

SCINOPHARM TAIWAN, LTD.

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2014 AND 2013

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



資誠

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Stockholders of ScinoPharm Taiwan, Ltd.

We have audited the accompanying consolidated balance sheets of ScinoPharm Taiwan, Ltd. and its subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended. 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 ScinoPharm Taiwan, Ltd. and its subsidiaries as of December 31, 2014 and 2013, and their financial performance and cash flows for the years then ended, in conformity with the "Rules Governing the Preparations of Financial Statements by Securities Issuers" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.



資誠

We have also audited the parent company only financial statements of ScinoPharm Taiwan, Ltd. as of and for the years ended December 31, 2014 and 2013, and have expressed an unqualified opinion on those financial statements.

PricewaterhouseCoopers, Taiwan

PricewaterhouseCoopers, Taiwan

Republic of China

March 25, 2015

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

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

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2014		December 31, 2013	
		AMOUNT	%	AMOUNT	%
Current assets					
Cash and cash equivalents	6(1)	\$ 1,927,603	17	\$ 2,289,428	20
Notes receivable, net		27	-	230	-
Accounts receivable, net	6(2) and 7	522,990	5	970,641	8
Other receivables		199,174	2	161,496	1
Inventory	5(2) and 6(3)	2,449,296	21	2,512,318	22
Prepayments		150,465	1	193,763	2
Other financial assets - current	8	-	-	15,552	-
Total current assets		5,249,555	46	6,143,428	53
Non-current assets					
Financial assets measured at cost - non-current	6(4)	167,673	1	167,673	1
Investments accounted for under equity method	6(5)	79,923	1	90,455	1
Property, plant and equipment	5(2), 6(6)(8) and 7	5,065,025	45	4,213,982	37
Intangible assets		23,554	-	28,709	-
Deferred income tax assets	5(2) and 6(24)	364,381	3	305,089	3
Prepayments for equipment		285,167	3	399,306	4
Other financial assets - non-current	8	24,734	-	24,667	-
Long-term prepaid rent	6(7)	94,189	1	92,994	1
Other non-current assets		17,619	-	17,925	-
Total non-current assets		6,122,265	54	5,340,800	47
Total assets		\$ 11,371,820	100	\$ 11,484,228	100

(Continued)

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2014		December 31, 2013	
		AMOUNT	%	AMOUNT	%
Current liabilities					
Short-term borrowings	6(9)	\$ 1,277,476	11	\$ 689,785	6
Financial liabilities at fair value through profit or loss - current	6(10)	3,669	-	1,138	-
Notes payable		1,153	-	1,080	-
Accounts payable		53,813	1	264,437	2
Other payables	6(11)	516,228	5	594,800	5
Current income tax liabilities	6(24)	27,738	-	147,735	1
Advance receipts		37,956	-	75,812	1
Total current liabilities		<u>1,918,033</u>	<u>17</u>	<u>1,774,787</u>	<u>15</u>
Non-current liabilities					
Deferred income tax liabilities	6(24)	3,156	-	639	-
Accrued pension liabilities	5(2) and 6(12)	68,704	1	65,548	1
Guarantee deposits received		<u>1,656</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-current liabilities		<u>73,516</u>	<u>1</u>	<u>66,187</u>	<u>1</u>
Total liabilities		<u>1,991,549</u>	<u>18</u>	<u>1,840,974</u>	<u>16</u>
Equity attributable to owners of the parent					
Share capital					
Share capital - common stock	6(14)(16)	7,029,643	62	6,759,272	59
Capital reserve					
Capital surplus	6(13)(15)(26)	1,257,277	11	1,247,796	11
Retained earnings	6(14)(16)(24)				
Legal reserve		348,285	3	220,944	2
Special reserve		22,829	-	22,829	-
Undistributed earnings		621,563	5	1,348,058	12
Other equity interest					
Other equity interest	6(17)	<u>100,674</u>	<u>1</u>	<u>44,355</u>	<u>-</u>
Total equity		<u>9,380,271</u>	<u>82</u>	<u>9,643,254</u>	<u>84</u>
Significant contingent liabilities and unrecognized contract commitments	9				
Total liabilities and equity		<u>\$ 11,371,820</u>	<u>100</u>	<u>\$ 11,484,228</u>	<u>100</u>

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

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except for earnings per share amounts)

Items	Notes	Year ended December 31			
		2014		2013	
		AMOUNT	%	AMOUNT	%
Sales revenue	6(18) and 7	\$ 4,097,844	100	\$ 5,088,245	100
Operating costs	6(3)(12)(22)(23)	(2,497,278)	(61)	(2,545,712)	(50)
Net operating margin		<u>1,600,566</u>	<u>39</u>	<u>2,542,533</u>	<u>50</u>
Operating expenses	6(7)(12)(22)(23) and 7				
Selling expenses		(177,695)	(4)	(188,443)	(4)
General and administrative expenses		(447,541)	(11)	(538,715)	(10)
Research and development expenses		(415,888)	(10)	(417,875)	(8)
Total operating expenses		<u>(1,041,124)</u>	<u>(25)</u>	<u>(1,145,033)</u>	<u>(22)</u>
Operating profit		<u>559,442</u>	<u>14</u>	<u>1,397,500</u>	<u>28</u>
Non-operating income and expenses					
Other income	6(19)	55,872	1	51,909	1
Other gains and losses	6(8)(10)(20)	6,532	-	16,189	-
Finance costs	6(6)(21)	(4,139)	(-)	(7,916)	(-)
Share of profit/(loss) of associates and joint ventures accounted for under equity method	6(5)	(15,498)	(-)	(16,791)	(1)
Total non-operating income and expenses		<u>42,767</u>	<u>1</u>	<u>11,013</u>	<u>-</u>
Profit before income tax		<u>602,209</u>	<u>15</u>	<u>1,408,513</u>	<u>28</u>
Income tax expense	6(24)	(118,066)	(3)	(135,109)	(3)
Profit for the year		<u>\$ 484,143</u>	<u>12</u>	<u>\$ 1,273,404</u>	<u>25</u>
Other comprehensive income					
Financial statements translation differences of foreign operations	6(17)	\$ 56,319	1	\$ 79,395	2
Actuarial (loss) gain on defined benefit plan	6(12)	(2,184)	(-)	498	(-)
Income tax relating to the components of other comprehensive income	6(24)	371	(-)	(85)	(-)
Total other comprehensive income for the year		<u>\$ 54,506</u>	<u>1</u>	<u>\$ 79,808</u>	<u>2</u>
Total comprehensive income for the year		<u>\$ 538,649</u>	<u>13</u>	<u>\$ 1,353,212</u>	<u>27</u>
Profit attributable to:					
Owners of the parent		<u>\$ 484,143</u>	<u>12</u>	<u>\$ 1,273,404</u>	<u>25</u>
Comprehensive income attributable to:					
Owners of the parent		<u>\$ 538,649</u>	<u>13</u>	<u>\$ 1,353,212</u>	<u>27</u>
Basic earnings per share	6(25)				
Net income		\$ 0.69		\$ 1.81	
Diluted earnings per share	6(25)				
Net income		\$ 0.69		\$ 1.81	

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

SCINOPHARM TAIWAN, LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Equity attributable to owners of the parent							
	Retained Earnings				Financial statements translation differences of foreign operations			
	Notes	Share capital - common stock	Capital reserve	Legal reserve	Special reserve	Undistributed earnings	Total	Non-controlling interest
For the year ended December 31, 2013								
Balance at January 1, 2013		\$ 6,499,300	\$ 1,246,977	\$ 103,897	\$ 22,829	\$ 1,231,176	\$ 9,069,139	\$ 1,603
Distribution of 2012 net income:								
Legal reserve		-	-	117,047	-	(117,047)	-	-
Cash dividends	6(16)	-	-	-	-	(779,916)	(779,916)	-
Stock dividends	6(14)(16)	259,972	-	-	-	(259,972)	-	-
Employee stock option compensation cost	6(13)(15)	-	819	-	-	-	819	-
Net income for 2013		-	-	-	-	1,273,404	1,273,404	-
Other comprehensive income for 2013	6(17)	-	-	-	-	413	79,395	-
Difference between the acquisition or disposal price and carrying amount of subsidiaries	6(15)(26)	-	-	-	-	-	-	-
Acquisition of subsidiaries		-	188	-	-	-	188	-
Disposal of subsidiaries		-	(188)	-	-	-	(188)	-
Non-controlling interest		-	-	-	-	-	-	(1,603)
Balance at December 31, 2013		\$ 6,759,272	\$ 1,247,796	\$ 220,944	\$ 22,829	\$ 1,348,058	\$ 9,643,254	\$ 9,643,254
For the year ended December 31, 2014								
Balance at January 1, 2014		\$ 6,759,272	\$ 1,247,796	\$ 220,944	\$ 22,829	\$ 1,348,058	\$ 9,643,254	\$ 9,643,254
Distribution of 2013 net income:								
Legal reserve		-	-	127,341	-	(127,341)	-	-
Cash dividends	6(16)	-	-	-	-	(811,113)	(811,113)	-
Stock dividends	6(14)(16)	270,371	-	-	-	(270,371)	-	-
Employee stock option compensation cost	6(13)(15)	-	9,481	-	-	-	9,481	-
Net income for 2014		-	-	-	-	484,143	484,143	-
Other comprehensive income for 2014	6(17)	-	-	-	-	(1,813)	56,319	-
Balance at December 31, 2014		\$ 7,029,643	\$ 1,257,277	\$ 348,285	\$ 22,829	\$ 621,563	\$ 9,380,271	\$ 9,380,271

