TAIWAN LIPOSOME COMPANY

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2012 AND 2011

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

Report of Independent Accountants Translated from Chinese

PWCR12000198

To Taiwan Liposome Company

We have audited the accompanying consolidated balance sheets of Taiwan Liposome Company and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Liposome Company and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China.

Taiwan Liposome Company adopted International Financial Reporting Standards, and relevant interpretations and interpretative bulletins (IFRSs) that were ratified by the former Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC) in the preparation of its financial statements effective January 1, 2013. Information relating to the adoption of IFRSs is disclosed in Note 13 under the requirements of Jin-Guan-Shen-Zi Order No. 0990004943 of FSC, dated February 2, 2010. The IFRSs may be subject to change during the time of transition; therefore, the actual impact of IFRSs adoption on Taiwan Liposome Company may also change.

PricewaterhouseCoopers
Taipei, Taiwan
Republic of China

March 4, 2013

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such 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 financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

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

	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 908,101	$ 309,029
Accounts receivable, net (Note 4(2))	35,065	-
Accounts receivable - related party (Note 5)	-	5,251
Other receivables (Notes 4(14)(18))	787	8,981
Other financial assets - current (Note 6)	2,658	4,326
Prepaid expenses (Note 4(3))	1,997	30,128
Prepayments	2,845	5,961
Total current assets	951,453	363,676
Funds and Investments		
Other financial assets - non-current (Note 6)	8,890	11,548
Property, Plant and Equipment (Note 4(4))		
Cost		
Land (Note 6)	14,962	14,962
Buildings (Note 6)	29,532	29,532
Testing equipment	81,719	71,206
Office equipment	8,663	3,527
Leasehold improvements	28,576	5,049
	163,452	124,276
Less: Accumulated depreciation	(46,345)	(36,258)
Construction in progress and prepayments for equipment	11,483	5,876
Total property, plant and equipment, net	128,590	93,894
Intangible Assets		
Deferred pension costs (Note 4(9))	920	1,003
Other intangible assets (Note 4(5))	29,397	31,336
Total intangible assets	30,317	32,339
Other Assets		
Refundable deposits	4,493	2,055
Deferred expenses	-	2,259
Total other assets	4,493	4,314
TOTAL ASSETS	$ 1,123,743	$ 505,771

	2012	2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Notes payable	$ 12,952	$ 2,462
Accrued expenses (Note 4(6))	111,013	30,537
Other payables	2,284	1,713
Receipts in advance (Note 4(8))	-	4,280
Long-term liabilities - current portion (Note 4(7))	19,428	17,505
Other current liabilities	3,724	3,636
Total current liabilities	149,401	60,133
Long-term Liabilities		
Long-term loans (Note 4(7))	69,874	89,305
Long-term notes payable	-	634
Total long-term liabilities	69,874	89,939
Other Liabilities		
Accrued pension liabilities (Note 4(9))	1,098	996
Other liabilities - other	3,087	3,853
Total other liabilities	4,185	4,849
Total Liabilities	223,460	154,921
Stockholders' Equity		
Capital (Note 4(10))		
Common stock	439,930	391,006
Stock subscriptions received in advance	2,146	-
Capital reserves (Note 4(11))		
Paid-in capital in excess of par value of common stock	685,958	421,454
Capital reserve from employee stock options (Note 4(13))	4,275	3,748
Retained earnings		
Accumulated deficit (Note 4(12))	(229,974)	(464,300)
Other Adjustments to Stockholders' Equity		
Cumulative translation adjustments	(1,681)	(912)
Unrealized pension cost (Note 4(9))	(371)	(146)
Total Stockholders' Equity	900,283	350,850
Commitments and contingent liabilities (Note 7)		
Subsequent events (Note 9)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,123,743	$ 505,771

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

See report of independent accountants dated March 4, 2013.

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT LOSS PER SHARE DATA)

	2012		2011	
Operating revenues				
Other operating revenues (Notes 4(16) and 5)	$ 240,656		$ 78,231	
Operating expenses (Notes 4(9)(13)(17))				
General and administrative expenses	(55,852)		(46,026)	
Research and development expenses	(374,583)		(257,331)	
Total operating expenses	(430,435)		(303,357)	
Operating loss	(189,779)		(225,126)	
Non-operating Income and Gains				
Interest income	472		311	
Other non-operating income (Note 4(18))	5,071		11,571	
Total non-operating income and gains	5,543		11,882	
Non-operating Expenses and Losses				
Interest expense	(2,139)		(2,388)	
Loss on disposal of property, plant and equipment	(205)		(81)	
Foreign exchange loss, net	(297)		(878)	
Total non-operating expenses and losses	(2,641)		(3,347)	
Loss before income tax	(186,877)		(216,591)	
Income tax expense (Note 4(14))	(251)		(394)	
Consolidated net loss	($ 187,128)		($ 216,985)	
Attributable to:				
Equity holders of the Company	($ 187,128)		($ 216,985)	
	Before Tax	After Tax	Before Tax	After Tax
Basic Loss Per Share (in dollars) (Note 4(15))	($ 4.74)	($ 4.75)	($ 7.28)	($ 7.30)
Diluted Loss Per Share (in dollars) (Note 4(15))	($ 4.74)	($ 4.75)	($ 7.28)	($ 7.30)

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

See report of independent accountants dated March 4, 2013.

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

	Capital			Capital Reserves								
	Common stock	Preferred stock	Stock subscriptions received in advance	Paid-in capital in excess of par value of common stock	Paid-in capital in excess of par value of preferred stock	Additional paid-in capital - treasury stock transactions	Capital reserve from donated assets	Capital reserve from employee stock options	Accumulated deficit	Cumulative translation adjustments	Unrecognized pension cost	Total
2011												
Balance at January 1, 2011	$ 211,265	$ 80,915	$ -	$ 380,553	$ 262,572	$ 12,952	$ 5,019	$ 5,078	($ 908,411)	($ 1,671)	($ 8)	$ 48,264
Amortization of employee stock options plan compensation expense	-	-	-	-	-	-	-	1,170	-	-	-	1,170
Employee stock options	7,594	-	-	12,686	-	-	-	(2,500)	-	-	-	17,780
Capital reserves used to cover accumulated deficit	-	-	-	(380,553)	(262,572)	(12,952)	(5,019)	-	661,096	-	-	-
Issuance of common stock for cash	91,232	-	-	408,768	-	-	-	-	-	-	-	500,000
Preferred stocks converted to common stocks	80,915	(80,915)	-	-	-	-	-	-	-	-	-	-
Consolidated net loss for 2011	-	-	-	-	-	-	-	-	(216,985)	-	-	(216,985)
Unrecognized pension cost	-	-	-	-	-	-	-	-	-	-	(138)	(138)
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	759	-	759
Balance at December 31, 2011	$ 391,006	$ -	$ -	$ 421,454	$ -	$ -	$ -	$ 3,748	($ 464,300)	($ 912)	($ 146)	$ 350,850
2012												
Balance at January 1, 2012	$ 391,006	$ -	$ -	$ 421,454	$ -	$ -	$ -	$ 3,748	($ 464,300)	($ 912)	($ 146)	$ 350,850
Amortization of employee stock options plan compensation expense	-	-	-	-	-	-	-	1,634	-	-	-	1,634
Employee stock options	2,704	-	-	4,902	-	-	-	(1,107)	-	-	-	6,499
Capital reserves used to cover accumulated deficit	-	-	-	(421,454)	-	-	-	-	421,454	-	-	-
Issuance of common stock for cash	46,220	-	-	681,056	-	-	-	-	-	-	-	727,276
Stock subscriptions received in advance	-	-	2,146	-	-	-	-	-	-	-	-	2,146
Consolidated net loss for 2012	-	-	-	-	-	-	-	-	(187,128)	-	-	(187,128)
Unrecognized pension cost	-	-	-	-	-	-	-	-	-	-	(225)	(225)
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	(769)	-	(769)
Balance at December 31, 2012	$ 439,930	$ -	$ 2,146	$ 685,958	$ -	$ -	$ -	$ 4,275	($ 229,974)	($ 1,681)	($ 371)	$ 900,283

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

See report of independent accountants dated March 4, 2013.

