 | 28,766 |
| Obsolescence | - | - | ( 1,453) | ( 1,453) |
| Reclassifications | 607 | - | - | 607 |
| Depreciation | ( 3,803) | ( 1,073) | ( 1,736) | ( 6,612) |
| At December 31 | $ 24,562 | $ 2,123 | $ 6,539 | $ 33,224 |
| At December 31, 2013 | | | | |
| Cost | $ 28,820 | $ 5,815 | $ 11,627 | $ 46,262 |
| Accumulated depreciation | ( 4,258) | ( 3,692) | ( 5,088) | ( 13,038) |
| | $ 24,562 | $ 2,123 | $ 6,539 | $ 33,224 |

| | Lab equipment | Office equipment | Leasehold improvements | Total |
|---|---|---|---|---|
| At January 1, 2012 | | | | |
| Cost | $ 400 | $ 4,805 | $ 6,719 | $ 11,924 |
| Accumulated depreciation | ( 22) | ( 1,638) | ( 3,218) | ( 4,878) |
| | $ 378 | $ 3,167 | $ 3,501 | $ 7,046 |
| 2012 | | | | |
| At January 1 | $ 378 | $ 3,167 | $ 3,501 | $ 7,046 |
| Additions | 6,447 | 383 | 380 | 7,210 |
| Depreciation | ( 433) | ( 991) | ( 916) | ( 2,340) |
| At December 31 | $ 6,392 | $ 2,559 | $ 2,965 | $ 11,916 |
| At December 31, 2012 | | | | |
| Cost | $ 6,847 | $ 5,178 | $ 7,099 | $ 19,124 |
| Accumulated depreciation | ( 455) | ( 2,619) | ( 4,134) | ( 7,208) |
| | $ 6,392 | $ 2,559 | $ 2,965 | $ 11,916 |

The Group has no property, plant and equipment pledged to others.

(6) Intangible assets

| | Patent | | | | |
|---|---|---|---|---|---|
| | OBI-822 Therapeutically metastatic breast cancer vaccines | OBI-858 Product development project of botulinum | OBI-833 Next-generation cancer vaccine | OBI-868 Reagent for cancer screening | Total |
| At January 1, 2013 | | | | | |
| Cost | $ 87,577 | $ 42,858 | $ - | $ - | $ 130,435 |
| Accumulated amortization | ( 46,364) | ( 3,572) | - | - | ( 49,936) |
| | $ 41,213 | $ 39,286 | $ - | $ - | $ 80,499 |
| 2013 | | | | | |
| At January 1 | $ 41,213 | $ 39,286 | $ - | $ - | $ 80,499 |
| Additions | - | - | 1,500 | 1,500 | 3,000 |
| Amortization (Note) | ( 5,152) | ( 4,285) | ( 69) | ( 69) | ( 9,575) |
| At December 31 | $ 36,061 | $ 35,001 | $ 1,431 | $ 1,431 | $ 73,924 |
| At December 31, 2013 | | | | | |
| Cost | $ 87,577 | $ 42,858 | $ 1,500 | $ 1,500 | $ 133,435 |
| Accumulated amortization | ( 51,516) | ( 7,857) | ( 69) | ( 69) | ( 59,511) |
| | $ 36,061 | $ 35,001 | $ 1,431 | $ 1,431 | $ 73,924 |

| | Patent | | |
|---|---|---|---|
| | OBI-822 Therapeutically metastatic breast cancer vaccines | OBI-858 Product development project of botulinum | Total |
| At January 1, 2012 | | | |
| Cost | $ 87,577 | $ - | $ 87,577 |
| Accumulated amortization | ( 36,001) | - | ( 36,001) |
| | $ 51,576 | $ - | $ 51,576 |
| 2012 | | | |
| At January 1 | $ 51,576 | $ - | $ 51,576 |
| Additions | - | 42,858 | 42,858 |
| Amortization (Note) | ( 10,363) | ( 3,572) | ( 13,935) |
| At December 31 | $ 41,213 | $ 39,286 | $ 80,499 |
| At December 31, 2012 | | | |
| Cost | $ 87,577 | $ 42,858 | $ 130,435 |
| Accumulated amortization | ( 46,364) | ( 3,572) | ( 49,936) |
| | $ 41,213 | $ 39,286 | $ 80,499 |

Note: Amortization is recognized as “Operating expenses - research and development expenses”.