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

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	For the years ended December 31,	
		2014	2013
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Consolidated profit before tax for the year		\$ 602,209	\$ 1,408,513
Adjustments to reconcile net income to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Loss on valuation of financial assets and liabilities		2,531	1,611
Provision for doubtful accounts	6(2)	66	5
Loss on inventory market price decline	6(3)	71,954	4,678
Provision for obsolescence of supplies		6,887	5,899
Share of loss of associates and joint ventures accounted for under the equity method	6(5)	15,498	16,791
Depreciation	6(6)(22)	458,019	437,569
Loss (gain) on disposal of property, plant and equipment	6(20)	4,077	(3,338)
Gain on reversal of impairment loss	6(6)(8)(20)	(140)	(3,185)
Amortization	6(22)	13,082	9,949
Employee stock option cost	6(13)(15)	9,481	819
Interest income	6(19)	(32,308)	(37,646)
Interest expense	6(21)	4,139	7,916
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Notes receivable		203	(230)
Accounts receivable		447,585	(129,312)
Other receivables		(37,801)	(65,196)
Inventories		(740)	(647,254)
Prepayments		36,411	14,599
Net changes in liabilities relating to operating activities			
Notes payable		73	35
Accounts payable		(210,624)	41,363
Other payables		(206,068)	81,974
Advance receipts		(37,856)	73,629
Accrued pension liabilities		972	86
Cash generated from operations		1,147,650	1,219,275
Interest received		32,431	37,646
Interest paid		(4,139)	(7,916)
Income tax paid		(287,647)	(309,532)
Net cash provided by operating activities		888,295	939,473

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SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	For the years ended December 31, 2014	2013
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease (increase) in pledged deposits		\$ 15,485	(\$ 850)
Acquisition of investments accounted for under equity method		-	(107,388)
Cash paid for acquisition of property, plant and equipment	6(27)	(829,051)	(738,918)
Interest paid for acquisition of property, plant and equipment	6(6)(21)(27)	(13,191)	-
Proceeds from disposal of property, plant and equipment		1,426	6,984
Cash paid for acquisition of intangible assets		(5,358)	(18,215)
Increase in prepayment for equipment		(176,131)	(487,112)
Decrease (increase) in other non-current assets - guarantee deposits paid		306	(988)
Net cash used in investing activities		(1,006,514)	(1,346,487)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings		587,691	426,109
Increase in guarantee deposits received		1,656	-
Payment of cash dividends	6(16)	(811,113)	(779,916)
Decrease in non-controlling interests		-	(1,603)
Net cash used in financing activities		(221,766)	(355,410)
Effect of foreign exchange rate changes on cash and cash equivalents		(21,840)	16,840
Decrease in cash and cash equivalents		(361,825)	(745,584)
Cash and cash equivalents at beginning of year	6(1)	2,289,428	3,035,012
Cash and cash equivalents at end of year	6(1)	\$ 1,927,603	\$ 2,289,428

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

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANIZATION

- (1) ScinoPharm Taiwan, Ltd. (the Company) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) on November 11, 1997. The Company and its subsidiaries (collectively referred herein as the "Group") are primarily engaged in the manufacture of western medicines and other chemical materials, biological technology services, intellectual property rights, international trade and research, development and manufacture of API (Active Pharmaceutical Ingredients), albumin medicines, oligonucleotide medicines, peptide medicines, injections and new small molecule drugs, as well as the provision of related consulting and technical services. The Company's investment plan for the manufacturing of API was approved by the Industrial Development Bureau of MOEA on May 13, 1998 and complies with the standards of important technical industry application.
- (2) The common shares of the Company have been listed on the Taiwan Stock Exchange since September 2011.
- (3) Uni-President Enterprises Corp., the Company's ultimate parent company, holds 37.94% equity interest in the Company.

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 25, 2015.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")
None.

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

According to Financial-Supervisory-Securities-Auditing No. 1030010325 issued on April 3, 2014, commencing 2015, companies with shares listed on the TWSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall adopt the 2013 version of IFRS (not including IFRS 9, 'Financial instruments') as endorsed by the FSC and the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" effective January 1, 2015 (collectively referred herein as the "2013 version of IFRSs") in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below:

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

Based on the Group's assessment, the adoption of the 2013 version of IFRS has no significant impact on the consolidated financial statements of the Group, except the following:

A.IAS 1, 'Presentation of financial statements'

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

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

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

C. IFRS 13, 'Fair value measurement'

The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard sets out a framework for measuring fair value using the assumptions that market participants would use when pricing the asset or liability; for non-financial assets, fair value is determined based on the highest and best use of the asset. Also, the standard requires disclosures about fair value measurements. Based on the Group's assessment, the adoption of the standard has no significant impact on its consolidated financial statements, and the Group will disclose additional information about fair value measurements accordingly.

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

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

New Standards, Interpretations and Amendments	International Accounting Standards Board
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	January 1, 2016
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
IFRS 15, 'Revenue from contracts with customers'	January 1, 2017
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014

New Standards, Interpretations and Amendments	International Accounting Standards Board
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" 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").

(2) Basis of preparation

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

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
- (b) Defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(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:

Name of Investor	Name of Subsidiary	Business activities	Percentage owned by the Company		Note
			December 31, 2014	December 31, 2013	
ScinoPharm Taiwan, Ltd.	SPT International, Ltd.	Professional investment	100.00	100.00	—
ScinoPharm Taiwan, Ltd.	ScinoPharm Singapore Pte Ltd.	Professional investment	100.00	100.00	—
SPT International, Ltd.	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	Research, development and manufacture of API and new drug, etc.	100.00	100.00	—
SPT International, Ltd.	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Research, development and manufacture of API and new drug, etc.	100.00	100.00	—
SPT International, Ltd.	ScinoPharm (Shanghai) Biochemical Technology, Ltd.	Import, export and sales of API and intermediates, etc.	100.00	100.00	—

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 NTD, 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, associates and jointly controlled 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 a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. However, when the Group loses significant influence over the former foreign associate, such transactions should be accounted for as disposal of all interest in these foreign operations.
- c) When a foreign operation as an associate or jointly controlled entity is partially disposed of or sold, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, if the Group retains partial interest in the former foreign associate or jointly controlled entity after losing significant influence over the former foreign associate, or losing joint control of the former jointly controlled entity, such transactions should be accounted for as disposal of all interest in these foreign operations.

- d) 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) 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 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.

The group has classified all assets which do not meet the above conditions as non-current assets.

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

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

The group has classified all liabilities which do not meet the above conditions as non-current liabilities.

(6) Cash equivalents

A. Cash equivalents refer to short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.

B. Time deposits that meet the above criteria and are held for the purpose of meeting short-term cash commitment in operations are classified as cash equivalents.

(7) 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. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(8) Loans and receivables

Accounts receivable are loans and receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. However, short-term accounts receivable that bear no interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Impairment of financial assets

- A. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Group uses to determine whether there is objective evidence of an impairment loss is as follows:
 - a) Significant financial difficulty of the issuer or debtor;
 - b) The disappearance of an active market for that financial asset because of financial difficulties;
 - c) 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;
 - d) 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
 - e) 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, accounting for impairment is made as follows according to the category of financial assets:

a) Financial assets measured at amortized cost

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

b) Financial assets measured at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(10) Derecognition of financial assets

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

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

(11) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted-average cost method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(12) Investments accounted for under the equity method / associates

- A. Associates are all entities over which the Group has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- B. The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. When changes in an associate's equity are not recognized in profit or loss or other comprehensive income of the associate and such changes do not affect the Group's ownership percentage of the associate, the Group recognizes the Group's share of change in equity of the associate in 'capital reserve' in proportion to its ownership.
- D. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- E. In the case that an associate issues new shares and the Group does not subscribe or acquire new shares proportionately, which results in a change in the Group's ownership percentage of the associate but maintains significant influence on the associate, then 'capital reserve' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Group's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- F. Upon loss of significant influence over an associate, the Group remeasures any investment retained in the former associate at its fair value. Any difference between fair value and carrying amount is recognized in profit or loss.
- G. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognized in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the

aforementioned approach.

- H. When the Group disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognized as capital reserve in relation to the associate are transferred to profit or loss. If it retains significant influence over this associate, the amounts previously recognized as capital surplus in relation to the associate are transferred to profit or loss proportionately.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalized.
- 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. Except for land, 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. If each component of property, plant and equipment is significant, it is 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:

<u>Assets</u>	<u>Estimated useful lives</u>
Buildings	2 ~ 35 years
Machinery and equipment	2 ~ 12 years
Transportation equipment	2 ~ 6 years
Office equipment	1 ~ 9 years
Other equipment	2 ~ 19 years

(14) Intangible assets

Professional skills and computer software, etc. are stated at cost and amortized on a straight-line basis over their estimated useful life of 3 ~ 10 years.

(15) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is 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. When the circumstances or reasons for

recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. 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.

(16) Borrowings

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

(17) 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 that bear no interest are subsequently measured at initial invoice amount as the effect of discounting is insignificant.

(18) Financial liabilities at fair value through profit or loss

A. Financial liabilities at fair value through profit or loss are financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorized as financial liabilities held for trading unless they are designated as hedges. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- a) Hybrid (combined) contracts; or
- b) They eliminate or significantly reduce a measurement or recognition inconsistency; or
- c) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

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

(19) Derecognition of financial liabilities

- A. A financial liability is derecognized when the obligation under the liability specified in the contract is discharged, cancelled or expires.
- B. The Group derecognizes an original financial liability and recognizes a new financial liability if the terms of an existing financial liability have substantial modifications and such modifications make significant differences (10%) to the original terms. The difference between the carrying amount of the financial liability derecognized and the consideration paid is

recognized in profit or loss.

(20) 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.

(21) Employee benefits

A. Short-term employee benefits

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

B. Pensions

(a) Defined contribution plans

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

(b) Defined benefit plans

i. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in such corporate bonds, the Group uses interest rates of government bonds (at the balance sheet date) instead.

ii. Actuarial gains and losses arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise, and presented in retained earnings.

iii. Past service costs are recognized immediately in profit or loss if vested immediately; if not, the past service costs are amortized on a straight-line basis over the vesting period.

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 stockholders at their stockholders' 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 stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of exclude rights and exclude dividends.

(22) 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.

(23) 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 stockholders 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 statements. 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 provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred 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. The Group operates in jurisdictions where current tax assets and current tax liabilities are not legally enforceable to be offsetted against each other. As a result, the Group recognizes its deferred income tax assets and liabilities on the gross basis.
- F. A deferred tax asset shall be recognized for the carry forward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures, employees' training costs and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(24) 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.

(25) Revenue recognition

A. Sales of goods

The Group manufactures and sells Active Pharmaceutical Ingredients (API), intermediates, etc. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognized when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. Sales of services

The Group provides biochemical technology development consultation and processing services. Revenue from rendering services is recognized under the percentage-of-completion method when the outcome of services provided can be estimated reliably. The stage of completion of a service contract is measured by the percentage of the actual services performed as of the financial reporting date to the total services to be performed by surveys of work performed. If the outcome of a service contract cannot be estimated reliably, contract revenue should be recognized only to the extent that contract costs incurred are likely to be recoverable.