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

	2012	2011
Cash flows from operating activities		
Consolidated net loss	($ 187,128)	($ 216,985)
Adjustments to reconcile consolidated net loss to net cash used in operating activities:		
Amortization of employee stock options plan compensation expense	1,634	1,170
Depreciation	19,676	15,623
Amortization	6,056	7,501
Loss on disposal of property, plant and equipment	205	81
Changes in assets and liabilities:		
Accounts receivable	(29,814)	-
Accounts receivable - related party	-	1,256
Other receivables	8,194	(4,412)
Prepaid expenses	28,131	(28,153)
Prepayments	3,116	3,507
Notes payable	10,490	(4,343)
Accrued expenses	80,476	(4,386)
Other payables	(536)	536
Other current liabilities	88	(15)
Long-term deferred revenues (including current portion)	(4,280)	(6,420)
Accrued pension liabilities	(40)	(42)
Net cash used in operating activities	(63,732)	(235,082)
Cash flows from investing activities		
Decrease in other financial assets	4,326	19,710
Acquisition of property, plant and equipment	(52,254)	(18,069)
Proceeds from disposal of property, plant and equipment	137	15
Increase in other intangible assets	(4,193)	(729)
(Increase) decrease in refundable deposits	(2,438)	102
Increase in deferred expenses	-	(9)
Net cash (used in) provided by investing activities	(54,422)	1,020
Cash flows from financing activities		
Payment of long-term loans	(17,508)	(13,460)
Decrease in long-term notes payable	(634)	(217)
Issuance of common stock for cash	727,276	500,000
Stock subscriptions received in advance	2,146	-
Employee stock options	6,499	17,780
Net cash provided by financing activities	717,779	504,103
Effect due to changes in exchange rate	(553)	641
Net increase in cash and cash equivalents	599,072	270,682
Cash and cash equivalents at beginning of the year	309,029	38,347
Cash and cash equivalents at end of the year	$ 908,101	$ 309,029

(Continued on next page)

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

	2012	2011
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	$ 2,154	$ 2,374
Cash paid during the year for income tax	$ 251	$ 394
Investing activities that resulted in partial cash flows		
Acquisition of property, plant and equipment	$ 52,595	$ 18,667
Add: other payables and other liabilities - other at beginning of the year	5,030	4,432
Less: other payables and other liabilities - other at end of the year	(5,371)	(5,030)
Cash paid	$ 52,254	$ 18,069
Non-cash flows from investing and financing activity		
Long-term liabilities - current portion	$ 19,428	$ 17,505

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

See report of independent accountants dated March 4, 2013.

TAIWAN LIPOSOME COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Taiwan Liposome Company (the "Company") was founded on September 30, 1997 and incorporated on November 10, 1997 under the provisions of the Company Law of the Republic of China (R.O.C.) and was listed on Gre Tai Securities Market (GTSM) since December 21, 2012. The Company is a biopharmaceutical company focused on the research, development and commercialization of innovative pharmaceutical products based on its proprietary drug delivery technologies. Our strengths lie in lipid-based formulation and scale-up for parenteral drugs using micelles and nanoparticles to optimize the pharmacokinetics of drugs for better efficiency and lower toxicity, and thus prolong the product life cycle of branded drugs. As of December 31, 2012, the Company and subsidiaries had 88 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China. The Group's significant accounting policies are summarized as follows:

(1) Basis for preparation of consolidated financial statements

A. All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. The income (loss) of the subsidiaries is included in the consolidated statement of income effective on the date the Company gains control over the subsidiaries. The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective the date on which the Company loses control over the subsidiaries.

Significant intercompany transactions and assets and liabilities arising from intercompany transactions are eliminated.

B. Subsidiaries included in the consolidated financial statements and their changes in 2012

Investor	Subsidiary	Main activities	Ownership (%) Dec. 31, 2012	Ownership (%) Dec. 31, 2011	Description
Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	Research on new anti-cancer drugs and biotechnology services	100	100	Note
Taiwan Liposome Company	TLC Biopharmaceuticals, B.V.	Technical authorization and product development	100	100	Note

Note: Wholly-owned subsidiary.

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

D. Adjustments for subsidiaries with different balance sheet dates and accounting policies: None.
E. Special operating risks in foreign subsidiaries: None.
F. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.
G. Contents of subsidiaries' securities issued by the parent company: None.
H. Information on convertible bonds and common stock issued by subsidiaries: None.

(2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of the foreign subsidiaries are translated into New Taiwan dollars using the exchange rate at the balance sheet date; equity accounts are translated at historical rates, except for beginning retained earnings which are carried forward from prior year's balance. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated using the weighted-average rate for the year. Exchange differences are recorded as cumulative translation adjustments and are included as a component of stockholders' equity.

(3) Foreign currency transactions

A. Transactions denominated in foreign currencies are translated into functional currency at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year's profit or loss.

B. Monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.

(4) Classification of current and non-current items

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

a. Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold 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.

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

a. Liabilities arising from operating activities 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.

(5) Notes and accounts receivable, other receivables

A. Notes and accounts receivable are claims resulting from the sale of goods or services. Receivables arising from transactions other than the sale of goods or services are classified as other receivables. Notes and accounts receivable and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

B. The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, a provision for impairment of financial asset is recognized. The amount of impairment loss is determined based on the difference between the asset's carrying amount and the present value of estimated future cash flow, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized on profit or loss, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognized. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

(6) Consolidation and acquisitions

The Group adopts the purchase method of accounting for business mergers or acquisitions.

(7) Property, plant and equipment

A. Property, plant and equipment are stated at cost. Depreciation is provided on the straight-line method based on the assets' estimated economic service life. The estimated economic lives of property, plant and equipment are 2 ~ 10 years except for buildings, the estimated economic life of which is 44 years.

B. Major renewals and improvements are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred. The gain or loss on disposal is included in current non-operating income or expense.

(8) Intangible assets

A. Professional technology is stated at cost and amortized on a straight-line basis.

B. Computer software is stated at cost and amortized on a straight-line basis over 1 ~ 4 years.

(9) Deferred expenses

Deferred expenses is stated at cost and amortized on a straight-line basis over 2 ~ 4 years.

(10) Impairment of non-financial assets

The Group recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

(11) <u>Pension plan</u>

A. Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over 15 years.

B. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

(12) <u>Income tax</u>

A. The Group uses inter-period as well as intra-period tax allocation for income tax. Any over-provision or under-provision of prior years' income tax liabilities is included in current year's income tax expense. When a change in the tax laws is enacted, the deferred tax liability or asset is recomputed accordingly in the year of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, is recognized as an adjustment to current income tax expense (benefit).

B. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

C. In accordance with the "Income Basic Tax Act", effective January 1, 2006, income tax is accounted for based on the income tax law or other regulations when income tax is equal or more than the basic tax. When income tax is lower than the basic tax, income tax due shall be equal to the basic tax. The difference cannot be deducted from investment credits based on other regulations.