A. The Company purchased patents named “OPT-822”, therapeutically metastatic breast cancer vaccines, and “OPT-80”, Macrolide, from Optimer Pharmaceuticals, Inc. (the name “Optimer” is no longer used and the name was changed to “OBI-822/821” after the organization changed in October 2012) on December 29, 2003. The main contract information are as follows:

(a) The patent amounting to USD 6 million (approximately TWD 204 million) based on the appraisal report, was acquired as intellectual property right through equity of 20,400 thousand shares.

(b) The Company signed an authorized sale contract for Antibiotics-Fidaxomicin with OPT on June 6, 2011. The contract states that the Company must pay royalty fees to OPT based on 17% or 22% of sales under the revenue achievements. The payment period of the royalty fee is the duration of patent right or ten years starting from the initial sales, whichever is later.

(c) The Company signed a patent transfer contract for Macrolide with Optimer Pharmaceuticals, Inc. on October 30, 2009. The price was $109,126 and the Company recognized a gain on disposal of assets amounting to $26,660 by deducting the costs of $116,423 and accumulated amortization of $33,957.

B. The Company purchased a patent named “product development project of botulinum” from Amaran Biotechnology Inc. on March 2, 2012, which amounted to $42,858. Please refer to Note

7 for the detailed information.

C. The Company acquired patents named “next-generation cancer vaccine” and “reagent for cancer screening”. The contract states that the Company must pay royalty fees based on the archived milestones. In 2013, the Company paid the royalty fees of $1,500 separately for both projects.

D. The Group has no intangible assets pledged to others.

(7) Pension

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 Company’s subsidiaries have a defined contribution pension plan. The pension costs under the defined contribution pension plans of the Group were $4,568 and $2,179 for the years ended December 31, 2013 and 2012, respectively.

(8) Share-based payment

A. The options were granted to qualified employees of the Company by issuing new shares when exercised. The options are valid for 10 years. The major contents were as follows:

| Type of agreement | Grant date | No. of units | Subscription share per unit | Vested conditions | Weighted-average remaining contract period (years) |
|---|---|---|---|---|---|
| Employee stock option plan | 2010.03.08 | 2,360,000 | 1 | One year after grant, employees can exercise options monthly at a certain percentage. | 6.18 |
| 〃 | 2010.05.21 | 100,000 | 1 | 〃 | 6.39 |
| 〃 | 2010.09.10 | 60,000 | 1 | 〃 | 6.69 |
| 〃 | 2010.12.15 | 144,000 | 1 | 〃 | 6.96 |
| 〃 | 2011.01.01 | 588,000 | 1 | 〃 | 7.00 |
| 〃 | 2011.03.30 | 80,000 | 1 | 〃 | 7.24 |
| 〃 | 2011.06.10 | 124,000 | 1 | 〃 | 7.44 |
| 〃 | 2011.09.30 | 260,000 | 1 | 〃 | 7.75 |
| 〃 | 2011.12.16 | 2,450,000 | 1 | 〃 | 7.96 |
| 〃 | 2012.02.13 | 1,560,000 | 1 | 〃 | 8.00 |
| 〃 | 2012.03.09 | 270,000 | 1 | 〃 | 8.19 |
| 〃 | 2013.11.27 | 1,821,000 | 1 | Two years after grant, employees can exercise options monthly at a certain percentage. | 9.91 |
| Cash capital increase reserved for employee preemption | 2013.07.26 | 839,514 | 1 | Vested immediately | - |

The above share-based payment arrangements are equity-settled.

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

| | For the years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | No. of units | Weighted-average exercise price (in dollars) | | No. of units | Weighted-average exercise price (in dollars) | |
| Options outstanding at beginning of the year | 5,203,715 | $ | 10.00 | 3,776,000 | $ | 10.00 |
| Options granted | 1,821,000 | | 247.40 | 4,220,000 | | 10.00 |
| Distribution of stock dividends / adjustments for number of shares granted for one unit of option | - | | - | - | | - |
| Options abandoned | ( 127,501) | | 10.00 | ( 540,333) | | 10.00 |
| Options exercised | ( 1,250,294) | | 10.00 | ( 2,251,952) | | 10.00 |
| Options outstanding at end of the year | 5,646,920 | | 86.56 | 5,203,715 | | 10.00 |
| Options exercisable at end of the year | 1,612,961 | | | 987,255 | | |
| Options authorized but not granted at end of the year | 2,883,000 | | | 4,000 | | |
| Options expired | - | | | - | | |

C. The weighted-average stock price of stock options at exercise dates was $167.8 (in dollars) for the year ended December 31, 2013.