(26) 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.

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

The preparation of these consolidated financial statements requires management to make critical judgments 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 above information is addressed below:

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

A. 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 judgment. In making this judgment, 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. Evaluation of inventories

a) As inventories are stated at the lower of cost and net realizable value, the Group must determine the net realizable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realizable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material change to the evaluation.

b) As of December 31, 2014, the carrying amount of inventories was \$2,449,296.

B. Impairment assessment of tangible and intangible assets

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

- b) As of December 31, 2014, the Group recognized equipment, net of impairment loss, amounting to \$1,598,978.

C. Reliability of deferred income tax assets

- a) Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the reliability of deferred income tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income tax assets.
- b) As of December 31, 2014, the Group recognized deferred income tax assets amounting to \$364,381.

D. Calculation of accrued pension obligations

- a) When calculating the present value of defined pension obligations, the Group must apply judgments and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and expected rate of return on plan assets. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.
- b) As of December 31, 2014, the carrying amount of accrued pension obligations was \$68,704. If the adopted discount rate used in the actuarial valuation had increased/decreased by 1%, the Group's accrued pension liabilities would decrease/increase by \$12,971 and \$15,388, respectively.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Cash:		
Cash on hand	\$ 209	\$ 304
Checking accounts and demand deposits	<u>564,915</u>	<u>456,017</u>
	<u>565,124</u>	<u>456,321</u>
Cash Equivalents:		
Time deposits	1,075,432	1,700,203
Bill under repurchase agreements	<u>287,047</u>	<u>132,904</u>
	<u>1,362,479</u>	<u>1,833,107</u>
Cash and cash equivalents as per consolidated balance sheet and statement of cash flows	<u>\$ 1,927,603</u>	<u>\$ 2,289,428</u>

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. Details of the Group's time deposits pledged to others as collateral (listed as "Other financial assets-current" and "Other financial assets-non-current") as of December 31, 2014 and 2013 are provided in Note 8.

(2) ACCOUNTS RECEIVABLE, NET

	December 31, 2014	December 31, 2013
Accounts receivable	\$ 523,086	\$ 970,671
Less: Allowance for doubtful accounts	(96)	(30)
	<u>\$ 522,990</u>	<u>\$ 970,641</u>

A. As of December 31, 2014 and 2013, the Group had no accounts receivable classified as "past due but not impaired".

B. Movements on the provision for impairment of accounts receivable are as follows:

	2014	2013
	Individual provision	Individual provision
At January 1	\$ 30	\$ 25
Provision for impairment	66	5
At December 31	<u>\$ 96</u>	<u>\$ 30</u>

C. Accounts receivable that were neither past due nor impaired were fully performing in line with the credit standards prescribed based on the counterparties' industry characteristics, business scale and profitability.

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

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

(3) INVENTORIES

	December 31, 2014		
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 425,862	(\$ 38,186)	\$ 387,676
Supplies	24,408	(1,105)	23,303
Work in process	1,021,688	(75,293)	946,395
Finished goods	1,304,909	(212,987)	1,091,922
	<u>\$ 2,776,867</u>	<u>(\$ 327,571)</u>	<u>\$ 2,449,296</u>

	December 31, 2013		
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 635,989	(\$ 32,803)	\$ 603,186
Supplies	46,766	(1,660)	45,106
Work in process	948,703	(44,474)	904,229
Finished goods	1,135,550	(175,753)	959,797
	<u>\$ 2,767,008</u>	<u>(\$ 254,690)</u>	<u>\$ 2,512,318</u>

The Group recognized expense and losses of inventories as follows:

	For the years ended December 31	
	2014	2013
Cost of goods sold	\$ 2,169,900	\$ 2,330,810
Provision for inventory market price decline	71,954	4,678
Loss on inventory scrap	50,991	99,302
Loss on production stoppages	180,130	93,351
Loss on physical inventory	11,893	8,520
Other operating costs	12,410	9,051
	<u>\$ 2,497,278</u>	<u>\$ 2,545,712</u>

(4) FINANCIAL ASSETS MEASURED AT COST – NON – CURRENT

	December 31, 2014	December 31, 2013
Unlisted stocks		
Tanvex Biologics, Inc.	\$ 167,673	\$ 167,673
Syngen, Inc.	4,620	4,620
	172,293	172,293
Less: Accumulated impairment	(4,620)	(4,620)
	<u>\$ 167,673</u>	<u>\$ 167,673</u>

- A. Based on the Group's intention, its investment in Tanvex Biologics, Inc. and Syngen, Inc. should be classified as available-for-sale financial assets. However, as Tanvex Biologics, Inc. and Syngen, Inc. are not traded in an active market and no sufficient industry information or financial information of similar companies can be obtained, the fair value of the investments in Tanvex Biologics, Inc. and Syngen, Inc. cannot be measured reliably. Accordingly, the Group classified those stocks as 'financial assets measured at cost'.
- B. As of December 31, 2014 and 2013, no financial assets measured at cost held by the Group were pledged to others.

(5) INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

<u>Investee Company</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Foreseeacer Pharmaceuticals, Inc.	<u>\$ 79,923</u>	<u>\$ 90,455</u>

A. The Group purchased the shares of Foreseeacer Pharmaceuticals, Inc. in May, 2013 and gained significant influence over the investee company. The investment was accounted for under the equity method from the acquisition date.

B. Group's principal associates

(a) The financial information of the Group's principal associates is summarized below:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Profit/ (Loss)</u>	<u>Ownership Percentage</u>
<u>December 31, 2014</u>					
Foreseeacer Pharmaceuticals, Inc.	<u>\$ 618,333</u>	<u>\$ 96,337</u>	<u>\$ -</u>	<u>(\$118,495)</u>	15.32%
<u>December 31, 2013</u>					
Foreseeacer Pharmaceuticals, Inc.	<u>\$ 638,939</u>	<u>\$ 30,883</u>	<u>\$ -</u>	<u>(\$ 92,000)</u>	15.32%

(b) The related share of loss of associates and joint ventures accounted for under the equity method amounted to (\$15,498) and (\$16,791) for the years ended December 31 2014 and 2013, respectively.

(6) PROPERTY, PLANT AND EQUIPMENT

	January 1, 2014	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Others	Construction in progress	Total
Cost		\$ 2,182,097	\$ 4,282,898	\$ 28,090	\$ 143,456	\$ 132,499	\$ 824,345	\$ 7,593,385
Accumulated depreciation		(545,709)	(2,689,802)	(12,380)	(73,280)	(40,148)	-	(3,361,319)
Accumulated impairment		-	(18,084)	-	-	-	-	(18,084)
		<u>\$ 1,636,388</u>	<u>\$ 1,575,012</u>	<u>\$ 15,710</u>	<u>\$ 70,176</u>	<u>\$ 92,351</u>	<u>\$ 824,345</u>	<u>\$ 4,213,982</u>
<u>For the year ended December 31, 2014</u>								
At January 1, 2014		\$ 1,636,388	\$ 1,575,012	\$ 15,710	\$ 70,176	\$ 92,351	\$ 824,345	\$ 4,213,982
Additions		-	-	-	577	-	969,161	969,738
Disposals—Cost		-	(51,269)	(277)	(1,219)	(4,572)	-	(57,337)
—Accumulated depreciation		-	47,353	277	1,137	3,067	-	51,834
Reclassification (Note)		39,599	335,147	2,220	69,981	(13,164)	(134,138)	299,645
Depreciation charge		(86,487)	(314,661)	(4,607)	(29,255)	(23,009)	-	(458,019)
Reversal of impairment loss		-	140	-	-	-	-	140
Net currency exchange differences		<u>8,244</u>	<u>7,256</u>	<u>170</u>	<u>(21,085)</u>	<u>24,496</u>	<u>25,961</u>	<u>45,042</u>
At December 31, 2014		<u>\$ 1,597,744</u>	<u>\$ 1,598,978</u>	<u>\$ 13,493</u>	<u>\$ 90,312</u>	<u>\$ 79,169</u>	<u>\$ 1,685,329</u>	<u>\$ 5,065,025</u>
<u>December 31, 2014</u>								
Cost		\$ 2,230,902	\$ 4,575,686	\$ 30,389	\$ 192,813	\$ 141,186	\$ 1,685,329	\$ 8,856,305
Accumulated depreciation		(633,158)	(2,958,764)	(16,896)	(102,501)	(62,017)	-	(3,773,336)
Accumulated impairment		-	(17,944)	-	-	-	-	(17,944)
		<u>\$ 1,597,744</u>	<u>\$ 1,598,978</u>	<u>\$ 13,493</u>	<u>\$ 90,312</u>	<u>\$ 79,169</u>	<u>\$ 1,685,329</u>	<u>\$ 5,065,025</u>

January 1, 2013	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Others	Construction in progress	Total
Cost	\$ 2,024,781	\$ 3,749,060	\$ 18,421	\$ 78,758	\$ 135,980	\$ 613,004	\$ 6,620,004
Accumulated depreciation	(487,046)	(2,474,962)	(8,814)	(45,283)	(23,402)	-	(3,039,507)
Accumulated impairment	-	(21,269)	-	-	-	-	(21,269)
	<u>\$ 1,537,735</u>	<u>\$ 1,252,829</u>	<u>\$ 9,607</u>	<u>\$ 33,475</u>	<u>\$ 112,578</u>	<u>\$ 613,004</u>	<u>\$ 3,559,228</u>
For the year ended December 31, 2013							
At January 1, 2013	\$ 1,537,735	\$ 1,252,829	\$ 9,607	\$ 33,475	\$ 112,578	\$ 613,004	\$ 3,559,228
Additions	-	15,631	-	481	-	699,477	715,589
Disposals—Cost	(22,416)	(99,738)	-	(341)	(38)	-	(122,533)
— Accumulated depreciation	22,416	96,273	-	188	10	-	118,887
Reclassification (Note)	166,046	608,683	9,269	57,981	(5,350)	(503,367)	333,262
Depreciation charge	(80,670)	(310,163)	(3,457)	(22,648)	(20,631)	-	(437,569)
Reversal of impairment loss	-	3,185	-	-	-	-	3,185
Net currency exchange differences	13,277	8,312	291	1,040	5,782	15,231	43,933
At December 31, 2013	<u>\$ 1,636,388</u>	<u>\$ 1,575,012</u>	<u>\$ 15,710</u>	<u>\$ 70,176</u>	<u>\$ 92,351</u>	<u>\$ 824,345</u>	<u>\$ 4,213,982</u>
December 31, 2013							
Cost	\$ 2,182,097	\$ 4,282,898	\$ 28,090	\$ 143,456	\$ 132,499	\$ 824,345	\$ 7,593,385
Accumulated depreciation	(545,709)	(2,689,802)	(12,380)	(73,280)	(40,148)	-	(3,361,319)
Accumulated impairment	-	(18,084)	-	-	-	-	(18,084)
	<u>\$ 1,636,388</u>	<u>\$ 1,575,012</u>	<u>\$ 15,710</u>	<u>\$ 70,176</u>	<u>\$ 92,351</u>	<u>\$ 824,345</u>	<u>\$ 4,213,982</u>

(Note) Reclassified from “prepayment for equipment.”