(13) <u>Share-based payment - employee compensation plan</u>

A. The employee stock options granted from January 1, 2004 through December 31, 2007 are accounted for in accordance with EITF 92-070, EITF 92-071 and EITF 92-072, "Accounting for Employee Stock Options", prescribed by the R.O.C. Accounting Research and Development Foundation. Compensation cost under the share-based employee compensation plan is recognized using the fair value method.

B. For the grant date of the share-based payment agreements set on or after January 1, 2008, the Group shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during that period.

(14) <u>Earnings per share</u>

A. The Company's capital structure is a complex capital structure. Pursuant to the R.O.C. SFAS No. 24, "Earnings Per Share", an enterprise with complex capital structure shall present both basic EPS and diluted EPS. The calculations of basic EPS and diluted EPS are as follows:

a. Basic EPS: The amount of earnings (or loss) per share is computed by dividing the amount of net income (or loss) attributable to common stock outstanding for the reporting period by the weighted average number of common shares outstanding during that period.

b. Diluted EPS: The calculation of diluted EPS is consistent with the calculation of basic EPS assuming that all dilutive potential common shares have been converted into common shares at the beginning of the reporting period and the amount of net income (or loss) attributable to common stock outstanding for the reporting period has been adjusted by the after-tax effect of any other changes in income or expense that would result from the conversion of the dilutive potential common shares.

B. Potential common shares refer to employee stock options and convertible preferred stocks issued by the Company. Upon calculation of the dilutive effect, "treasury stock" method and "if-converted" method are used respectively.

(15) Revenues, costs and expenses

Revenues are recognized when the earning process is substantially completed and are realized or realizable. Costs and expenses are recognized as incurred. In accordance with EITF 98-331, "Explanation for Revenue Recognition", prescribed by the R.O.C. Accounting Research and Development Foundation, royalty revenue shall be recognized in a reasonable and systematic approach during the authorized period, and shall not be recognized in full one time, if the authorization contract does not meet all of the following criteria:

A. The amount of royalty is fixed or non-refundable.

B. The contract is irrevocable.

C. Relevant rights may be at the authorized party's own disposition.

D. The party granting authority has no further obligations after passing on the rights to the authorized party.

(16) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

(17) Operating segments

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

3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Notes and accounts receivable, other receivables

Effective January 1, 2011, the Group adopted the amendments of R.O.C. SFAS No. 34, "Financial Instruments: Recognition and Measurement". A provision for impairment (bad debts) of notes and accounts receivable and other receivables is recognized when there is objective evidence that the receivables are impaired. The adoption of the amended SFAS No. 34 had no significant effect on the financial statements.

(2) Operating segments

Effective January 1, 2011, the Group adopted the newly issued R.O.C. SFAS No. 41, "Operating Segments" to replace the original R.O.C. SFAS No. 20, "Segment Reporting". This change in accounting principle had no effect on net loss and loss per share for the year ended December 31, 2011.

4. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2012	December 31, 2011
Cash on hand	$ 83	$ 75
Checking and demand deposits	868,021	293,878
Foreign currency deposits	39,997	15,076
	$ 908,101	$ 309,029

(2) Accounts receivable - net

	December 31, 2012	December 31, 2011
Accounts receivable	$ 35,065	$ -
Less: Allowance for doubtful accounts	-	-
	$ 35,065	$ -

(3) Prepaid expenses

	December 31, 2012	December 31, 2011
Prepaid insurance	$ 819	$ 263
Prepaid repair costs	503	1,452
Prepaid rent	122	1,842
Prepaid expenses for medicines research	-	25,282
Others	553	1,289
	$ 1,997	$ 30,128

(4) Property, plant and equipment

	December 31, 2012		
	Cost	Accumulated depreciation	Net book value
Land	$ 14,962	$ -	$ 14,962
Buildings	29,532	(2,078)	27,454
Testing equipment	81,719	(38,759)	42,960
Office equipment	8,663	(2,702)	5,961
Leasehold improvements	28,576	(2,806)	25,770
Prepayments for equipment	11,483	-	11,483
	$ 174,935	($ 46,345)	$ 128,590

	December 31, 2011		
	Cost	Accumulated depreciation	Net book value
Land	$ 14,962	$ -	$ 14,962
Buildings	29,532	(1,422)	28,110
Testing equipment	71,206	(30,738)	40,468
Office equipment	3,527	(1,840)	1,687
Leasehold improvements	5,049	(2,258)	2,791
Prepayments for equipment	5,876	-	5,876
	$ 130,152	($ 36,258)	$ 93,894

(5) Other intangible assets

	December 31, 2012			
	Cost	Accumulated amortization	Effect of exchange rate	Net book value
Computer software	$ 1,473	($ 275)	$ -	$ 1,198
Professional technology:				
Camptothecin anti-cancer technology - Lipotecan	49,126	(20,851)	(76)	28,199
	$ 50,599	($ 21,126)	($ 76)	$ 29,397

	December 31, 2011			
	Cost	Accumulated amortization	Effect of exchange rate	Net book value
Computer software	$ 2,369	($ 1,407)	$ -	$ 962
Professional technology:				
Camptothecin anti-cancer technology - Lipotecan	46,138	(15,764)	-	30,374
	$ 48,507	($ 17,171)	$ -	$ 31,336

(6) Accrued expenses

	December 31, 2012	December 31, 2011
Research expenses	$ 85,066	$ 10,079
Salaries and bonuses	11,162	9,912
Service expenses	3,883	2,992
Research medicines expenses	1,821	1,926
Others	9,081	5,628
	$ 111,013	$ 30,537

(7) Long-term loans

	December 31, 2012	December 31, 2011
Long-term loans	$ 89,302	$ 106,810
Less: Current portion	(19,428)	(17,505)
	$ 69,874	$ 89,305
Annual interest rate	1%~3.29%	1%~3.29%

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

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

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

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

(8) Long-term deferred revenues

	December 31, 2012	December 31, 2011
Long-term deferred revenues	$ -	$ 4,280
Less: Current portion (recorded as receipts in advance)	-	(4,280)
	$ -	$ -

Please see Note 4(16) A. for details.

(9) Pension plan

A. The Company has a non-contributory and funded defined benefit plan in accordance with the Labor Standards Law, covering all regular employees before the implementation of the Labor Pension Act on July 1, 2005. The defined benefit plan will continue to cover the employees who choose to remain with the defined benefit plan. Upon retirement, pension payments are calculated based on total years of service and average salary of the last six months prior to retirement. Two base units are earned for the first 15 years of service and one unit for each additional year thereafter, with a maximum number of 45 units. The Company contributes 2% of the employees' monthly salaries and wages to an independent retirement trust fund with the Bank of Taiwan, the trustee. For the years ended December 31, 2012 and 2011, the net periodic pension cost under the defined benefit plan was $171 and $156, respectively. The balance of the retirement trust fund with the Bank of Taiwan was $1,319 and $1,099 as of December 31, 2012 and 2011, respectively.

B. The related assumptions used to calculate the periodic pension cost were as follows:

	2012	2011
Discount rate	1.75%	1.90%
Rate of compensation increase	2.00%	2.00%
Expected return on plan assets	1.75%	1.90%

C. The reconciliation of the pension plan's funded status to accrued pension liability is as follows:

	December 31,	
	2012	2011
Benefit obligation		
Vested benefit obligation	$ -	$ -
Non-vested benefit obligation	(2,416)	(2,095)
Accumulated benefit obligation	(2,416)	(2,095)
Effect of future salary increments	(957)	(878)
Projected benefit obligation	(3,373)	(2,973)
Fair value of plan assets	1,319	1,099
Funded status	(2,054)	(1,874)
Unrecognized net transition obligation	920	1,003
Unrecognized gain on plan assets	1,327	1,025
Additional accrued pension liabilities	(1,291)	(1,150)
Accrued pension liabilities	($ 1,098)	($ 996)

D. The components of net pension cost were as follows:

	2012	2011
Service cost	$ -	$ -
Interest cost	56	47
Expected return on plan assets	(21)	(16)
Amortization of:		
Unrecognized net transition obligation	84	84
Unrecognized loss on plan assets	52	41
Net pension cost	$ 171	$ 156

E. Effective July 1, 2005, the Company has established a defined contribution pension plan under the Labor Pension Act (the "New Plan") for eligible employees holding Republic of China citizenship. The Company deposits the pension amount based on 6% of the employees' monthly salaries and wages into each employee's personal pension account with the Bureau of Labor Insurance. For the years ended December 31, 2012 and 2011, the pension costs under the New Plan were $3,485 and $2,989, respectively.