D. As of December 31, 2013, December 31, 2012 and January 1, 2012, the range of exercise prices of stock options outstanding was $10~$247.4, $10 and $10 (in dollars), respectively.

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

| Type of agreement | Grant date | Range of exercise price per share (in dollars) | Expected volatility (Note) | Expected option life | Expected dividend yield | Risk-free interest rate | Fair value per unit (in dollars) |
|---|---|---|---|---|---|---|---|
| Employee stock option plan | 2010.03.08 | $ 10.0 | 44.23% | 10 years | 0% | 1.42% | $ 3.16 |
| 〃 | 2010.05.21 | 10.0 | 44.23% | 10 years | 0% | 1.42% | 3.16 |
| 〃 | 2010.09.10 | 10.0 | 44.23% | 10 years | 0% | 1.42% | 3.16 |
| 〃 | 2010.12.15 | 10.0 | 44.23% | 10 years | 0% | 1.42% | 3.16 |
| 〃 | 2011.01.01 | 10.0 | 41.62% | 10 years | 0% | 1.51% | 4.98 |
| 〃 | 2011.03.30 | 10.0 | 41.62% | 10 years | 0% | 1.51% | 4.98 |
| 〃 | 2011.06.10 | 10.0 | 41.62% | 10 years | 0% | 1.51% | 4.98 |
| 〃 | 2011.09.30 | 10.0 | 40.94% | 10 years | 0% | 1.29% | 3.21 |
| 〃 | 2011.12.16 | 10.0 | 40.94% | 10 years | 0% | 1.29% | 3.21 |
| 〃 | 2012.02.13 | 10.0 | 40.83% | 10 years | 0% | 1.22% | 5.21 |
| 〃 | 2012.03.09 | 10.0 | 40.83% | 10 years | 0% | 1.22% | 5.21 |
| 〃 | 2013.11.27 | 247.4 | 49.72% | 10 years | 0% | 1.44% | 128.42 |
| Cash capital increase reserved for employee preemption | 2013.07.26 | 158.0 | 18.68% | 0.125 years | 0% | 0.87% | 14.02 |

Note: Expected price volatility rate was estimated by using the average price volatility of similar listed and OTC companies within appropriate period and the Company's historical transaction data since its shares traded on the Emerging Stock Market.

F. For the years ended December 31, 2013 and 2012, the Company recognized employee stock option plan compensation expense of $25,713 and $14,083, respectively.

(9) Share capital

A. The Board of Directors of the Company on May 24, 2013 and March 9, 2012 adopted a resolution to increase capital by issuing 9,493,671 shares and 36,000,000 shares of new common stock with a par value of $158 and $15 (in dollars) per share, respectively. The increased capital have been collected and registered with the authority.

B. After the capital increases, as of December 31, 2013, the Company's authorized capital was $3,000,000, consisting of 300 million shares of ordinary stock (including 24 million shares reserved for employee stock options), and the outstanding capital was $1,489,959 with a par value of $10 (in dollars) per share. All proceeds from shares issued have been collected.

Movements in the number of the Company's ordinary shares outstanding are as follows:

| | 2013 | 2012 |
|---|---|---|
| At January 1 | 138,251,952 | 100,000,000 |
| Employee stock options exercise | 1,250,294 | 2,251,952 |
| Cash capital increase | 9,493,671 | 36,000,000 |
| At December 31 | 148,995,917 | 138,251,952 |

(10) 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 Law requires that the amount of capital surplus to be capitalised 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.

| | 2013 | | |
|---|---|---|---|
| | Share premium | Employee stock options | Others |
| At January 1 | $ 187,737 | $ 15,645 | $ 91 |
| Cash capital increase | 1,405,063 | - | - |
| Employee stock options exercise | 15,651 | ( 15,651) | - |
| Employee stock options compensation cost | - | 25,713 | - |
| Employee stock options expired | - | ( 2,804) | 2,804 |
| At December 31 | $ 1,608,451 | $ 22,903 | $ 2,895 |

| | 2012 | | |
|---|---|---|---|
| | Share premium | Employee stock options | Others |
| At January 1 | $ - | $ 9,390 | $ - |
| Cash capital increase | 180,000 | - | - |
| Employee stock options exercise | 7,737 | ( 7,737) | - |
| Employee stock options compensation cost | - | 14,083 | - |
| Employee stock options expired | - | ( 91) | 91 |
| At December 31 | $ 187,737 | $ 15,645 | $ 91 |