- A. Amount of borrowing costs capitalized as part of property, plant and equipment and the range of the interest rates for such capitalization are as follows:

	For the year ended December 31, 2014
Amount capitalized	\$ 13,191
Interest rate	1.16%~2.66%

None for the year ended December 31, 2013.

- B. Impairment information about the property, plant and equipment is provided in Note 6(8).

- C. As of December 31, 2014 and 2013, the Group has not pledged any asset.

(7) LONG-TERM PREPAID RENT

	December 31, 2014	December 31, 2013
Long-term prepaid rent	\$ 94,189	\$ 92,994

In 2008, the Group's Mainland China subsidiary entered into a land use right contract with the local government relating to the acquisition of the right to use the land located in Changshu, Jiangsu province, with a lease term of 50 years. The subsidiary had prepaid all rental expenses on the contract date, and recognized rental expenses of \$2,075 and \$1,962 for the years ended December 31, 2014 and 2013, respectively (listed as "General and administrative expenses").

(8) IMPAIRMENT OF NON-FINANCIAL ASSETS

- A. The Group reversed the impairment loss recognized in prior years amounting to \$140 and \$3,185 for the years ended December 31, 2014 and 2013, respectively (listed as "other gains and losses"), as some of the idle machineries were again utilized in production. For details of accumulated impairment, please refer to Note 6(6).

- B. The gain on reversal of impairment reported by operating segments is as follows:

	For the year ended December 31, 2014		For the year ended December 31, 2013	
	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in profit or loss	Recognized in other comprehensive income
ScinoPharm Taiwan	\$ 140	\$ -	\$ 3,185	\$ -

(9) SHORT-TERM BORROWINGS

<u>Type of borrowings</u>	<u>December 31, 2014</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank loans			
Unsecured loans	\$ 1,277,476	1.16%~2.66%	None
<u>Type of borrowings</u>	<u>December 31, 2013</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank loans			
Unsecured loans	\$ 689,785	1.16%~2.20%	None

(10) FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

<u>Items</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Current items:		
Financial liabilities held for trading		
Non-hedging derivatives	\$ 3,669	\$ 1,138

A. The Group recognized net loss of \$21,248 and \$11,966 on financial liabilities held for trading for the years ended December 31, 2014 and 2013, respectively (Listed as "Other gains and losses").

B. The non-hedging derivative instruments transaction and contract information are as follows:

	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
<u>Derivative instruments</u>	<u>Contract amount (Notional principal)</u>	<u>Contract period</u>	<u>Contract amount (Notional principal)</u>	<u>Contract period</u>
Current items:				
Forward foreign exchange contracts	USD 4,950,000	11.2014~2.2015	USD 14,915,000	11.2013~3.2014

The Group entered into forward foreign exchange contracts to hedge exchange rate risk of export proceeds. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

(11) OTHER PAYABLES

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Accrued expenses	\$ 246,323	\$ 409,220
Payables for equipment	226,863	99,367
Others	43,042	86,213
	<u>\$ 516,228</u>	<u>\$ 594,800</u>

(12) PENSIONS

A. The Company has set up a defined benefit pension plan in accordance with the Labor Standards Law, which applies to all regular employees' service years prior to the enforcement of the Labor Pension Act (the "Act") on July 1, 2005 and service years thereafter of employees who chose to continue to be covered under the pension scheme of the Labor Standards Law after the enforcement of the Act. In accordance with the Company's retirement plan, an employee may retire when the employee either (i) attains the age of 55 with 15 years of service, (ii) has more than 25 years of service, (iii) has reached the age of 65, or (iv) is incapacitated to work (compulsory retirement). The employees earn two units for each year of service for the first 15 years, and one unit for each additional year thereafter up to a maximum of 45 units. Any fraction of a year equal to or more than six months shall be counted as one year of service, and any fraction of a year less than six months shall be counted as half a year. According to the provisions, employees who retired due to their duties shall get additional 20%. Pension payments are based on the number of units earned and the average salary of the last six months prior to retirement. Calculation of average salary is in accordance with the Labor Standards Law of the R.O.C. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan under the name of the independent retirement fund committee:

(a) The amounts recognized in the balance sheets are determined as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Present value of funded defined benefit obligations	\$ 113,369	\$ 107,309
Fair value of plan assets	(44,665)	(40,966)
	68,704	66,343
Unrecognised past service cost	-	(795)
Net liability in the balance sheet	<u>\$ 68,704</u>	<u>\$ 65,548</u>

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

	<u>For the years ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Present value of defined benefit obligations		
At January 1	\$ 107,309	\$ 114,343
Current service cost	2,006	2,825
Interest cost	2,146	1,715
Actuarial loss (gain)	2,557	(623)
Benefits paid	(649)	(10,951)
At December 31	<u>\$ 113,369</u>	<u>\$ 107,309</u>

(c) Movements in fair value of plan assets:

	For the years ended December 31	
	2014	2013
Fair value of plan assets		
At January 1	(\$ 40,966)	(\$ 48,020)
Expected return on plan assets	(819)	(720)
Actuarial (gain) loss	(373)	125
Employer contributions	(3,156)	(3,302)
Benefits paid	649	10,951
At December 31	<u>(\$ 44,665)</u>	<u>(\$ 40,966)</u>

(d) Amounts of expenses recognized in statement of comprehensive income:

	For the years ended December 31,	
	2014	2013
Current service cost	\$ 2,006	\$ 2,825
Interest cost	2,146	1,715
Expected return on plan assets	(819)	(720)
Past service cost	795	66
Current pension cost	<u>\$ 4,128</u>	<u>\$ 3,886</u>

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

	For the years ended December 31,	
	2014	2013
Cost of sales	\$ 1,912	\$ 1,947
Selling expenses	214	198
General and administrative expenses	1,230	850
Research and development expenses	772	891
	<u>\$ 4,128</u>	<u>\$ 3,886</u>

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

	For the years ended December 31,	
	2014	2013
Current period	(\$ 2,184)	\$ 498
Accumulated amount	<u>(\$ 2,972)</u>	<u>(\$ 788)</u>

(f) The Bank of Taiwan was commissioned to manage the Fund of the Company's and domestic subsidiaries' defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in

domestic or foreign real estate securitization products, etc.). With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. The composition of fair value of plan assets as of December 31, 2014 and 2013 is given in the Annual Labor Retirement Fund Utilization Report published by the government.

Expected return on plan assets was a projection of overall return for the obligations period, which was estimated based on historical returns and by reference to the status of Labor Retirement Fund utilization by the Labor Pension Fund Supervisory Committee and taking into account the effect that the Fund's minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks.

For the years ended December 31, 2014 and 2013, the Company and domestic subsidiaries' actual returns on plan assets was \$1,192 and \$595, respectively.

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

	For the years ended December 31,	
	2014	2013
Discount rate	2.00%	2.00%
Future salary increases	3.00%	2.00%
Expected return on plan assets	2.00%	3.00%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience in each territory.

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

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Present value of defined benefit obligation	\$ 113,369	\$ 107,309	\$ 114,343
Fair value of plan assets	(44,665)	(40,966)	(48,020)
Plan deficit	\$ 68,704	\$ 66,343	\$ 66,323
Experience adjustments on plan liabilities	(\$ 2,557)	\$ 7,013	(\$ 5,927)
Experience adjustments on plan assets	\$ 373	(\$ 125)	(\$ 380)

(j) Expected contributions to the defined benefit pension plans of the Group within one year from December 31, 2014 is \$4,008.

B. As a result of the enforcement of the Act, the Company set up a defined contribution pension plan which took effect on July 1, 2005. The local employees are eligible for the defined contribution plan. For employees who choose to be covered under the pension scheme of the Act, the Company contributes monthly an amount of not less than 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of

Labor Insurance. Pensions are paid by monthly installments or in lump sum based on the accumulated balances of the employees' individual pension accounts. The subsidiaries in Mainland China are subject to a government sponsored defined contribution plan. In accordance with the related Laws of the People's Republic of China, the subsidiaries in Mainland China contribute monthly 18% of the employees' monthly salaries and wages to an independent fund administered by the government. Other than the monthly contributions, these subsidiaries do not have further obligations. For the years ended December 31, 2014 and 2013, the pension cost recognized under the aforementioned defined contribution pension plan were \$35,182 and \$34,310, respectively.