F. The pension costs of the subsidiaries under the defined contribution pension plan for the years ended December 31, 2012 and 2011 were $420 and $410, respectively.

(10) <u>Common stock</u>

A. As of December 31, 2011, the authorized and outstanding capital of the Company were $600,000 and $439,930, respectively, consisting of 43,993,000 shares of common stock at par value of $10 per share.

B. To increase the Company's working capital, the stockholders at their special stockholders' meeting on March 10, 2011 adopted a resolution to raise additional cash through private placement with the effective date set on March 25, 2011. The maximum number of shares to be issued through the private placement is 4,711,000 shares at an estimated subscription price of $42.45 (in dollars) per share. As of December 31, 2011, the amount of capital raised through the private placement was $200,000 which had been registered. Pursuant to the Securities and Exchange Law, the common shares raised through the private placement are subject to certain transfer restrictions and cannot be listed on the stock exchange until three years after they have been issued and have been offered publicly. Other than these restrictions, the rights and obligations of the common shares raised through the private placement rank pari passu with the other issued common shares.

C. On July 14, 2011, the Board of Directors resolved to set July 14, 2011 as the effective date for preferred stock conversion to common stock at a conversion ratio of 1:1. After the share conversion, the Company has no issued outstanding preferred stock.

(11) <u>Capital reserve</u>

A. Pursuant to the R.O.C. Company Law, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital reserve to be capitalized mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

B. Please see Note 4(13) for details.

(12) <u>Accumulated deficit</u>

A. Under the Company's Articles of Incorporation, the current earnings, if any, shall be distributed in the following order:

a. Payment of taxes and duties.

b. Cover prior years' accumulated deficit, if any.

c. After deducting items A and B, set aside 10% of the remaining amount as legal reserve.

d. After deducting items A to C, appropriating 2% of remaining earnings as remuneration to directors and supervisors.

e. After deducting items A to C, appropriating 2%~8% of remaining earnings as employees' bonuses.

B. The Company's dividend policy is summarized below:

As the Company operates in a volatile business environment and is in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans. According to the dividend policy adopted by the Board of Directors, cash dividends shall account for at least 10% of the total dividends distributed.

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

D. As of December 31, 2012 and 2011, the information regarding the accumulated deficit is as follows:

	December 31, 2012	December 31, 2011
On and after January 1, 1998	($ 229,974)	($ 464,300)

E. a. The stockholders during their meeting on June 26, 2012 and June 17, 2011 adopted a resolution to use capital reserves to cover accumulated deficit amounting to $421,454 and $661,096, respectively.

b. On March 4, 2013, the Board of Directors proposed that the Company shall use capital reserve of $229,974 to cover accumulated deficit; however, as of March 4, 2013, this proposal had not been resolved by the stockholders.

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

F. As of December 31, 2012, there was no balance in stockholders' account of deductible tax and creditable tax ratio.

G. As of December 31, 2012, the Company had an accumulated deficit, accordingly, no distribution of earnings information needs to be disclosed.

(13) Share-based payment - employee compensation plan

A. As of December 31, 2012, the Company's share-based payment transactions and stock options plan are set forth below:

a. Share-based payment transactions:

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions	Actual/ estimated future resignation rate
Employee stock options	2007.01.01	5.0	5 years	1 month service vested immediately	3%/0%
〃	2007.01.01	155.4	5 years	1 year service vested immediately	3%/0%
〃	2007.06.01	97.5	5 years	1 month service vested immediately	3%/0%
〃	2007.06.01	313.9	5 years	1 year service vested immediately	3%/0%
〃	2007.12.31	186.0	5 years	1 year service vested immediately	3%/0%
〃	2008.12.31	112.0	5 years	1 year service vested immediately	3%/9.5%
〃	2009.04.13	102.5	3 years	1 month service vested immediately	3%/0%
〃	2009.04.13	188.2	3 years	1 year service vested immediately	3%/5%
〃	2009.10.29	788.0	5 years	1 year service vested immediately	3%/3%
Cash capital increase reserved for employee preemption	2009.03.20	(Note a and b)	None	None	None
Employee stock options	2010.01.21	200.0	5 years	1 year service vested immediately	3%/5%
〃	2010.07.22	108.0	5 years	1 year service vested immediately	3%/31%

Type of arrangement	Grant date	Quantity granted (in thousands)	Contract period	Vesting conditions	Actual/ estimated future resignation rate
Employee stock options	2011.07.14	1,200.0	5 years	2 years service vested immediately	3%/6%
Cash capital increase reserved for employee preemption	2011.09.15	441.2	None	Vested immediately	None
Employee stock options	2011.12.23	168.0	5 years	2 years service vested immediately	3%/5%
〃	2012.05.08	132.0	5 years	2 years service vested immediately	3%/3%
Cash capital increase reserved for employee preemption	2012.12.14	693.0	None	Vested immediately	None

Note: a.10% (809,000 shares) of total shares of cash capital increase were reserved for employees; however, employees did not subscribe for those shares.

b.The employee stock subscription price per share as resolved by the Board of Directors on March 20, 2009 is higher than the Company's net asset value per share, thus, there is no employee compensation cost for the Company as regulated by the Gin-Guan-Zheng-Shen-Zi Order No. 0990006370 of the former Financial Supervisory Commission, Executive Yuan, dated March 15, 2010.

b. Details of the employee stock options are set forth below:

	2012		2011	
	No. of units (in thousands)	Weighted-average exercise price (in dollars)	No. of units (in thousands)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of year	1,937.1	$ 35	1,442.4	$ 25
Options granted	132.0	117	1,368.0	39
Options exercised	(347.0)	25	(759.4)	23
Options revoked	(178.8)	43	(113.9)	30
Options outstanding at end of year	1,543.3	44	1,937.1	35
Options exercisable at end of year	37.5		84.7	
Options permitted but not yet outstanding at end of year	-		132.0	

c. As of December 31, 2012 and 2011, the details of the outstanding options are as follows:

		December 31, 2012			
		Options outstanding at end of year		Options exercisable at end of year	
Exercise price (in dollars)	Quantity (in thousands)	Weighted average expected remaining life (years)	Weighted average exercise price (in dollars)	Quantity (in thousands)	Weighted average exercise price (in dollars)
$ 28	247.3	1.96	$ 28	37.5	$ 28
35	1,025.0	3.54	35	-	35
69.9	149.0	3.98	69.9	-	69.9
117.3	122.0	4.35	117.3	-	117.3
	1,543.3			37.5	