(11) Accumulated deficit

A. According to the Company's Articles of Incorporation, the annual net income, after paying all taxes, covering prior years’ losses, setting aside 10% as legal reserve and appropriating an amount as special reserve according to relevant regulations or as required by the government, if any, should be distributed as follows:

(a) No more than 2% as directors' and supervisors' bonuses;

(b) No less than 2% as employees' bonuses;

(c) The remaining earnings plus the undistributed earnings, if any, may be appropriated according to a resolution adopted in the shareholders' meeting.

B. The Company is facing a capital intensive industrial environment, with the life cycle of the industry in the growth phase. The residual dividend policy is adopted taking into consideration the Company's operating expansion plans and investment demands. According to the balanced dividend policy adopted by the Board of Directors, stock dividends and cash dividends will be allocated in consideration of the actual net income and funds status and cash dividends shall account for at least 10% of the total dividends distributed.

C. Except for covering accumulated deficit, increasing capital or payment of cash, the legal reserve shall not be used for any other purpose. The amount capitalized or the cash payment shall not exceed 25% of the paid-in capital.

D. The deficit compensation of 2013 had been proposed by the Board of Directors on March 26, 2014. Details are summarized as follows:

| | 2013 |
|---|---|
| Accumulated deficit at beginning of the year | ($ 756,221) |
| Net loss in 2013 | ( 438,584) |
| Accumulated deficit at end of the year | ($ 1,194,805) |

As of March 26, 2014, the deficit compensation proposal of 2013 stated above had not been resolved by the shareholders.

E. No estimated amounts of employees' bonuses and directors' and supervisors' remuneration were recognized for the years ended December 31, 2013 and 2012. Information on the appropriation of the Company's employees' bonus and directors' and supervisors' remuneration as proposed by the Board of Directors and approved by the shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(12) Other income

| | For the years ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Government grants | $ 17,884 | $ 24,481 |
| Interest income from bank deposits | 6,234 | 2,287 |
| Others | 2,257 | 181 |
| | $ 26,375 | $ 26,949 |

The Company obtained government grants for OBI-822 (former name: OPT-822/821), therapeutically metastatic breast cancer vaccines, in Phase Ⅱ/Ⅲ from Department of Industrial Technology of Ministry of Economic Affairs R.O.C. (MOEA) on December 25, 2012 and September 22, 2011, respectively. The contract periods are 2012.7.1~2015.6.30 and

2011.1.1~2012.6.30 and contract grants are $75,128 and $27,435, respectively. The Company recognized government grants of $17,884 and $24,481 based on the development process and the examined results for the years ended December 31, 2013 and 2012, respectively.

(13) Other gains and losses

| | For the years ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Net gain on financial assets at fair value through profit or loss | $ 2,557 | $ 3,344 |
| Net currency exchange gain (loss) | 1,591 | ( 1,466) |
| Other net losses | ( 1,457) | - |
| | $ 2,691 | $ 1,878 |

(14) Expenses by nature

| | For the years ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Employee benefit expenses | $ 117,251 | $ 73,453 |
| Clinical trials cost | 167,276 | 83,949 |
| Clinical material expenses | 47,987 | 53,904 |
| Royalty | 22,406 | - |
| Rental expenses | 8,353 | 6,738 |
| Consulting and service fees | 50,333 | 28,334 |
| Depreciation charges on property, plant and equipment | 6,612 | 2,340 |
| Amortization charges on intangible assets | 9,575 | 13,935 |
| Other expenses | 37,857 | 21,449 |
| | $ 467,650 | $ 284,102 |

(15) Employee benefit expense

| | For the years ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Wages and salaries | $ 79,748 | $ 53,269 |
| Employee stock options | 25,713 | 14,083 |
| Labor and health insurance fees | 5,027 | 3,132 |
| Pension costs | 4,568 | 2,179 |
| Other personnel expenses | 2,195 | 790 |
| | $ 117,251 | $ 73,453 |