(13) SHARE-BASED PAYMENT

- A. The Group issued 1 million units of employee stock options on December 3, 2013 (the 'Grant Date'). The exercise price of the options was set at \$91.7 dollars, which was based on the closing market price of the Company's common shares on the Grant Date. Each option was granted the right to purchase one share of the Company's common stocks. The exercise price is subject to further adjustments when there is change in the number of shares of the Company's common stocks after the Grant Date. Contract period of the employee stock option plan is 10 years, and options are exercisable in 2 years after the Grant Date. The Group recognized compensation costs relating to the employee stock options plan of \$9,481 and \$819, for the years ended December 31, 2014 and 2013, respectively.
- B. Details of the share-based payment arrangements are as follows:

		<u>For the year ended December 31, 2014</u>	
		Number of options (in thousand units)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of the year		1, 000	\$ 91. 7
Options granted		-	-
Options outstanding at end of the year		1, 000	91. 7
Options exercisable at end of the year		-	-
		<u>For the year ended December 31, 2013</u>	
		Number of options (in thousand units)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of the year		-	\$ -
Options granted		1, 000	91. 7
Options outstanding at end of the year		1, 000	91. 7
Options exercisable at end of the year		-	-

- C. As of December 31, 2014 and 2013, the exercise price of stock options outstanding were both \$91.7 (in dollars); and the weighted-average remaining contractual period were 8.92 years and 9.92 years, respectively.
- D. The fair value of the Company's employee stock option on Grant Date was evaluated using the combination of Hull & White and the Ritchken trinomial option valuation model. Related information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Price volatility	Option life	Expected dividends	Interest rate	Fair value per unit (in dollars)
Employee stock options	12. 3. 2013	\$ 91. 7	\$ 91. 7	28. 50% (Note)	10 years	1. 5%	1. 7145%	\$ 26. 045

Note: According to daily returns of the Company's stock for the previous year, the annualized volatility is 28.5%.

(14) SHARE CAPITAL

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

	For the years ended December 31,	
	2014	2013
At January 1	675, 927	649, 930
Capitalization of retained earnings	27, 037	25, 997
At December 31	<u>702, 964</u>	<u>675, 927</u>

- B. On June 21, 2013, the Company's shareholders adopted a resolution to issue shares of common stock due to capitalization of retained earnings of \$259,972 and obtained approval from the SFC. The effective date of capitalization was set on August 15, 2013. After the event of capitalization mentioned above, the Company's total authorized capital was \$10,000,000 and the paid-in capital was \$6,759,272 (675,927 thousand shares) with a par value of \$10 (in dollars) per share.
- C. On June 18, 2014, the Company's shareholders adopted a resolution to issue shares of common stock due to capitalization of retained earnings of \$270,371 and obtained approval from the SFC. The effective date of capitalization was set on August 15, 2014. After the event of capitalization mentioned above, the Company's authorized total capital was \$10,000,000 and the paid-in capital was \$7,029,643 (702,964 thousand shares) with a par value of \$10 (in dollars) per share.

(15) CAPITAL RESERVE

- A. Pursuant to the R.O.C. Company Act, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations shall be exclusively used to cover accumulated deficit or, distribute cash or stocks in proportion to their share ownership,

provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the 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. Movements on the Company's capital reserve are as follows:

For the year ended December 31, 2014				
	Share premium	Stock options	Difference between the acquisition or disposal price and carrying amount of subsidiaries	Total
At January 1	\$ 1,233,286	\$ 14,510	\$ -	\$ 1,247,796
Employee stock option plan:				
- Company	-	8,842	-	8,842
- Subsidiaries	-	639	-	639
At December 31	<u>\$ 1,233,286</u>	<u>\$ 23,991</u>	<u>\$ -</u>	<u>\$ 1,257,277</u>
For the year ended December 31, 2013				
	Share premium	Stock options	Difference between the acquisition or disposal price and carrying amount of subsidiaries	Total
At January 1	\$ 1,233,286	\$ 13,691	\$ -	\$ 1,246,977
Employee Stock Options Plan				
- Company	-	768	-	768
- Subsidiaries	-	51	-	51
Acquisition or disposal of subsidiaries:				
- Acquisition of subsidiaries	-	-	188	188
- Disposal of subsidiaries	-	-	(188)	(188)
At December 31	<u>\$ 1,233,286</u>	<u>\$ 14,510</u>	<u>\$ -</u>	<u>\$ 1,247,796</u>

Please refer to Note 6(26) for details of difference between the acquisition or disposal price and carrying amount of subsidiaries and the related changes in disposal gain or loss through liquidated subsidiaries.

(16) RETAINED EARNINGS

- A. Pursuant to the amended R.O.C. Company Act, the current year's after-tax earnings should be used initially to cover any accumulated deficit; thereafter 10% of the remaining earnings should be set aside as legal reserve until the balance of legal reserve is equal to that of paid-in capital. The legal reserve shall be exclusively used to cover accumulated deficit, to issue new stocks, or to distribute cash to shareholders in proportion to their share ownership. The use of legal reserve for the issuance of stocks or cash dividends to shareholders in proportion to their share ownership is permitted provided that the balance of such reserve exceeds 25% of the Company's paid-in capital.
- B. Since the Company is in a changeable industry environment and the life cycle of the Company is in a stable growth, the appropriation of earnings should consider fund requirements and capital budget to decide how much earnings will be kept or distributed and how much cash dividends will be distributed. According to the Company's Articles of Incorporation, 10% of the annual net income, after offsetting any loss of prior years and paying all taxes and dues, shall be set aside as legal reserve. The remaining net income and the unappropriated retained earnings from prior years can be distributed in accordance with a resolution passed during a meeting of the Board of Directors and approved at the stockholders' meeting. Of the amount to be distributed by the Company, stockholders' dividends shall comprise 50% to 100% of the unappropriated retained earnings, and the percentage of cash dividends shall not be less than 30% of dividends distributed. Directors' and supervisors' remuneration shall comprise 2% and at least 0.2% for employees' bonuses.
- C. In accordance with the regulations, the Company shall set aside special reserve for the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings. The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated July 9, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- D. For the years ended December 31, 2014 and 2013, employees' bonus and directors' and supervisors' remuneration were accrued at \$9,586 and \$25,223, respectively, which were estimated based on certain percentages (prescribed by the Company's Articles of Incorporation) of net profit in the corresponding periods after taking into account the legal reserve and other factors. The employees' bonus and directors' and supervisors' remuneration was resolved to be \$25,222 in the 2013 stockholders' meeting, which was not significantly different from the estimated amount of \$25,223 recognized in the 2013 financial statements. Such difference was recognized in the 2013 consolidated statement of comprehensive income. Information about the appropriation of employees' bonus and directors' and supervisors' remuneration by the Company as proposed by the Board of Directors and resolved by the stockholders will be

posted in the “Market Observation Post System” at the website of the Taiwan Stock Exchange.

E. The Company recognized cash dividends and stock dividends distributed to owners amounting to \$779,916 (\$1.20 (in dollars) per share) and \$259,972 (\$0.4 (in dollars) per share) for the year ended December 31, 2013, respectively. On June 18, 2014, the shareholders during their meeting proposed cash dividends and stock dividends of \$811,113 (\$1.20 (in dollars) per share) and \$270,371 (\$0.4 (in dollars) per share) for the year ended December 31, 2013, respectively. On March 25, 2015, the Board of Directors during its meeting proposed cash dividends and stock dividends of \$140,593 (\$0.2 (in dollars) per share) and \$281,186 (\$0.4 (in dollars) per share) for the year ended December 31, 2014, respectively.

(17) OTHER EQUITY ITEMS

	For the years ended December 31,	
	2014	2013
At January 1	\$ 44,355	(\$ 35,040)
Currency translation differences— group	56,319	79,395
At December 31	<u>\$ 100,674</u>	<u>\$ 44,355</u>

(18) OPERATING REVENUE

	For the years ended December 31,	
	2014	2013
Sales revenue	\$ 4,106,275	\$ 5,176,234
Less: Sales returns	(41,570)	(98,217)
Sales discounts	(9,802)	(18,617)
Technical service revenue	42,941	28,845
	<u>\$ 4,097,844</u>	<u>\$ 5,088,245</u>

(19) OTHER INCOME

	For the years ended December 31,	
	2014	2013
Interest income from bank deposits	\$ 32,308	\$ 37,646
Others	23,564	14,263
	<u>\$ 55,872</u>	<u>\$ 51,909</u>

(20) OTHER GAINS AND LOSSES

	For the years ended December 31,	
	2014	2013
Net loss on financial liabilities through profit or loss	(\$ 21,248)	(\$ 11,966)
Net currency exchange gain	47,498	22,542
(Loss) gain on disposal of property, plant, and equipment	(4,077)	3,338
Gain on reversal of impairment	140	3,185
Miscellaneous	(15,781)	(33,288)
	<u>\$ 6,532</u>	<u>(\$ 16,189)</u>

(21) FINANCE COSTS

	For the years ended December 31,	
	2014	2013
Interest expense:		
Bank loans	\$ 17,330	\$ 7,916
Less: capitalization of qualifying assets	(13,191)	-
	<u>\$ 4,139</u>	<u>\$ 7,916</u>

(22) EXPENSES BY NATURE

	For the year ended December 31, 2014		
	Operating cost	Operating expense	Total
Employee benefit expense	\$ 505,483	\$ 335,734	\$ 841,217
Depreciation	354,465	103,554	458,019
Amortization	1,383	11,699	13,082
	<u>\$ 861,331</u>	<u>\$ 450,987</u>	<u>\$ 1,312,318</u>

	For the year ended December 31, 2013		
	Operating cost	Operating expense	Total
Employee benefit expense	\$ 549,918	\$ 410,237	\$ 960,155
Depreciation	348,427	89,142	437,569
Amortization	752	9,197	9,949
	<u>\$ 899,097</u>	<u>\$ 508,576</u>	<u>\$ 1,407,673</u>

(23) EMPLOYEE BENEFIT EXPENSE

	For the years ended December 31,	
	2014	2013
Salaries and wages	\$ 713,183	\$ 844,313
Labor and health insurance expenses	61,506	48,849
Pension costs	39,310	38,196
Other personnel expenses	27,218	28,797
	<u>\$ 841,217</u>	<u>\$ 960,155</u>

(24) INCOME TAX

A. Income tax expense

(a) Components of income tax expense:

	For the years ended December 31,	
	2014	2013
Current income tax:		
Income tax incurred in current period	\$ 169,017	\$ 280,936
Under provision of prior year's income tax	5,453	4,768
Total current income tax	<u>174,470</u>	<u>285,704</u>
Deferred income tax:		
Origination and reversal of temporary differences	(56,404)	(150,595)
Income tax expense	<u>\$ 118,066</u>	<u>\$ 135,109</u>

(b) The income tax relating to components of other comprehensive income is as follows:

	For the years ended December 31,	
	2014	2013
Actuarial gains/losses on defined benefit obligations	(\$ 371)	\$ 85