		December 31, 2011			
		Options outstanding at end of year		Options exercisable at end of year	
Exercise price (in dollars)	Quantity (in thousands)	Weighted average expected remaining life (years)	Weighted average exercise price (in dollars)	Quantity (in thousands)	Weighted average exercise price (in dollars)
$ 18	30.5	1.11	$ 18	30.5	$ 18
18	76.8	0.29	18	42.1	18
28	495.8	2.94	28	12.1	28
35	1,166.0	4.54	35	-	35
69.9	168.0	4.98	69.9	-	69.9
	1,937.1			84.7	

d. For the stock options granted by the Company on or after January 1, 2004 with the compensation cost accounted for using the fair value method, the fair value on the grant date is estimated using the Black-Scholes option-pricing model. The weighted-average parameters used in the estimation of the fair value are as follows:

Employee stock options

Grant date	May 8, 2012	December 23, 2011	July 14, 2011
Dividend yield rate	-	-	-
Exercise price volatility	42.44%	43.92%	44.70%
Risk-free interest rate	1.00%	1.00%	1.14%
Expected vesting period (years)	3.875	3.875	3.875
Per share exercise price (in dollars)	$ 117.3	$ 69.9	$ 35
Weighted stock options average fair value (in dollars)	5.98	1.65	2.34

Grant date	July 22, 2010	January 21, 2010	October 29, 2009
Dividend yield rate	-	-	-
Exercise price volatility	41.66%	42.23%	48.10%
Risk-free interest rate	0.64%	0.65%	0.76%
Expected vesting period (years)	3.75	3.75	3.75
Per share exercise price (in dollars)	$ 28	$ 28	$ 28
Weighted stock options average fair value (in dollars)	2.30	3.15	3.53

Grant date	April 13, 2009 (A)	April 13, 2009 (B)	December 31, 2008
Dividend yield rate	-	-	-
Exercise price volatility	53.21%	52.88%	52.87%
Risk-free interest rate	0.30%	0.52%	0.25%
Expected vesting period (years)	1.61	2.615	2.55
Per share exercise price (in dollars)	$ 18	$ 18	$ 18
Weighted stock options average fair value (in dollars)	0.824	1.47	1.41

Grant date	December 31, 2007	June 1, 2007 (A)	June 1, 2007 (B)
Dividend yield rate	-	-	-
Exercise price volatility	44.81%	42.04%	41.79%
Risk-free interest rate	2.43%	2.44%	2.44%
Expected vesting period (years)	3.55	2.54	3.55
Per share exercise price (in dollars)	$ 18	$ 18	$ 18
Weighted stock options average fair value (in dollars)	3.29	4.04	4.91

Grant date	January 1, 2007 (A)	January 1, 2007 (B)
Dividend yield rate	-	-
Exercise price volatility	39.46%	40.32%
Risk-free interest rate	1.86%	1.86%
Expected vesting period (years)	2.54	3.55
Per share exercise price (in dollars)	$ 13	$ 13
Weighted stock options average fair value (in dollars)	7.06	7.82

Cash capital increase reserved for employee preemption

Grant date	December 14, 2012	September 15, 2011
Dividend yield rate	-	-
Exercise price volatility	45.84%	30.90%
Risk-free interest rate	0.67%	0.64%
Expected vesting period (years)	0.01	0.07
Per share exercise price (in dollars)	$ 158	$ 68
Weighted stock options average fair value (in dollars)	-	-

B. Expenses incurred on equity-settled share-based payment transactions for 2012 and 2011 were $1,634 and $1,170, respectively.

(14) Income tax

A. Income tax expense and income tax refundable are reconciled as follows:

	2012	2011
Income tax expense	$ 251	$ 394
Less: Income tax payable booked in subsidiary	(251)	(394)
Income tax refundable in prior years	(76)	(45)
Prepaid and withholding taxes	(45)	(31)
Income tax refundable (recorded as other receivables)	($ 121)	($ 76)

B. Deferred income tax assets and liabilities:

	December 31, 2012	December 31, 2011
Current:		
Deferred income tax assets	$ 23,175	$ 13,301
Less: valuation allowance	(23,175)	(13,301)
	$ -	$ -
Non-current:		
Deferred income tax assets	$ 300,287	$ 280,070
Less: valuation allowance	(300,287)	(280,070)
	$ -	$ -

C. The components of deferred income tax assets and liabilities are as follows:

Items	December 31, 2012 Amount	December 31, 2012 Tax effect	December 31, 2011 Amount	December 31, 2011 Tax effect
Current:				
Temporary differences				
Unrealized foreign exchange loss (gain)	$ 355	$ 60	($ 17)	($ 3)
Deferred revenues	-	-	4,280	728
Loss carryforwards	16,078	2,733	-	-
Investment tax credits		20,382		12,576
		23,175		13,301
Less: valuation allowance		(23,175)		(13,301)
		$ -		$ -
Non-current:				
Temporary differences				
Over provision of allowance for bad debts	$ 71,013	$ 12,072	$ 71,013	$ 12,072
Investment loss	10,887	1,851	8,767	1,490
Book-tax differences of buildings	7,581	1,289	7,767	1,320
Impairment loss	17,795	3,025	21,132	3,592
Loss carryforwards	1,200,059	219,045	1,037,380	191,786
Investment tax credits		63,005		69,810
		300,287		280,070
Less: valuation allowance		(300,287)		(280,070)
		$ -		$ -

D. As of December 31, 2012, losses available to be carried forward were as follows:

Year in which loss was incurred	Amount	Year of expiration
2003	$ 2,733	2013
2004	4,975	2014
2005	4,979	2015
2006	7,836	2016
2007	16,782	2017
2008	34,075	2018
2009	23,229	2019
2010	33,357	2020
2011	36,193	2021
2012	32,693	2022
	$ 196,852	

E. As of December 31, 2012, losses available to be carried forward by a subsidiary were as follows:

Year in which loss was incurred	Amount	Year of expiration
2005	$ 5,032	2025
2006	8,238	2026
2007	10,859	2027
2008	797	2028
	$ 24,926	

F. As of December 31, 2012, the details of unused investment tax credits were as follows:

a. The details of unused investment tax credits under Article 6 of the Statute for Upgrading Industry were as follows:

Year incurred	Amount	Year of expiration
2009	$ 20,382	2013

b. The details of unused investment tax credits for the Development of Biotech and New Pharmaceuticals Industry were as follows:

Year incurred	Amount	Year of expiration
2008	$ 18,894	Note
2009	19	Note
2010	11,527	Note
2011	18,703	Note
2012	13,862	Note
	$ 63,005	

Note: The Company was approved as a biotech new pharmaceuticals company by the Ministry of Economic Affairs (MOEA) according to the Jing-Shou-Gong-Zi Letter No. 09720410630 of MOEA, dated August 6, 2008. Accordingly, the Company and its stockholders are eligible for investment tax credits under the Statute for Development of Biotech New Pharmaceuticals Industry. Relevant investment tax credits can be used to offset the Company's income taxes within five years from the year in which the Company starts to have income tax payable.

G. As of December 31, 2012, the Company's income tax returns through 2009 have been assessed and approved by the Tax Authority.

(15) Loss per share (LPS)

	For the year ended December 31, 2012				
	Amount		Weighted-average outstanding common shares (in thousands)	Loss per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Basic LPS					
Net loss	($186,877)	($187,128)	39,392	($ 4.74)	($ 4.75)
Dilutive effect of common stock equivalents:					
Employees' stock options	-	-	(Note)		
Diluted LPS	($186,877)	($187,128)	39,392	($ 4.74)	($ 4.75)

	For the year ended December 31, 2011				
	Amount		Weighted-average outstanding common shares (in thousands)	Loss per share (in dollars)	
	Before tax	After tax		Before tax	After tax
Basic LPS					
Net loss	($216,591)	($216,985)	29,734	($ 7.28)	($ 7.30)
Dilutive effect of common stock equivalents:					
Employees' stock options	-	-	(Note)		
Convertible preferred stock	-	-	(Note)		
Diluted LPS	($216,591)	($216,985)	29,734	($ 7.28)	($ 7.30)

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

(16) Operating revenues

	2012	2011
Co-develop revenue	$ 207,144	$ 49,904
Milestone payment revenue	33,512	28,327
	$ 240,656	$ 78,231

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

B. The Company granted TTY Biopharm Company Limited (TTY) the exclusive right in Taiwan to produce and promote LIPO-DOX, a medicinal product developed by the Company. Under the contract, royalty payments are based on 12% of the sales from the products sold.