(16) Income tax

A. Reconciliation between income tax expense and accounting profit:

| | For the years ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Tax calculated based on loss before tax and statutory tax rate | ($ 74,559) | ($ 43,397) |
| Effects from items disallowed by tax regulation | ( 95) | 801 |
| Effect from unrecognized deferred tax assets | 74,654 | 42,596 |
| Tax expense | $ - | $ - |

B. The details of unused investment tax credits under the Act for the Development of Biotech and New Pharmaceuticals Industry are as follows:

| December 31, 2013 | | |
|---|---|---|
| Qualifying items | Unused tax credits | Unrecognized deferred tax assets |
| Research and development | $ 195,107 | $ 195,107 |

| December 31, 2012 | | |
|---|---|---|
| Qualifying items | Unused tax credits | Unrecognized deferred tax assets |
| Research and development | $ 90,358 | $ 90,358 |

| January 1, 2012 | | |
|---|---|---|
| Qualifying items | Unused tax credits | Unrecognized deferred tax assets |
| Research and development | $ 32,911 | $ 32,911 |

The unused tax credits can offset the current income tax payable for the next five years with a range of not more than 50% of each year's income tax payable, but the last year can be fully offset.

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

| December 31, 2013 | | | | |
|---|---|---|---|---|
| Year incurred | Amount filed/ assessed | Unused amount | Unrecognized deferred tax assets | Usable until year |
| 2004 | Amount filed | $ 28,141 | $ 28,141 | 2014 |
| 2005 | Amount filed | 14,520 | 14,520 | 2015 |
| 2006 | Amount filed | 19,409 | 19,409 | 2016 |
| 2007 | Amount filed | 22,592 | 22,592 | 2017 |
| 2008 | Amount filed | 154,355 | 154,355 | 2018 |
| 2009 | Amount filed | 7,557 | 7,557 | 2019 |
| 2010 | Amount filed | 92,437 | 92,437 | 2020 |
| 2011 | Amount filed | 116,457 | 116,457 | 2021 |
| 2012 | Amount assessed | 253,837 | 253,837 | 2022 |
| 2013 | Amount assessed | 425,902 | 425,902 | 2023 |

| December 31, 2012 | | | | |
|---|---|---|---|---|
| Year incurred | Amount filed/ assessed | Unused amount | Unrecognized deferred tax assets | Usable until year |
| 2003 | Amount filed | $ 21,154 | $ 21,154 | 2013 |
| 2004 | Amount filed | 28,141 | 28,141 | 2014 |
| 2005 | Amount filed | 14,520 | 14,520 | 2015 |
| 2006 | Amount filed | 19,409 | 19,409 | 2016 |
| 2007 | Amount filed | 22,592 | 22,592 | 2017 |
| 2008 | Amount filed | 154,355 | 154,355 | 2018 |
| 2009 | Amount filed | 7,557 | 7,557 | 2019 |
| 2010 | Amount filed | 92,437 | 92,437 | 2020 |
| 2011 | Amount assessed | 118,826 | 118,826 | 2021 |
| 2012 | Amount assessed | 253,837 | 253,837 | 2022 |

| January 1, 2012 | | | | |
|---|---|---|---|---|
| Year incurred | Amount filed/ assessed | Unused amount | Unrecognized deferred tax assets | Usable until year |
| 2003 | Amount filed | $ 21,154 | $ 21,154 | 2013 |
| 2004 | Amount filed | 28,141 | 28,141 | 2014 |
| 2005 | Amount filed | 14,520 | 14,520 | 2015 |
| 2006 | Amount filed | 19,409 | 19,409 | 2016 |
| 2007 | Amount filed | 22,592 | 22,592 | 2017 |
| 2008 | Amount filed | 154,355 | 154,355 | 2018 |
| 2009 | Amount filed | 7,557 | 7,557 | 2019 |
| 2010 | Amount filed | 92,437 | 92,437 | 2020 |
| 2011 | Amount assessed | 118,826 | 118,826 | 2021 |

D. The Tax Authority has examined the Company’s income tax returns through 2011.

E. Accumulated deficit:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Deficit generated in and after 1998 | ($ 1,194,805) | ($ 756,221) | ($ 500,946) |

F. As of December 31, 2013, December 31, 2012 and January 1, 2012, the balance of the imputation credit account was $0, and no earnings can be distributed.

