

**SCINOPHARM TAIWAN, LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS AND**

**REVIEW REPORT OF INDEPENDENT**

**ACCOUNTANTS**

**MARCH 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.

## REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

We have reviewed the accompanying consolidated balance sheets of ScinoPharm Taiwan, Ltd. and subsidiaries as of March 31, 2014 and 2013, and the related consolidated statements of comprehensive income, of cash flows and of changes in shareholders' equity for the three-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Except as discussed in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36, "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical procedures to financial data, and making inquiries of Company personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 4(3), the financial statements of certain subsidiaries were consolidated based on their unreviewed financial statements as of and for the three-month periods ended March 31, 2014 and 2013. Total assets of these subsidiaries amounted to \$2,780,746 thousand and \$1,779,640 thousand, representing 23% and 16% of the related consolidated totals, and total liabilities amounted to \$117,920 thousand and \$557,488 thousand, representing 5% and 35% of the related consolidated totals, as of March 31, 2014 and 2013, respectively. Total comprehensive income of these subsidiaries amounted to \$54,031 thousand and \$6,841 thousand, constituting 33% and 2% of the consolidated total comprehensive income for the three-month periods ended March 31, 2014 and 2013, respectively. In addition, as described in Note 6(5) to the consolidated financial statements, the financial statements of the Company's investment accounted for under the equity method were not reviewed by independent accountants. Investment in this company amounted to \$92,193 thousand as of March 31, 2014, and the related share of loss of associates and joint ventures accounted for under the equity method amounted to \$334 thousand for the three-month period then ended. The amounts were based solely on its unreviewed financial statements. We were unable to satisfy ourselves as to the carrying value of the investment or the equities in its earnings by other auditing procedures.

Based on our reviews, except for the effect of such adjustments, if any, as might have been determined to be necessary had the financial statements of certain subsidiaries and investment company accounted for under the equity method as of and for the three-month periods ended March 31, 2014 and 2013 been reviewed by independent accountants as described in the preceding paragraph, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and IAS 34, “Interim Financial Reporting”.

PricewaterhouseCoopers, Taiwan  
Republic of China  
May 8, 2014

-----  
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)  
(The consolidated balance sheets as of March 31, 2014 and 2013 are unaudited)

Assets	Notes	March 31, 2014		December 31, 2013		March 31, 2013		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 2,792,770	23	\$ 2,289,428	20	\$ 3,411,045	31
1150	Notes receivable, net		1,608	-	230	-	468	-
1170	Accounts receivable, net	6(2) and 7	628,052	5	970,641	8	598,759	5
1200	Other receivables		175,443	2	161,496	1	114,606	1
130X	Inventory	5(2) and 6(3)	2,636,997	22	2,512,318	22	2,225,826	20
1410	Prepayments		156,087	1	193,763	2	174,127	2
1476	Other financial assets-current	8	15,552	-	15,552	-	-	-
11XX	<b>Total current assets</b>		<u>6,406,509</u>	<u>53</u>	<u>6,143,428</u>	<u>53</u>	<u>6,524,831</u>	<u>59</u>
<b>Non-current assets</b>								
1543	Financial assets measured at cost - non-current	6(4)	167,673	1	167,673	1	167,673	1
1550	Investments accounted for under equity method	6(5)	92,193	1	90,455	1	-	-
1600	Property, plant and equipment	6(6)(8) and 7	4,433,590	37	4,213,982	37	3,819,674	35
1780	Intangible assets		26,430	-	28,709	-	22,683	-
1840	Deferred income tax assets	5(2) and 6(24)	329,340	3	305,089	3	182,861	2
1915	Prepayments for equipment		439,755	4	399,306	4	168,408	2
1980	Other financial assets-non-current	8	24,734	-	24,667	-	39,369	-
1985	Long-term prepaid rent	6(7)	92,135	1	92,994	1	92,327	1
1990	Other non-current assets		16,885	-	17,925	-	19,292	-
15XX	<b>Total non-current assets</b>		<u>5,622,735</u>	<u>47</u>	<u>5,340,800</u>	<u>47</u>	<u>4,512,287</u>	<u>41</u>
1XXX	<b>Total assets</b>		<u>\$ 12,029,244</u>	<u>100</u>	<u>\$ 11,484,228</u>	<u>100</u>	<u>\$ 11,037,118</u>	<u>100</u>

(Continued)

**SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)  
(The consolidated balance sheets as of March 31, 2014 and 2013 are unaudited)