(17) Personnel, depreciation and amortization expenses

	Recorded in operating expenses	
	2012	2011
Personnel expenses		
Salaries	$ 90,208	$ 81,010
Labor and health insurance	6,691	5,909
Pension	4,076	3,555
Others	4,966	4,115
	$ 105,941	$ 94,589
Depreciation	$ 19,676	$ 15,623
Amortization	6,056	7,501
	$ 25,732	$ 23,124

(18) Government subsidy income

A. The Company entered into a “A Lipid-based Sustained Release Ophthalmicdrug” contract with the Institute for Information Industry in 2011, and the Company is entitled to receive $12,800 in subsidy as approved by the (100) Zi-An-Zi Letter No. 1001000462. As of December 31, 2012 and 2011, the related other receivable was $632 and $8,888, respectively. For the years ended December 31, 2012 and 2011, the Company recognized government subsidy income of $3,509 and $8,888, respectively (recorded as other non-operating income).

B. The Company entered into a “Lipid-based Delivery System Formulated Pro Flow Development Project” contract with the Industrial Development Bureau in 2009, and the Company is entitled to receive $22,260 in subsidy as approved by the (98) Zi-An-Zi Letter No. 002383. As of December 31, 2011, the case was completed and finished. For the year ended December 31, 2011, the Company recognized government subsidy income of $1,552 (recorded as other non-operating income).

C. The Company applied for financing interest subsidies and labor vocational training subsidies in accordance with “Taipei Municipal Self-Governance Ordinance for Encouraging Private Investment” in 2012 and 2011, and subsidies of $44 and $408 were received, respectively (recorded as other non-operating income).

D. The Company’s subsidiary applied for Lipotecan TLC 388 Anti-Tumor Therapeutic project in accordance with “Department of the Treasury, USA Government” in 2011, and subsidy of $73 was received (recorded as other non-operating income).

5. RELATED PARTY TRANSACTIONS

(1) Name and relationship of related party

Name of related party	Relationship with the Company
TTY Biopharm Company Limited (TTY)	Related party in substance (Note)

Note: TTY has no significant influence to the Company’s operation since 2012; therefore, TTY is no longer the Company’s related party.

(2) Significant transactions and balances with related party

A. Operating revenues

	2012		2011	
	Amount	% of operating revenues	Amount	% of operating revenues
TTY	$ -	-	$ 28,327	36

The Company granted TTY the exclusive right in Taiwan to produce and promote LIPO-DOX, a medicinal product developed by the Company. Under the contract, royalty payments are based on 12% of the sales from the products sold.

(Note) For the year ended December 31, 2012, the Company has received royalty payments amounting to $33,512 from TTY. Please see Note 4(16) B. for details. Since TTY is no longer the Company’s related party since 2012, the receivable from TTY of $6,518 was recorded as accounts receivable.

B. Accounts receivable

	December 31,			
	2012		2011	
	Amount (Note)	% of accounts receivable	Amount	% of accounts receivable
TTY	$ -	$ -	$ 5,251	100

(Note) Please see A. for details.

(3) **Salaries/rewards information of key management**

	2012		2011	
Salaries and bonuses	$	13,303	$	12,173
Service execution fees		853		814
Share-based payment expenses		270		301
Total	$	14,426	$	13,288

A. Salaries and bonuses include regular wages, special responsibility allowances, pensions, severance pay, various bonuses, rewards, etc.

B. Service execution fees include travel or transportation allowances, special expenditures, various allowances, housing and vehicle benefits, etc.

C. Share-based payment expenses refer to the compensation costs accounted for under R.O.C. SFAS No. 39.

D. For more information, please refer to the Company's annual report.

6. DETAILS OF PLEDGED ASSETS

	December 31,				
Asset Pledged	2012		2011		Purpose of pledge
Shown as other financial assets - current					
Demand deposits	$	2,658	$	4,326	Note 1
Shown as other financial assets - non current					
Demand deposits	$	5,090	$	7,748	Note 1
Time deposits		3,800		3,800	Note 1
	$	8,890	$	11,548	
Shown as fixed assets					
Land	$	14,962	$	14,962	Note 2
Buildings		27,454		28,110	Note 2
	$	42,416	$	43,072	

Note 1: The Company provided collaterals for loans and government subsidies.
Note 2: The Company provided collaterals for loans.

7. COMMITMENTS

As of December 31, 2012, the significant commitments and contingent liabilities of the Group are as follows:

(1) The Group had outstanding commitment on office lease contracts, etc. totaling $57,381.

(2) The Company had outstanding commitments on office decorations, purchase for machinery and equipment and maintenance contracts totaling $10,578.

(3) The Company had outstanding commitments on purchase contracts for the research of medicines totaling $23,032.

(4) The Company had outstanding commitment on contract with PharmaNet Gmbh for testing, research and development totaling $216,708.

(5) The Company's subsidiary entered into a synthesis technology of novel camptothecin derivative

transfer agreement with California Pacific Medical Center (CPMC). Under the agreement, CPMC charges the Company's subsidiary a patent usage fee of USD10,000 per annum and charges royalties of USD300,000 maximum according to its R&D achievement rate and charges royalties equal to certain percentage of relevant sales volume in the future. As of December 31,2012, it had paid USD100,000 royalty.

8. SIGNIFICANT DISASTER LOSS

None.

9. SIGNIFICANT SUBSEQUENT EVENTS

(1) On March 4, 2013, the Board of Directors proposed that the Company shall use capital reserve to cover accumulated deficit. Please see Note 4(12) E. b for details.

(2) On March 4, 2013, the Board of Directors resolved to increase capital by cash for 10,000,000 shares with $10 par value per share. The issue price per share is $298, and the amount expected to be raised is $2.98 billion.

10. OTHERS

(1) Financial statement presentation

Certain accounts in the 2011 consolidated financial statements were reclassified to conform with the 2012 consolidated financial statement presentation.

(2) Fair values of the financial instruments

	December 31, 2012		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with fair values equal to book values	$ 946,490	$ -	$ 946,490
Other financial assets - non-current	8,890	-	8,890
Refundable deposits	4,493	-	4,493
Liabilities			
Financial liabilities with fair values equal to book values	126,249	-	126,249
Long-term loans (including long-term liabilities - current portion)	89,302	-	89,302

	December 31, 2011		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
Non-derivative financial instruments			
Assets			
Financial assets with fair values equal to book values	$ 327,511	$ -	$ 327,511
Other financial assets - non-current	11,548	-	11,548
Refundable deposits	2,055	-	2,055
Liabilities			
Financial liabilities with fair values equal to book values	34,712	-	34,712
Long-term loans (including long-term liabilities - current portion)	106,810	-	106,810
Long-term notes payable	634	-	634

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

A. For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash and cash equivalents, accounts receivable, accounts receivable - related parties, other receivables (excluding income tax refundable), other financial assets - current, notes payable, accrued expenses and other payables.

B. Other financial assets - non-current include demand deposits. The book value is approximate to the fair value.

C. The fair value of refundable deposits was based on the present value of expected cash flow amount.

D. Fixed interest rates are adopted for long-term loans. As the rate is below market rate, the fair value was based on the present value of expected cash flow amount. Thus, fair value is based on the book value.