(17) Loss per share

| | For the year ended December 31, 2013 | | |
|---|---|---|---|
| | Amount after tax | Weighted-average number of ordinary shares outstanding (shares in thousands) | Loss per share (in dollars) |
| Basic and diluted loss per share | | | |
| Net loss | ($ 438,584) | 140,953 | ($ 3.11) |

| | For the year ended December 31, 2012 | | |
|---|---|---|---|
| | Amount after tax | Weighted-average number of ordinary shares outstanding (shares in thousands) | Loss per share (in dollars) |
| Basic and diluted loss per share | | | |
| Net loss | ($ 255,275) | 130,735 | ($ 1.95) |

Note: The potential ordinary shares will cause the anti-dilutive effect due to net loss in 2013 and 2012, so the basic loss per share is the same as the diluted loss per share.

(18) Operating leases

The Group leases offices under non-cancellable operating lease agreements. As of December 31, 2013 and 2012, the Group recognized rental expenses of $8,353 and $6,738, respectively. Information about the future aggregate minimum lease payments under non-cancellable operating leases are disclosed in Note 9.

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Company was controlled by Optimer Pharmaceuticals, Inc. (registered in the United States) before October 2012. However, due to change in equity structure, as of December 31, 2013, Ruentex Financial Group holds 31% of the Company’s shares and the remaining shares are widely held. Accordingly, the Company does not have an ultimate parent company or controlling party.

(2) Significant related party transactions

A. Other receivables

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Receivables from related parties: | | | |
| －Entity controlled by key management | $ - | $ - | $ 216 |
| －Ultimate parent (lost control) | - | - | 1,467 |
| | $ - | $ - | $ 1,683 |

B. Property transactions

In March 2012, the Company purchased a patent named "product development project of botulinum" from Amaran amounting to $45,000, which was based on the appraisal report made by an external expert.

(3) Key management compensation

| | For the years ended December 31, | |
|---|---|---|
| | 2013 | 2012 |
| Salaries and other short-term employee benefits | $ 35,711 | $ 32,874 |
| Share-based payments | 4,599 | 9,627 |
| | $ 40,310 | $ 42,501 |

## 8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

| | Book value | | | |
|---|---|---|---|---|
| Pledged asset | December 31, 2013 | December 31, 2012 | January 1, 2012 | Purpose |
| Other current assets | $ 9,900 | $ 14,840 | $ 12,111 | Deposits in import duty bank loan and government grant (Note) |
| Other non-current assets | 34,651 | 1,336 | 1,314 | Deposits in clinical trial agreement and rental deposit, etc. |
| | $ 44,551 | $ 16,176 | $ 13,425 | |

Note: According to the contract with Ministry of Economic Affairs Development and Technology, the Company was requested to provide the same amount of refundable deposits guaranteed by the bank, or the government grants cannot be used until the government approves. Please refer to Note 6(12) for the detailed information of government grant.

## 9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

In addition to those disclosed in Note 6(6), the Company entered into operating lease contracts for its offices. Future lease payments under those leases as of December 31, 2013 were as follows:

| Year | | Amount |
|---|---|---|
| 2014 | $ | 8,406 |
| 2015 | | 2,286 |
| 2016 | | 466 |
| | $ | 11,158 |

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern through maintaining an optimal capital structure to reduce the cost of capital, and to provide returns for shareholders after the Company turns around from loss to profit. In order to maintain or adjust the capital structure, the Group may increase capital by cash and sell assets to pay off or enrich operating capital, adjust the amount of dividends paid to shareholders or capital reduction, etc. The Group monitors capital on the basis of the Debt/Equity ratio. The ratio was calculated by the "Net debt" divided by the "Total equity". The "Net debt" is the "Total liability" less cash and cash equivalents, and the "Total equity" is the same as the consolidated balance sheet. During 2013, the Group's strategy was to maintain the ratio within reasonable security range, which was unchanged from 2012. The ratios are as follows:

| | December 31, 2013 | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Total liability | $ 41,458 | $ 44,402 | $ 14,273 |
| Less: cash and cash equivalents | 1,273,011 | 450,338 | 56,149 |
| Net debt | ($ 1,231,553) | ($ 405,936) | ($ 41,876) |
| Total equity | $ 1,929,202 | $ 829,772 | $ 508,444 |

(2) Financial instruments

A. Fair value information of financial instruments

The carrying values of the Group's financial instruments measured at non fair value (including cash and cash equivalents, other receivables, notes payable and other payables) are reasonably approximate to the fair values. Please refer to Note 12(3) for the fair value information of financial instruments measured at fair value.