B. Reconciliation between income tax expense and accounting profit

	For the years ended December 31,	
	2014	2013
Income tax on statutory tax rate	\$ 104,150	\$ 259,118
Effect of items disallowed by tax regulation	5,856	(9,799)
Effect of net operating loss carryforward	(216)	(112,209)
Effect of investment tax credit	(500)	(3,124)
Effect of five year tax exempt project	(3,176)	(4,998)
Under provision of prior year's income tax	5,453	4,768
10% tax on unappropriated earnings	6,499	1,353
Income tax expense	<u>\$ 118,066</u>	<u>\$ 135,109</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences, loss carry forward and investment tax credit are as follows:

For the year ended December 31, 2014				
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
Temporary differences:				
Investment loss	\$ 102,844	\$ 52,168	\$ -	\$ 155,012
Technology know-how	28,966	(3,698)	-	25,268
Pensions	11,143	166	371	11,680
Impairment of assets	3,074	(24)	-	3,050
Employee benefits - unused compensated absences	3,165	(80)	-	3,085
Others	194	430	-	624
Loss carryforward	155,703	216	-	155,919
Investment tax credits	-	9,743	-	9,743
Total	<u>\$ 305,089</u>	<u>\$ 58,921</u>	<u>\$ 371</u>	<u>\$ 364,381</u>
Deferred tax liabilities:				
Temporary differences:				
Unrealized gain on foreign currency exchange	(\$ 639)	(\$ 2,517)	\$ -	(\$ 3,156)
	<u>\$ 304,450</u>	<u>\$ 56,404</u>	<u>\$ 371</u>	<u>\$ 361,225</u>

For the year ended December 31, 2013

	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
Temporary differences:				
Investment loss	\$ 59,405	\$ 43,439	\$ -	\$ 102,844
Technology know-how	32,664	(3,698)	-	28,966
Pensions	11,128	100	(85)	11,143
Impairment of assets	3,616	(542)	-	3,074
Employee benefits -unused compensated absences	2,779	386	-	3,165
Others	854	(660)	-	194
Loss carryforward	43,494	112,209	-	155,703
Total	<u>\$ 153,940</u>	<u>\$ 151,234</u>	<u>(\$ 85)</u>	<u>\$ 305,089</u>
Deferred tax liabilities:				
Temporary differences:				
Unrealized gain on foreign currency exchange	\$ -	(\$ 639)	\$ -	(\$ 639)
	<u>\$ 153,940</u>	<u>\$ 150,595</u>	<u>(\$ 85)</u>	<u>\$ 304,450</u>

- D. According to “Resonation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China”, details of investment tax credits and unrecognized deferred tax assets that the Group is entitled to are as follows:

December 31, 2014

Qualifying items	Unused tax credits	Unrecognized deferred tax assets	Year of expiry
Research and development expenditures	<u>\$ 9,743</u>	<u>\$ -</u>	2018

There were no such items as of December 31, 2013.

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

December 31, 2014				
Year incurred	Amount assessed	Unused Amount	Unrecognized deferred tax assets	Year of expiry
2011~2014	\$ 601,976	<u>\$ 601,976</u>	<u>\$ -</u>	2016~2019

December 31, 2013				
Year incurred	Amount assessed	Unused Amount	Unrecognized deferred tax assets	Year of expiry
2011~2013	\$ 611,982	<u>\$ 611,982</u>	<u>\$ -</u>	2016~2018

- F. The Company's raw materials for medicine and API qualified the definition under the "Regulations for Encouraging Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important and Strategic Industries" and is entitled to a tax exemption period of 5 years (expired in December 2014).
- G. The Company's income tax returns through 2012 have been assessed and approved by the Tax Authority, and there were no disputes existing between the Company and the Authority as of March 25, 2015.
- H. The Company's unappropriated retained earnings listed on the balance sheet as of December 31, 2014 and 2013 were all generated after the year 1998.
- I. As of December 31, 2014 and 2013, the balance of the Company's imputation tax credit account was \$187,332 and \$155,353, respectively. The earnings distribution for 2013 and 2012 were approved at the stockholders' meeting on June 18, 2014 and June 21, 2013, respectively and the dates of dividend distribution were set by the Board of Directors on August 15, 2014 and August 15, 2013, respectively. The creditable tax rate for 2014 and 2013 were 21.15% and 21.06%, respectively. The creditable tax rate for 2014 is expected to be 23.44%.

(25) EARNINGS PER SHARE ("EPS")

For the year ended December 31, 2014			
	<u>Amount after tax</u>	<u>Weighted average number of shares outstanding (shares in thousands)</u>	<u>EPS (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 484,143	702,964	\$ 0.69
<u>Diluted earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 484,143	702,964	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	—	6	
Profit attributable to ordinary stockholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 484,143	702,970	\$ 0.69

For the year ended December 31, 2013			
	<u>Amount after tax</u>	<u>Weighted average number of shares outstanding (shares in thousands)</u>	<u>EPS (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 1,273,404	702,964	\$ 1.81
<u>Diluted earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 1,273,404	702,964	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	—	26	
Profit attributable to ordinary stockholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 1,273,404	702,990	\$ 1.81

- A. The abovementioned weighted average number of ordinary shares outstanding have been adjusted to unappropriated retained earnings as proportional increase in capital for the year ended December 31, 2013.
- B. As employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would increase from employees' stock bonus issuance in the weighted-average number of common shares outstanding during the reporting year, taking into account the dilutive effect of stock bonus on potential common shares; whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year. Since capitalization of employees' bonus no longer belongs to distribution of stock dividends (or retained earnings and capital reserve capitalized), the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retrospectively.

(26) Transactions with non-controlling interest

- A. In April, 2013, the Group acquired additional 40% shares of its subsidiary, President ScinoPharm (Cayman), Ltd., at a total cash consideration of \$1,647. The carrying amount of non-controlling interest in President ScinoPharm (Cayman), Ltd. was \$4,588 at the acquisition date. This transaction resulted in a decrease in the non-controlling interest and an increase in the equity attributable to owners of the parent by \$1,835. The difference between the proceeds for acquisition of the interests and carrying amount of the interest was included in capital reserve.

	For the year ended December 31, 2013
Carrying amount of non-controlling interest acquired	\$ 1,835
Consideration paid to non-controlling interest	(1,647)
Capital reserve	
Difference between the acquisition or disposal price and carrying amount of subsidiaries	\$ 188

- B. The liquidation of President ScinoPharm (Cayman), Ltd. was completed in September, 2013. The capital reserve pertaining gain from the difference between the proceeds for acquisition of the interest and carrying amount of the interest was reclassified to current period profit and loss upon disposal of subsidiary.

(27) Non-cash transactions

A. Investing activities with partial cash payments

	For the years ended December 31,	
	2014	2013
Purchase of property, plant and equipment	\$ 969,738	\$ 715,589
Add : Begining balance of payable for equipment	99,367	122,696
Less : Ending balance of payable for equipment	(226,863)	(99,367)
Capitalization of interest	(13,191)	-
Cash paid for purchase of property, plant and equipment	<u>\$ 829,051</u>	<u>\$ 738,918</u>

B. Investing activities with no cash flow effects

	For the years ended December 31,	
	2014	2013
Prepayments for equipment reclassified to property, plant and equipment	<u>\$ 299,645</u>	<u>\$ 333,262</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The ultimate parent and the ultimate controlling party of the Company is Uni-President Enterprises Corp.

(2) Significant transactions and balances with related parties

A. Technical service revenues

	For the years ended December 31,	
	2014	2013
Sales of services:		
— Associates	<u>\$ 3,153</u>	<u>\$ 2,579</u>

The terms of providing technical services to related parties were the same with regular customers. The collection period for related parties was 60 days after sales, which is the same with regular customers.

B. Property transactions:

(a) Purchase of property:

	For the years ended December 31,	
	2014	2013
Purchase of property, plant and equipment:		
— An entity controlled by key management individuals	\$ <u> —</u>	\$ <u> 1,750</u>

(b) Purchase of stock equity interests:

In April, 2013, the Company purchased additional 40% of outstanding share interest of President ScinoPharm (Cayman), Ltd. from an entity controlled by key management individuals, and finished liquidation procedure in September 2013. Please refer to Note 6 (26) for detailed information.

C. Other expenses:

	For the years ended December 31,	
	2014	2013
Repairs and maintenance expense:		
— An entity controlled by key management individuals	\$ <u> 3,114</u>	\$ <u> 3,009</u>
Management consultancy fees:		
— Ultimate parent company	\$ <u> 5,480</u>	\$ <u> 5,280</u>
— Associates of ultimate parent company	\$ <u> 1,809</u>	\$ <u> 1,592</u>
	\$ <u> 7,289</u>	\$ <u> 6,872</u>

D. Accounts receivable:

	December 31, 2014	December 31, 2013
Receivables from related parties:		
— Associates	\$ <u> 1,187</u>	\$ <u> 1,118</u>

(3) Key management compensation

	For the years ended December 31,	
	2014	2013
Salaries and other short-term employee benefits	\$ <u> 82,637</u>	\$ <u> 83,162</u>

8. PLEDGED ASSETS

Details of the Group's assets pledged as collateral are as follows:

Assets	December 31, 2014	December 31, 2013	Purpose of collateral
Time deposits (Note)	\$ <u> 24,734</u>	\$ <u> 40,219</u>	Customs duty and performance guarantee

Note: Listed as "other financial assets-current" and "other financial assets- non-current"

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

- (1) As of December 31, 2014 and 2013, the Group's unused letters of credit amounted to \$— and \$6,855, respectively.
- (2) As of December 31, 2014 and 2013, the Group's remaining balance due for construction in progress and prepayments for equipment was \$172,048 and \$720,902, respectively.
- (3) The Company entered into a non-cancellable operating lease agreement for the period from June 1, 2011 to February 28, 2018 for the land in Tainan Science Park. The lease agreement is renewable at the end of the lease term. The Company pays monthly rent. If the announced land values, state-owned land rent rate, or other factors change, the monthly rent paid by the Company will be adjusted accordingly on the following month. The Company may have to pay additional rent or get a refund on its last rental payment because of such adjustment. The rent expense of \$21,291 was recognized in profit or loss for the years ended December 31, 2014 and 2013. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Within one year	\$ 21, 291	\$ 21, 291
Later than one year but not exceeding five years	<u>46, 131</u>	<u>67, 422</u>
	<u>\$ 67, 422</u>	<u>\$ 88, 713</u>

10. SIGNIFICANT DISASTER LOSS: None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE: None.

12. OTHERS

(1) Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, to maintain an optimal capital structure, to reduce the cost of capital and to maintain an adequate capital structure to enable the expansion and enhancement of equipment. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return of capital to shareholders, and issue new shares or sell assets to reduce debts.