E. The fair value of long-term notes payable was based on the present value of expected cash flow amount, thus fair value is based on the book value.

(3) As of December 31, 2012, the Group had no derivative financial instruments.

(4) Information on interest rate risk positions

As of December 31, 2012 and 2011, the financial assets with market value risk due to the change of interest amounted to $3,800 for both years; the financial liabilities with fair value risk due to the change of interest amounted to $26,404 and $35,972, respectively; and the financial liabilities with cash flow risk due to change of interest amounted to $62,898 and $70,838, respectively.

(5) Procedure of financial risk control and hedge

A. The Group's activities expose the Group to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

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

C. To meet its risk management objectives, the Group's procedure of hedge focus on market risk and cash flow interest rate risk.

(6) Information of material financial risk

A. Some transactions of the Group involve non-functional currency, resulting in the foreign currency denominated assets and liabilities which are affected by exchange rate fluctuations. The Group's significant foreign currency denominated assets and liabilities as of December 31, 2012 and 2011 are summarized below:

	December 31, 2012		December 31, 2011	
	Foreign Currency Amount (thousands)	Exchange Rate	Foreign Currency Amount (thousands)	Exchange Rate
Financial Assets				
Monetary Item				
USD:NTD	$ 1,503	29.040	$ 5	30.275
GBP:NTD	422	46.830	248	46.730
EUR:NTD	1	38.490	85	39.180
Financial Liabilities				
Monetary Item				
USD:NTD	334	29.040	315	30.275
JPY:NTD	-	0.336	7,318	0.391
AUD:NTD	338	30.165	1	30.735

B. Market risk

The Group borrows loans with fixed interest rate. Since its rate is below market rate, there is no market risk.

C. Credit risk

The Group has lower significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. The maximum loss to the Group is the book value of accounts receivable.

D. Liquidity risk

The Group expects no significant liquidity risk since it has sufficient working capital.

E. Cash flow risk

Floating interest rate is adopted for some borrowings; thus, changes of market interest rate would cause fluctuations in effective interest rate of borrowings, which affect their future cash flows.

(7) Inter-company transactions eliminated

	For the year ended December 31, 2012		
	Company names and debit (credit) amount		
Transactions eliminated	Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	TLC Biopharmaceuticals, B.V.
Long-term investments, intangible assets and stockholders' equity	($ 19,747)	$ 19,319	$ 428
Receivables and payables	7,895	(7,537)	(358)
Profit and loss accounts			
- Operating revenue (expenses)	(31,989)	30,093	1,896

	For the year ended December 31, 2011		
	Company names and debit (credit) amount		
Transactions eliminated	Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	TLC Biopharmaceuticals, B.V.
Long-term investments, intangible assets and stockholders' equity	($ 18,023)	$ 17,731	$ 292
Receivables and payables	6,371	(6,371)	-
Profit and loss accounts			
- Operating revenue (expenses)	(26,400)	26,400	-

11. DISCLOSURE INFORMATION OF THE COMPANY AND ITS SUBSIDIARIES

(1) Related information of significant transactions

All the transactions with subsidiaries disclosed below had been eliminated when preparing consolidated financial statements. The disclosure information as follows is for reference only.

A. Financing activities to any company or person: None.

B. Guarantee information: None.

C. Marketable securities held by the Company at December 31, 2012:

	Name and kind of marketable securities				December 31, 2012				
Name of investor	Type of marketable securities	Name of marketable securities	Relationship of the issuers with the Company	General ledger accounts	Number of shares	Book value	Percentage of ownership	Market value (Note)	Note
Taiwan Liposome Company	Common Stock	TLC Biopharmaceuticals, Inc.	A subsidiary of the Company	Long-term investments accounted for under the equity method	3,100,000	$ 45,079	100	$ 14.54	-
〃	〃	TLC Biopharmaceuticals, B.V.	〃	〃	1,000,000	428	100	0.43	-

Note: Net value per share.

D. Marketable securities acquired or sold during the year ended December 31, 2012 in excess of $100,000 or 20% of capital: None

E. Acquisition of real estate in excess of $100,000 or 20% of capital: None.

F. Disposal of real estate in excess of $100,000 or 20% of capital: None.

G. Related party purchases or sales transactions in excess of $100,000 or 20% of capital: None.

H. Receivables from related parties in excess of $100,000 or 20% of capital: None.

I. Information on derivative transactions: None.

(2) Disclosure information of investee company

All the transactions with subsidiaries disclosed below had been eliminated when preparing consolidated financial statements. The disclosure information as follows is for reference only.

Information related to investee companies' investment income or loss was translated at the average exchange rate for 2012 while others were translated at the rate of exchange prevailing at the balance sheet date.

A. Information of investee company:

				Original investment		Held as of December 31, 2012				
Name of investor	Name of investee company	Address	Main activities	Balance as of December 31, 2012	Balance as of December 31, 2011	Number of shares	Percentage of ownership	Book value	Income of the investee company	Investment (loss) income recognized by the Company
Taiwan Liposome Company	TLC Biopharmaceuticals, Inc.	USA	Research on new anti-cancer drugs and biotechnology services	$ 55,433	$ 55,433	3,100,000	100	$ 45,079	$ 2,354	($ 2,260)
〃	TLC Biopharmaceuticals, B.V.	Netherlands	Technical authorization and product development	4,410	4,410	1,000,000	100	428	139	139

B. Financing activities to any company or person: None.

C. Guarantee information: None.

D. Marketable securities held by the Company at December 31, 2012: None.

E. Marketable securities acquired or sold in excess of $100,000 or 20% of capital: None.

F. Acquisition of real estate in excess of $100,000 or 20% of capital: None.

G. Disposal of real estate in excess of $100,000 or 20% of capital: None.

H. Related party purchases or sales transactions in excess of $100,000 or 20% of capital: None.

I. Receivable from related parties in excess of $100,000 or 20% of capital: None.

J. Information on derivative transactions: None.

(3) Disclosure of information on indirect investments in Mainland China: None.

(4) Significant inter-company transactions: Not applicable as each transaction amount did not exceed 20% of capital.

12. SEGMENT INFORMATION

(1) General information

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

(2) Measurement of segment information

The Group assesses the performance of the operating segments based on the profit (loss) before tax and discontinued operations.

(3) Revenue information by category

Breakdown of the revenue from all sources is as follows:

	2012	2011
Authorization co-development revenue	$ 207,144	$ 49,904
Royalty revenue	33,512	28,327
	$ 240,656	$ 78,231

(4) Revenue information by geographic area

	2012		2011	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	$ 189,681	$ 152,248	$ 78,231	$ 124,013
Others	50,975	5,739	-	3,476
	$ 240,656	$ 157,987	$ 78,231	$ 127,489

(5) Information on major customers

	2012		2011	
	Revenue	% of revenues	Revenue	% of revenues
B Company	$ 156,169	65	$ 49,904	64
A Company	$ 33,512	14	$ 28,327	36
C Company	$ 50,975	21	$ -	-

13. DISCLOSURES RELATING TO THE ADOPTION OF IFRSs

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC) effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, and relevant interpretations and interpretative bulletins that are ratified by FSC (together referred to as IFRS).