B. Financial risk management policies

(a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial position and financial performance.

(b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close cooperation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

A. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and RMB. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

B. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The group companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

C. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

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

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Sensitivity Analysis | | |
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) | Extent of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | | | |
| Financial assets - Monetary items | | | | | | |
| USD:NTD | $ 1,656 | 29.81 | $ 49,357 | 1% | $ 494 | $ - |
| RMB:NTD | 253 | 4.92 | 1,245 | 1% | 12 | - |
| Financial liability - Monetary items | | | | | | |
| USD:NTD | 526 | 29.81 | 15,804 | 1% | 158 | - |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Sensitivity Analysis | | |
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) | Extent of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | | | |
| Financial assets - Monetary items | | | | | | |
| USD:NTD | $ 3,218 | 29.04 | $ 93,459 | 1% | $ 935 | $ - |

| | January 1, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Sensitivity Analysis | | |
| | Foreign currency amount (in thousands) | Exchange rate | Book value (NTD) | Extent of variation | Effect on profit or loss | Effect on other comprehensive income |
| (Foreign currency: functional currency) | | | | | | |
| Financial assets - Monetary items | | | | | | |
| USD:NTD | $ 62 | 30.28 | $ 1,878 | 1% | $ 19 | $ - |

Price risk

A. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

B. The prices of the Group’s investments in equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, post-tax loss for the years ended December 31, 2013 and 2012 would have increased/decreased by $0 and $2,700, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by $225 and $0, respectively, as a result of gains/losses on equity securities classified as available-for-sale.

(b) Credit risk

i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group’s credit policy, the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and research achievement terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings. The utilization of credit limits is regularly monitored. Credit risk arises from deposits in banks and financial institutions, as well as credit exposures to associated research agencies, including outstanding receivables and committed transactions. For banks and financial institutions, only those with the stable credit quality are accepted.

ii No credit limits were exceeded during 2013 and 2012, and management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk

i. Cash flow forecasting is performed by Group treasury to monitor rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational and R&D needs. Such forecasting is in compliance with internal R&D project schedule targets.

ii. Group treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts. As at December 31, 2013, December 31, 2012 and January 1, 2012, the Group held bonds and funds of $500,000, $269,965 and $386,648, respectively, that are expected to readily generate cash inflows for managing liquidity risk.

iii. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

| | December 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | Between 3 and 6 months | Between 6 months and 1 year | Over 1 year | Total |
| Non-derivative financial liabilities: | | | | | |
| Notes payable | $ 718 | $ 205 | $ 342 | $ - | $ 1,265 |
| Other payables | 3,491 | 4,022 | 32,631 | - | 40,144 |
| Other financial liabilities | - | 49 | - | - | 49 |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | Between 3 and 6 months | Between 6 months and 1 year | Over 1 year | Total |
| Non-derivative financial liabilities: | | | | | |
| Notes payable | $ 205 | $ 205 | $ 410 | $ 753 | $ 1,573 |
| Other payables | 19,424 | 5,460 | 17,939 | - | 42,823 |
| Other financial liabilities | - | 6 | - | - | 6 |

| | January 1, 2012 | | | | |
|---|---|---|---|---|---|
| | Less than 3 months | Between 3 and 6 months | Between 6 months and 1 year | Over 1 year | Total |
| Non-derivative financial liabilities: | | | | | |
| Other payables | $ 742 | $ 1,420 | $ - | $ - | $ 2,162 |
| Other financial liabilities | - | 12,111 | - | - | 12,111 |

iv. The Group does not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value estimation

A. The table below analyses financial instruments measured at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data.

The following table presents the Group's financial assets and liabilities that are measured at fair value at December 31, 2013, December 31, 2012 and January 1, 2012:

| | December 31, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Available-for-sale financial assets | | | | |
| Equity securities | $ - | $ - | $ 22,500 | $ 22,500 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Equity securities | $ 269,965 | $ - | $ - | $ 269,965 |

| | January 1, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets: | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Equity securities | $ 386,648 | $ - | $ - | $ 386,648 |

B. The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price or the closing price. These instruments are included in level 1. Instruments included in level 1 comprise primarily open-end funds classified as financial assets at fair value through profit or loss.

C. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

D. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

E. Specific valuation techniques used to value financial instruments include:

(a) Quoted market prices or dealer quotes for similar instruments.

(b) Other techniques, such as expected future discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

F. The following table presents the changes in level 3 instruments as at December 31, 2013, December 31, 2012 and January 1, 2012:

| | 2013 | 2012 |
|---|---|---|
| | Equity securities | Equity securities |
| At January 1 | $ - | $ - |
| Acquired in the period | 22,500 | - |
| At December 31 | $ 22,500 | $ - |

13. SEGMENT INFORMATION

(1) General information

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

(2) Measurement of segment information

A. The chief operating decision-maker evaluates the performance of the operating segments based on income before tax. The significant accounting policies and estimates of the operating segment and the accounting policies, estimates and assumptions described in Notes 4 and 5 of the consolidated financial statements are the same.

B. The financial information reported to the chief operating decision-maker and the financial information of the consolidated statements of comprehensive income are the same.

(3) Geographical information

Geographical information for the years ended December 31, 2013 and 2012 is as follows:

| | For the years ended December 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| | Revenue | Non-current assets | Revenue | Non-current assets |
| Taiwan | $ - | $ 144,183 | $ - | $ 94,358 |
| Others | - | 447 | - | - |
| | $ - | $ 144,630 | $ - | $ 94,358 |

The above non-current assets included property, plant and equipment, intangible assets and other non-current assets, which are categorized based on their location.

14. INITIAL APPLICATION OF IFRSs

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

(1) Exemptions elected by the Group

No exemption was elected by the Group.

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

A. Accounting estimates

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

B. Derecognition of financial assets and financial liabilities

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

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

IFRS 1 requires that entity should make reconciliation for equity, comprehensive income and cash flows for the comparative periods. The Group’s initial application of IFRSs has no significant effect on cash flows from operating activities, investing activities and financing activities. Except for reconciliation for equity on December 31, 2012 as shown below, the remaining periods of equity and comprehensive income are the same between R.O.C. GAAP and IFRSs.

A. Reconciliation for equity on December 31, 2012:

| | R.O.C. GAAP | Effect of transition from R.O.C. GAAP to IFRSs | IFRSs |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | $ 450,338 | $ - | $ 450,338 |
| Financial assets at fair value through profit or loss - current | 269,965 | - | 269,965 |
| Other receivables | 191 | - | 191 |
| Prepayments | 44,482 | - | 44,482 |
| Other current assets | 14,840 | - | 14,840 |
| Total current assets | 779,816 | - | 779,816 |
| Non-current assets | | | |
| Property, plant and equipment | 12,523 | ( 607) | 11,916 |
| Intangible assets | 80,499 | - | 80,499 |
| Other non-current assets | 1,336 | 607 | 1,943 |
| Total non-current assets | 94,358 | - | 94,358 |
| Total assets | $ 874,174 | $ - | $ 874,174 |
| Current liabilities | | | |
| Notes payable | $ 1,573 | $ - | $ 1,573 |
| Other payables | 42,823 | - | 42,823 |
| Other current liabilities | 6 | - | 6 |
| Total liabilities | 44,402 | - | 44,402 |
| Equity attributable to shareholders of the parent | | | |
| Share capital | | | |
| Common stock | 1,382,520 | - | 1,382,520 |
| Capital surplus | 203,473 | - | 203,473 |
| Accumulated deficit | | | |
| Accumulated deficit | ( 756,221) | - | ( 756,221) |
| Total equity | 829,772 | - | 829,772 |
| Total liabilities and equity | $ 874,174 | $ - | $ 874,174 |

Reasons for reconciliation are outlined below:

Prepayment for acquisition of property, plant and equipment is presented in ‘Property, plant and equipment’ in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”. However, such prepayment should be presented in ‘Other non-current assets’ based on its nature under IFRSs.

B. Major adjustments for the consolidated statements of cash flows for the year ended December 31, 2012:

(a) The transition of R.O.C. GAAP to IFRSs has no effect on the Group’s cash flows reported.

(b) The reconciliation between R.O.C. GAAP and IFRSs has no net effect on the Group's cash flows reported.