(2) Financial instruments

A. Fair value information of financial instruments

Except those in the table below, the Group's financial instruments which are not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables) is approximate to their fair value. Please refer to Note 12 (3) for details of fair value information of financial instruments measured at fair value.

	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Other financial assets	\$ 24,734	\$ 24,734	\$ 40,219	\$ 40,219
Refundable deposits paid (Note)	16,675	16,675	17,925	17,925
Financial liabilities:				
Refundable deposits received	\$ 1,656	\$ 1,656	\$ -	\$ -

Note : Listed as 「other non-current assets」

B. Financial risk management policies

- a)The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity 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 position and financial performance.
- b)Group treasury identifies, evaluates and hedges financial risks closely with the Group'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

I.Foreign exchange rate risk

- i)The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.
- ii)To manage their foreign exchange risk arising from future commercial transactions and recognized assets and liabilities, entities in the Group are required to hedge their foreign exchange risk exposure using forward foreign exchange contracts. However, hedge accounting is not applied as transactions did not meet all criteria of hedge accounting. 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.
- iii)The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other subsidiaries' functional currency: CNY). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2014				
	Foreign currency		Book value	
	amount (in thousands)	Exchange rate	(NTD)	
(Foreign currency: functional currency)				
Financial assets				
Monetary items				
USD:NTD	\$	19,130	31.65	\$ 605,465
EUR:NTD		103	38.47	3,962
CNY:NTD		4,848	5.092	24,686
Investment accounted for under the equity method				
USD:NTD		2,527	31.65	79,980
Financial liabilities				
Monetary items				
USD:NTD		1,426	31.65	45,133
EUR:NTD		337	38.47	12,964
December 31, 2013				
	Foreign currency		Book value	
	amount (in thousands)	Exchange rate	(NTD)	
(Foreign currency: functional currency)				
Financial assets				
Monetary items				
USD:NTD	\$	32,046	\$ 29.805	\$ 955,131
EUR:NTD		78	41.09	3,205
CNY:NTD		5,700	4.919	28,038
Investment accounted for under the equity method				
USD:NTD		3,153	29.805	93,975
Financial liabilities				
Monetary items				
USD:NTD		2,575	29.805	76,748
EUR:NTD		88	41.09	3,616
CNY:NTD		835	4.919	4,107

As of December 31, 2014 and 2013, if the NTD:USD exchange rate appreciates/depreciates by 5% with all other factors remaining constant, the Group's net profit after tax for the years ended December 31, 2014 and 2013 would increase/decrease by \$32,015 and \$48,618, respectively. If the EUR:NTD exchange rate appreciates/depreciates by 5% with all other factors remaining constant, the Group's net profit after tax for the years ended December 31, 2014 and 2013 would increase/decrease by \$450 and \$20, respectively. If the CNY:NTD exchange rate appreciates/depreciates by 5% with all other factors remaining constant, the Group's net profit after tax for the years ended December 31, 2014 and 2013 would increase/decrease by \$1,234

and \$1,196, respectively.

II. Price risk

The Group has investments classified as financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets (shown in 'financial assets measured at cost-non-current'). Therefore, the Group is exposed to price risk on equity instruments investments. To manage this risk, the Group has set stop-loss amounts for these instruments. The Group expects no significant market risk.

III. Interest rate risk

The Group analyses its interest rate exposure on a dynamic basis. Thus, the interest rate of the Group's liabilities fluctuates accordingly with the market interest rate, creating divergence in the Group's future cash flow. However, as the Group's liabilities bear little significance and a small range of interest rate, the Group does not bear significant interest rate risk.

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, each local entity in the Group is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery 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 with limits set by the board of directors. The utilization of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, and outstanding receivables. The Group also transacts with many different banks and financial institutions to diversify risk.

II.No credit limits were exceeded during the years ended December 31, 2014 and 2013.

III.For more information regarding the Group's credit ratings on its financial assets, please refer to detailed explanation of financial assets in Note 6.

c)Liquidity risk

I.Cash flow forecasting is performed by the Group's treasury department which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

II.The following table comprises the Group's non-derivative financial liabilities and derivative financial liabilities with gross-amount settlement that are grouped by their maturity. Non-derivative financial liabilities are analyzed from the balance sheet date to the contract maturity date, and derivative financial liabilities are analyzed from the balance sheet date to the expected maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

December 31, 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 1,277,476	\$ -	\$ -	\$ -
Notes payable	1,153	-	-	-
Accounts payable	53,813	-	-	-
Other payables	516,228	-	-	-
Derivative financial liabilities:				
Forward exchange contracts	3,669	-	-	-
December 31, 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 689,785	\$ -	\$ -	\$ -
Notes payable	1,080	-	-	-
Accounts payable	264,437	-	-	-
Other payables	594,800	-	-	-
Derivative financial liabilities:				
Forward exchange contracts	1,138	-	-	-

(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, 2014 and 2013.

December 31, 2014	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Financial liabilities at fair value through profit or loss – forward foreign contracts				
	\$ -	\$ 3,669	\$ -	\$ 3,669

<u>December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial liabilities:				
Financial liabilities at fair value through				
profit or loss - forward foreign	<u>\$ -</u>	<u>\$ 1,138</u>	<u>\$ -</u>	<u>\$ 1,138</u>

- 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 closing price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity instruments and debt instruments classified as financial assets/financial liabilities at fair value through profit or loss or available-for-sale financial assets.
- C. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize 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:
- Quoted market prices or dealer quotes for similar instruments.
 - The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
 - Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.
- F. The Group did not have financial instruments that meet the definition of level 3 instruments as of December 31, 2014 and 2013.

13. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

(1) Related information of significant transactions (For the year ended December 31, 2014)

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

B. The Company provided endorsements and guarantees to other entities: None.

C. The balance of securities held as of December 31, 2014 are summarized as follows (not including subsidiaries, associates and joint ventures):

Investor	Type and name of securities	Relationship with the issuer	Accounts (Note)	Number of shares (in thousands)	As of December 31, 2014		
					Book value	Percentage of ownership	Note
ScinoPharm Taiwan, Ltd.	Bill under repurchase agreements:						
	China Bills Finance Co.	—	Cash equivalents	—	\$ 187,313	—	—
	International Bills Finance Co.	—	Cash equivalents	—	99,734	—	99,734
	Stocks:						
	Tanvex Biologics, Inc.	The Company is a director of Tanvex Biologics, Inc.	Financial assets measured at cost-non-current	28,800	167,673	17.00%	—
	Syngen, Inc.	—	Financial assets measured at cost-non-current	245	—	7.40%	—

D. The cumulative buying or selling amount of one specific security exceeding the lower of \$300,000 or 20 percent of the contributed capital:

Investor	Type of securities	General ledger account	Name of counterparty	Relationship	Beginning balance		Addition		Disposal		Other increase (decrease)		Ending balance	
					Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount
Bill under repurchase agreement:														
Taiwan, Ltd.	China Bill Finance Co., Ltd.	Cash equivalents	-	-	\$ 49,971	-	\$ 3,917,066	-	\$3,780,085	\$ (3,779,724)	\$ 361	-	\$ -	\$ 187,313
	International Bills Finance Co., Ltd.	Cash equivalents	-	-	82,933	-	4,456,642	-	4,440,351	(4,439,841)	510	-	-	99,734
	Mega Bills Finance Co., Ltd.	Cash equivalents	-	-	-	-	2,951,771	-	2,952,088	(2,951,991)	317	-	-	-

E. Acquisition of real estate with an amount exceeding \$300,000 or 20 percent of the contributed capital:

Prior transaction of related counterparty													
Company name	Type of property	Transaction date	Payment	Status of payment	Name of counterparty	Relationship	Owner	Relationship	Transfer date	Amount	Price reference	Purpose of acquisition	Other items
Approximately													
ScinoPharm Taiwan, Ltd.	Plant	6. 2012~12. 2014	\$ 691,929	\$ 318,457	China Ecoteck Co., Ltd. etc.	-	-	-	-	\$ -	Negotiation	Building for operation use	-
ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Plant (Phase II)	11. 2012~12. 2014	662,334	538,860	Jiangsu Qian Construction Group Co., Ltd. etc.	-	-	-	-	-	-	-	-

F. Disposal of real estate with an amount exceeding \$300,000 or 20 percent of the contributed capital: None.

G. Purchases or sales transactions with related parties amounting to \$100,000 or 20 percent of the contributed capital:

Company name	Counterparty	Relationship	Description of transaction			Differences in transaction terms compared to third party transactions			Notes or accounts receivable/(payable)	
			Purchases/ (sales)	Amount	Percentage of net purchases/ (sales)	Credit terms	Unit price	Credit terms	Balance	Percentage of total notes or accounts receivable/ (payable)
ScinoPharm Taiwan, Ltd.	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	An investee company of SPT International, Ltd. accounted for under the equity method	Purchases	\$ 112,663	9%	Payable 90 days after acceptance	-	-	\$ -	-
ScinoPharm (Changshu) Pharmaceuticals, Ltd.	ScinoPharm Taiwan, Ltd.	The Company	(Sales)	(112,663)	(74%)	90 days after delivery	-	-	-	-

H. Receivables from related parties exceeding \$100,000 or 20 percent of the contributed capital: None.

I. Derivative financial instruments transactions : For the Company's derivative financial instrument transactions, please refer to Note 6(10).

J. Significant inter-company transactions for the year ended December 31, 2014:

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	General ledger account	Transaction		Percentage of consolidated total operating revenues or total assets (Note 3)
					Amount	Transaction terms	
0	ScinoPharm Taiwan, Ltd.	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	1	Purchases	\$ 65,157	Closes its accounts 90 days from the end of each month after acceptance	2%
				Management consultancy revenue	(2,072)	—	—
		ScinoPharm (Changshu) Pharmaceuticals, Ltd.	1	Sales	(6,862)	Closes its accounts 90 days after shipment	—
				Purchases	112,663	Closes its accounts 90 days from the end of each month after acceptance	3%
				Management consultancy revenue	(26,814)	—	(1%)
				Other receivables	11,071	—	—
		ScinoPharm (Shanghai) Biochemical Technology, Ltd.	1	Management consultancy revenue	2,598	—	—
				Other payables	(1,195)	—	—

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

- (1) Number 0 represents the Company.
- (2) The consolidated subsidiaries are in order from number 1.