The Group discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Order No. 0990004943 of FSC, dated February 2, 2010:

(1) Major contents and status of execution of the Group’s plan for IFRSs adoption:

The Company has established the IFRSs taskforce, headed by the Company’s chief financial officer, which is responsible for setting up a plan relative to the Company’s transition to IFRSs. The major contents and status of execution of this plan are outlined below:

Working Items for IFRSs Adoption	Status of Execution
a. Formation of an IFRSs group	Completed
b. Setting up a plan relative to the Group’s transition to IFRSs	Completed
c. Identification of the differences between current accounting policies and IFRSs	Completed
d. Identification of consolidated entities under the IFRSs framework	Completed
e. Evaluation of the impact of each exemption and option on the Group under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed
f. Evaluation of needed information system adjustments	Completed
g. Evaluation of needed internal control adjustments	Completed
h. Establish IFRSs accounting policies	Completed
i. Selection of exemptions and options available under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed
j. Preparation of statement of financial position on the date of transition to IFRSs	Completed
k. Preparation of IFRSs comparative financial information for 2012	In process
l. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments	In process

(2) Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be used in the preparation of financial statements in the future:

The Company uses the IFRSs already ratified currently by the FSC and the “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Company’s current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by the FSC or relevant interpretations or amendments to the “Rules Governing the Preparation of Financial Statements by Securities Issuers” come in the future.

Material differences identified by the Comapny that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future, and the effects of exemptions selected by the Company under IFRS 1 - First-time Adoption of International Financial Reporting Standards (refer to Note 13(3)) are set forth below:

A. Reconciliation of significant differences as of January 1, 2012

	R.O.C. GAAP	Adjustments	IFRSs	Description
Property, plant and equipment	$ 93,894	($ 5,876)	$ 88,018	(a)
Deferred pension costs	1,003	(1,003)	-	(c)
Other assets - other	-	5,876	5,876	(a)
Others	410,874	-	410,874	
Total Assets	$ 505,771	($ 1,003)	$ 504,768	
Accrued expenses	$ 30,537	$ 687	$ 31,224	(b)
Accrued pension liabilities	996	963	1,959	(c)
Others	123,388	-	123,388	
Total liabilities	$ 154,921	$ 1,650	$ 156,571	
Retained earnings	($ 464,300)	($ 3,711)	($ 468,011)	(b)(c)(d)
Cumulative translation adjustments	(912)	912	-	(d)
Others	816,062	146	816,208	(c)
Total stockholders' equity	$ 350,850	($ 2,653)	$ 348,197	

B. Explanations for the significant differences are as follows:

a. The Group's prepayments for the acquisition of property, plant and equipment are classified as "property, plant and equipment" in accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers". However, under IFRSs, it should be classified as other assets-other. Therefore, the Group reclassified property, plant and equipment, net of $5,876 to other assets-other of $5,876.

b. The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Group recognizes such costs as expenses upon actual payment. However, IAS 19, "Employee Benefits", requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. Therefore, the Group recognized accrued expenses of $687 and reduced retained earnings of $687 at the date of transition to IFRSs.

c. The Group increased accrued pension liabilities of $963, increased unrecognized pension cost of $146, decreased deferred pension cost of $1,003 and decreased retained earnings of $2,112. The reasons are as follows:

   a) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of its pension plan; when there is no deep market in corporate bonds, an entity is required to use market yields on government bonds (at the end day of the reporting period) instead.

b) In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. However, in accordance with IAS 19, “Employee Benefits”, the unrecognized transitional net benefit obligation should not be recognized because it is the Group’s first-time adoption of IFRSs.

c) In accordance with current accounting standards in R.O.C., the excess of the accumulated benefit obligation over the fair value of the pension plan (fund) assets at the balance sheet date is the minimum amount of pension liability that is required to be recognized on the balance sheet (“minimum pension liability”). However, IAS 19, “Employee Benefits”, has no regulation regarding the minimum pension liability.

d) In accordance with current accounting standards in R.O.C., the Company recognizes actuarial pension gain or loss as current net periodic pension costs using the corridor method. However, IAS 19, “Employee Benefits”, requires that actuarial pension gain or loss should be recognized immediately in other comprehensive income.

d. In accordance with current accounting standards in R.O.C., when financial statements of the foreign subsidiaries are translated into New Taiwan dollars, foreign currency is the functional currency; asset and liability accounts are translated using the exchange rate at the balance sheet date. Profit and loss accounts are translated using the weighted-average rate for the year. Exchange differences are recorded as cumulative translation adjustments and are included as a component of stockholders' equity. The Company selected the exemption in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards”, and recognized cumulative translation adjustment as zero at the date of transition to IFRSs. Therefore, the Company increased the cumulative translation adjustments by $912 and decreased retained earnings by $912 at the date of transition to IFRSs.

C. Reconciliation of significant differences as of December 31, 2012

	R.O.C. GAAP	Adjustments	IFRSs	Description
Property, plant and equipment	$ 128,590	($ 11,483)	$ 117,107	(a)
Deferred pension costs	920	(920)	-	(c)
Other assets - other	-	11,483	11,483	(a)
Others	994,233	-	994,233	
Total Assets	$ 1,123,743	($ 920)	$ 1,122,823	
Accrued expenses	$ 111,013	$ 1,879	$ 112,892	(b)
Accrued pension liabilities	1,098	1,109	2,207	(c)
Others	111,349	-	111,349	
Total liabilities	$ 223,460	$ 2,988	$ 226,448	
Retained earnings	($ 229,974)	($ 4,766)	($ 234,740)	(b)(c)(d)
Cumulative translation adjustments	(1,681)	912	(769)	(d)
Others	1,131,938	(54)	1,131,884	(c)
Total stockholders' equity	$ 900,283	($ 3,908)	$ 896,375	

D. Reconciliation of significant differences for the year ended December 31, 2012:

	R.O.C. GAAP	Adjustments	IFRSs	Description
Operating revenues	$ 240,656	$ -	$ 240,656	
Operating expenses	(430,435)	(1,055)	(431,490)	(b)(c)
Operating loss	(189,779)	(1,055)	(190,834)	
Non-operating gain and loss	2,902	-	2,902	
Loss before income tax	(186,877)	(1,055)	(187,932)	
Income tax expense	(251)	-	(251)	
Consolidated net loss	($ 187,128)	($ 1,055)	($ 188,183)	

Explanations for the significant differences are as follows:

a. Please refer to Note 13(2)A.a. for the explanation of the adjustment.

b. The Group increased accrued expenses by $1,879, decreased retained earnings at beginning of period by $687 and increased operating expenses by $1,192. Please refer to Note 13(2)A.b. for the explanation of the adjustment.

c. The Group increased accrued pension liabilities by $1,109, decreased deferred pension cost by $920, decreased retained earnings at beginning of period by $2,112, increased unrecognized pension cost by $371, decreased operating expenses by $137 and decreased other comprehensive income by $425. Please refer to Note 13(2)A.c. for the explanation of the adjustment.

d. Please refer to Note 13(2)A.d. for the explanation of the adjustment.

(3) The Company has elected the following exemptions in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that are expected to be applied in 2013:

A. Business combinations

The Group has elected not to apply the requirements in IFRS 3, “Business Combinations”, retrospectively to business combinations that occur before the date of transition to IFRSs.

B. Employee benefits

The Group has elected to recognize all accumulated actuarial gain or loss associated with employee benefit plans in retained earnings at the date of transition to IFRSs, and disclose the information of present value of defined benefit obligation, fair value of plan assets, gain or loss on plan assets and experience adjustments in accordance with paragraph 120A (P), IAS 19, “Employee Benefits”, based on their prospective amounts for each accounting period from the date of transition to IFRSs.

C. Cumulative translation adjustments

The Company has elected to recognize the amount of cumulative translation adjustments arising from foreign operations as zero at the date of transition to IFRSs, and deals with subsequent translation adjustments in accordance with IAS 21, “The Effects of Changes in Foreign Exchange Rates”.