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

- (1) The company to the consolidated subsidiary.
- (2) The consolidated subsidiary to the Company.
- (3) The consolidated subsidiary to another consolidated subsidiary.

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

(2) Disclosure information of investee company

Related information on investee companies for the year ended December 31, 2014

Information about the name, locations, etc. of investee companies. (Not including investees in Mainland China)

Investor	Investee	Address	Main business	Original investments		Holding status		Book value	Net profit (loss) of the investee company for the year ended December 31, 2014	Income (loss) recognized by the company for the year ended December 31, 2014	Note
				Balance as at December 31, 2014	Balance as at December 31, 2013	Shares	Ownership (%)				
ScinoPharm Taiwan, Ltd.	SPT International, Ltd.	Tortola, British Virgin Islands	Professional investment	\$ 1,833,304	\$ 1,727,867	60,524,644	100.00	\$ 1,458,873	(\$ 307,827)	290,796	Subsidiary
ScinoPharm Taiwan, Ltd.	ScinoPharm Singapore Pte Ltd.	Singapore	Professional investment	-	-	2	100.00	35	15	15	Subsidiary
ScinoPharm Taiwan, Ltd.	Forceceacer Pharmaceuticals, Inc.	Grand Cayman, Cayman Islands	Research and development of peptide injectable drugs	107,388	107,388	3,600,000	15.32	79,923	(118,495)	15,498	-

(3) Information on investments in Mainland China

Related information on investee companies for the year ended December 31, 2014.

A. The basic information of investments in Mainland China:

Investment amount												
Name of investee in China	Main business	Capital	Investment method	Beginning investment balance from		Remitted		Ending investment balance from	Income (loss) of the investee company	Ownership held by the company		Book value of investments as of December 31, 2014
				Taiwan	Taiwan	China	Taiwan			(direct or indirect)	Investment income (loss) recognized	
ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	Research, development, and manufacture of API and new drug, etc.	\$ 121,100	(Note 1)	\$ 121,100	\$ -	\$ -	\$ 121,100	\$ 591	\$ 591	\$ 470,316	\$ -	Subsidiary of subsidiary
ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Research, development, and manufacture of API and new drug, etc.	1,632,018	(Note 1)	1,526,580	105,438	-	1,632,018	(300,758)	(300,758)	1,000,073	-	Subsidiary of subsidiary
ScinoPharm (Shanghai) Biochemical Technology, Ltd.	Import, export and sales of API and intermediates, etc.	35,743	(Note 1)	35,743	-	-	35,743	(7,559)	(7,559)	21,835	-	Subsidiary of subsidiary

B. Ceiling amount of investment in Mainland China:

Name of company	Accumulated amount of remittance from Taiwan to Mainland China	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investment amount in Mainland China imposed by the Investment Commission of MOEA (Note 3)
ScinoPharm Taiwan, Ltd. \$	1,919,525 \$	1,919,525 \$	5,628,163

Note 1: Indirect investment in Mainland China through Company set up in a third region, SPT international, Ltd.

Note 2: The investment income (loss) recognized by the Company for the year ended December 31, 2014 was based on audited financial statements of investee companies as of and for the year ended December 31, 2014.

Note 3: The ceiling amount is 60% of the higher of net worth or combined net worth.

Note 4: The numbers in the table that involves foreign currencies are expressed in New Taiwan Dollars according to the exchange rate posted on the date of the consolidated financial statements (USD:NTD 1:31.65).

C. Significant transactions with investees in Mainland China, directly, indirectly or through companies located in third region:

(a) Purchase amount and percentage of net purchases, the ending balance of the respective accounts payable and percentage:

I. Purchases

Third region Company's name	Name of investee in Mainland China	For the year ended December 31, 2014	
		Amount	% (Note)
—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	\$ 112,663	9
—	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	65,157	5
		<u>\$ 177,820</u>	<u>14</u>

Purchase prices from related parties are the same as that of general suppliers. The method of payment is agreed upon and closes its accounts 90 days from the end of each month, which is also similar to that of general suppliers.

Note: Percentage of the company's purchase

(b) Sales amount and percentage of net sales, the ending balance of respective accounts receivable and percentage:

I. Sales

Third region Company's name	Name of investee in Mainland China	December 31, 2014	
		Amount	% (Note)
—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	\$ 6,862	—

Note: Percentage of the company's sales

(c) Property transaction amount and related gain or loss: None.

(d) Endorsements, guarantee and security's ending balance and purpose: None.

(e) Maximum balance, ending balance, range of interest rates and interest expense for financing transactions: None.

(f) Other events having significant effects on the operating results and financial condition:

Transaction description	Third region company's name	Name of investee in Mainland China	For the year ended December 31, 2014
Management consultancy fee	—	ScinoPharm (Shanghai) Biochemical	\$ 2,598
Management consultancy revenue	—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	\$ 26,814
Management consultancy revenue	—	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd	\$ 2,072
Other receivables	—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	\$ 11,071
Other payables	—	ScinoPharm (Shanghai) Biochemical Technology, Ltd.	\$ 1,195

14. SEGMENT INFORMATION

(1) General information

The management of the Group has identified the operating segments based on how the company's chief operating decision maker regularly reviews information in order to make decisions. The chief operating decision maker manages the Group's business from geographical and functional perspectives. Geographically, the Group focus on its sales business in the U.S., Europe and Asia. In addition, the Group categorized its business units into manufacture, sales, research and development and investment management functions, and combines its segments that do the meet the disclosure threshold as "Other".

(2) Measurement of segment information

The chief operating decision-maker evaluates the performance of operating segments based on pre-tax income excluding non-recurring income. For details of operating segments' accounting policies, please refer to Note 4.

(3) Segment information

The segment information provided to the chief operating decision-maker for the reportable segments is as follows:

For the year ended December 31, 2014			
	ScinoPharm Taiwan, Ltd.	Others	Total
Segment revenue	\$ 4,092,479	\$ 194,608	\$ 4,287,087
Revenue from internal customers	–	189,244	189,244
Revenue from external customers	4,092,479	5,365	4,097,844
Interest income	13,269	19,039	32,308
Depreciation and amortization	389,576	81,525	471,101
Interest expense	2	4,137	4,139
Income from segment before income tax	605,348	(310,951)	294,397
Segment assets	9,995,774	2,885,039	12,880,813
Other acquisition of non-current asset (excluding financial instruments and deferred tax assets)	774,596	249,135	1,023,731
Segment liabilities	615,503	1,388,312	2,003,815

For the year ended December 31, 2013			
	ScinoPharm Taiwan, Ltd.	Others	Total
Segment revenue	\$ 5,083,603	\$ 320,539	\$ 5,404,142
Revenue from internal customers	–	315,897	315,897
Revenue from external customers	5,083,603	4,642	5,088,245
Interest income	21,140	16,506	37,646
Depreciation and amortization	376,706	70,812	447,518
Interest expense	1	7,915	7,916
Income from segment before income tax	1,514,746	(276,608)	1,238,138
Segment assets	10,706,170	2,508,081	13,214,251
Other acquisition of non-current assets (excluding financial instruments and deferred tax assets)	661,985	558,931	1,220,916
Segment liabilities	1,062,916	860,970	1,923,886

(4) Reconciliation for segment income (loss)

A. The sales between segments were under the arms' length principle. The external revenues reported to the chief operating decision maker adopt the same measurement for revenues in income statement. The reconciliations of pre-tax income between reportable segments and continuing operations were as follows:

	For the years ended December 31,	
	2014	2013
Reportable segments profit before income tax	\$ 605,348	\$ 1,514,746
Other segments profit (loss) before income tax	(310,951)	(276,608)
Inter segments loss	307,812	170,375
Profit before income tax	<u>\$ 602,209</u>	<u>\$ 1,408,513</u>

B.A reconciliation of assets of reportable segment and total assets is as follows:

	December 31, 2014	December 31, 2013
Assets of reportable segments	\$ 9,995,774	\$ 10,706,170
Assets of other operating segments	2,885,039	2,508,081
Internal segment transaction elimination	(1,508,993)	(1,730,023)
Total assets	<u>\$ 11,371,820</u>	<u>\$ 11,484,228</u>

C.A reconciliation of liabilities of reportable segment and total liabilities is as follows:

	December 31, 2014	December 31, 2013
Liabilities of reportable segments	\$ 615,503	\$ 1,062,916
Liabilities of other operating segments	1,388,312	860,970
Internal segment transaction elimination	(12,266)	(82,912)
Total liabilities	<u>\$ 1,991,549</u>	<u>\$ 1,840,974</u>

(5) Information on product and service

The Group is engaged in the research and development and manufacture of API, as well as the provision of related consulting and technical services. The reconciliations of total segment and operating revenue were as follows:

	For the years ended December 31,	
	2014	2013
Revenue from sales of products	\$ 3,966,632	\$ 5,055,942
Revenue from technical services	42,941	28,845
Others	88,271	3,458
	<u>\$ 4,097,844</u>	<u>\$ 5,088,245</u>

(6) Geographical information

Geographical information for the years ended December 31, 2014 and 2013 is as follows:

	For the year ended and as at December 31, 2014		For the year ended and as at December 31, 2013	
	Revenue	Non-current assets	Revenue	Non-current assets
Taiwan	\$ 169,196	\$ 3,754,175	\$ 166,413	\$ 3,303,840
USA	1,679,352	-	1,975,307	-
India	598,207	-	614,232	-
Ireland	547,511	-	747,145	-
Italy	354,557	-	441,729	-
Others	749,021	1,731,380	1,143,419	1,449,076
	<u>\$ 4,097,844</u>	<u>\$ 5,485,555</u>	<u>\$ 5,088,245</u>	<u>\$ 4,752,916</u>

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2014 and 2013 is as follows:

	For the year ended and as at December 31, 2014		For the year ended and as at December 31, 2013	
	Revenue	Segment	Revenue	Segment
A	\$ 1,330,845	Whole	\$ 1,747,812	Whole
B	486,318	"	665,044	"