Liabilities and Equity	Notes	March 31, 2014		December 31, 2013		March 31, 2013		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current liabilities</b>								
2100	Short-term borrowings	6(9)	\$ 1,070,158	9	\$ 689,785	6	\$ 391,668	4
2120	Financial liabilities at fair value	6(10)						
	through profit or loss - current		1,104	-	1,138	-	1,151	-
2150	Notes payable		773	-	1,080	-	1,158	-
2170	Accounts payable		225,020	2	264,437	2	294,241	3
2200	Other payables	6(11) and 7	565,529	5	594,800	5	564,145	5
2230	Current income tax liabilities	6(24)	192,183	1	147,735	1	253,714	2
2310	Advance receipts		100,788	1	75,812	1	3,992	-
21XX	<b>Total current liabilities</b>		<u>2,155,555</u>	<u>18</u>	<u>1,774,787</u>	<u>15</u>	<u>1,510,069</u>	<u>14</u>
<b>Non-current liabilities</b>								
2570	Deferred income tax liabilities	6(24)	568	-	639	-	-	-
2640	Accrued pension liabilities	5(2) and 6(12)	65,579	-	65,548	1	65,626	-
25XX	<b>Total non-current liabilities</b>		<u>66,147</u>	<u>-</u>	<u>66,187</u>	<u>1</u>	<u>65,626</u>	<u>-</u>
2XXX	<b>Total Liabilities</b>		<u>2,221,702</u>	<u>18</u>	<u>1,840,974</u>	<u>16</u>	<u>1,575,695</u>	<u>14</u>
<b>Equity attributable to owners of parent</b>								
<b>Share capital</b>								
3110	Share capital - common stock	6(14)	6,759,272	56	6,759,272	59	6,499,300	59
<b>Capital surplus</b>								
3200	Capital surplus	6(13)(15)	1,250,338	10	1,247,796	11	1,246,977	11
<b>Retained earnings</b>								
		6(16)(24)						
3310	Legal reserve		220,944	2	220,944	2	103,897	1
3320	Special reserve		22,829	-	22,829	-	22,829	-
3350	Undistributed earnings		1,513,403	13	1,348,058	12	1,581,296	15
<b>Other equity interest</b>								
3400	Other equity interest	6(17)	40,756	1	44,355	-	5,477	-
31XX	<b>Equity attributable to owners of the parent</b>		<u>9,807,542</u>	<u>82</u>	<u>9,643,254</u>	<u>84</u>	<u>9,459,776</u>	<u>86</u>
36XX	<b>Non-controlling interest</b>		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,647</u>	<u>-</u>
3XXX	<b>Total equity</b>		<u>9,807,542</u>	<u>82</u>	<u>9,643,254</u>	<u>84</u>	<u>9,461,423</u>	<u>86</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b>								
	<b>Total liabilities and equity</b>		<u>\$ 12,029,244</u>	<u>100</u>	<u>\$ 11,484,228</u>	<u>100</u>	<u>\$ 11,037,118</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See review report of independent accountants dated May 8, 2014.

**SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

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

Items	Notes	For the three-month periods ended March 31,			
		2014		2013	
		AMOUNT	%	AMOUNT	%
4000 <b>Sales revenue</b>	6(18) and 7	\$ 1,097,245	100	\$ 1,185,616	100
5000 <b>Operating costs</b>	6(3)(12)(22)(23)	( 664,187)	( 60)	( 530,798)	( 45)
5900 <b>Net operating margin</b>		<u>433,058</u>	<u>40</u>	<u>654,818</u>	<u>55</u>
<b>Operating expenses</b>	6(12)(22)(23) and 7				
6100 Selling expenses		( 43,397)	( 4)	( 42,267)	( 3)
6200 General and administrative expenses		( 113,686)	( 10)	( 129,521)	( 11)
6300 Research and development expenses		( 93,411)	( 9)	( 94,637)	( 8)
6000 <b>Total operating expenses</b>		<u>( 250,494)</u>	<u>( 23)</u>	<u>( 266,425)</u>	<u>( 22)</u>
6900 <b>Operating profit</b>		<u>182,564</u>	<u>17</u>	<u>388,393</u>	<u>33</u>
<b>Non-operating income and expenses</b>					
7010 Other income	6(19)	7,481	1	8,890	1
7020 Other gains and losses	6(8)(10)(20)	( 506)	-	11,403	1
7050 Finance costs	6(21)	( 4,175)	( 1)	( 1,413)	-
7060 Share of profit/(loss) of associates and joint ventures accounted for under equity method	6(5)	( 334)	-	-	-
7000 <b>Total non-operating income and expenses</b>		<u>2,466</u>	<u>-</u>	<u>18,880</u>	<u>2</u>
7900 <b>Profit before income tax</b>		<u>185,030</u>	<u>17</u>	<u>407,273</u>	<u>35</u>
7950 Income tax expense	6(24)	( 19,685)	( 2)	( 57,109)	( 5)
8200 <b>Profit for the period</b>		<u>\$ 165,345</u>	<u>15</u>	<u>\$ 350,164</u>	<u>30</u>
<b>Other comprehensive income</b>					
8310 Financial statements translation differences of foreign operations	6(17)	( \$ 3,599)	-	\$ 40,517	3
8500 <b>Total comprehensive income for the period</b>		<u>\$ 161,746</u>	<u>15</u>	<u>\$ 390,681</u>	<u>33</u>
<b>Profit attributable to:</b>					
8610 Owners of the parent		\$ 165,345	15	\$ 350,120	30
8620 Non-controlling interest		-	-	44	-
<b>Profit for the period</b>		<u>\$ 165,345</u>	<u>15</u>	<u>\$ 350,164</u>	<u>30</u>
<b>Comprehensive income attributable to:</b>					
8710 Owners of the parent		\$ 161,746	15	\$ 390,637	33
8720 Non-controlling interest		-	-	44	-
<b>Total comprehensive income for the period</b>		<u>\$ 161,746</u>	<u>15</u>	<u>\$ 390,681</u>	<u>33</u>
<b>Basic earnings per share (in dollars)</b>	6(25)				
9750 <b>Net income</b>		<u>\$</u>	<u>0.24</u>	<u>\$</u>	<u>0.52</u>
<b>Diluted earnings per share (in dollars)</b>	6(25)				
9850 <b>Net income</b>		<u>\$</u>	<u>0.24</u>	<u>\$</u>	<u>0.52</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See review report of independent accountants dated May 8, 2014.

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Equity attributable to owners of the parent								Non-controlling interest	Total equity
	Notes	Share capital - common stock	Capital surplus	Retained Earnings			Financial statements translation differences of foreign operations	Total		
Legal reserve				Special reserve	Undistributed earnings					
<u>For the three-month period ended March 31, 2013</u>										
Balance at January 1, 2013		\$ 6,499,300	\$ 1,246,977	\$ 103,897	\$ 22,829	\$ 1,231,176	(\$ 35,040)	\$ 9,069,139	\$ 1,603	\$ 9,070,742
Net income for the three-month period ended March 31, 2013		-	-	-	-	350,120	-	350,120	44	350,164
Other comprehensive income for the three-month period ended March 31, 2013	6(17)	-	-	-	-	-	40,517	40,517	-	40,517
Balance at March 31, 2013		<u>\$ 6,499,300</u>	<u>\$ 1,246,977</u>	<u>\$ 103,897</u>	<u>\$ 22,829</u>	<u>\$ 1,581,296</u>	<u>\$ 5,477</u>	<u>\$ 9,459,776</u>	<u>\$ 1,647</u>	<u>\$ 9,461,423</u>
<u>For the three-month period ended March 31, 2014</u>										
Balance at January 1, 2014		\$ 6,759,272	\$ 1,247,796	\$ 220,944	\$ 22,829	\$ 1,348,058	\$ 44,355	\$ 9,643,254	\$ -	\$ 9,643,254
Net income for the three-month period ended March 31, 2014		-	-	-	-	165,345	-	165,345	-	165,345
Other comprehensive income for the three-month period ended March 31, 2014	6(17)	-	-	-	-	-	( 3,599 )	( 3,599 )	-	( 3,599 )
Employee stock option compensation cost	6(13)(15)	-	2,542	-	-	-	-	2,542	-	2,542
Balance at March 31, 2014		<u>\$ 6,759,272</u>	<u>\$ 1,250,338</u>	<u>\$ 220,944</u>	<u>\$ 22,829</u>	<u>\$ 1,513,403</u>	<u>\$ 40,756</u>	<u>\$ 9,807,542</u>	<u>\$ -</u>	<u>\$ 9,807,542</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See review report of independent accountants dated May 8, 2014.

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

	Notes	For the three-month periods ended March 31,	
		2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Consolidated profit before tax for the period		\$ 185,030	\$ 407,273
Adjustments to reconcile net income to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
(Gain) loss on valuation of financial assets and liabilities		( 34 )	1,624
Provision for doubtful accounts	6(2)	2	28
Loss on inventory market price decline	6(3)	13,761	40,742
Provision for obsolescence of supplies		581	1,238
Share of loss of associates and joint ventures accounted for under the equity method	6(5)	334	-
Depreciation	6(6)(22)	114,494	101,734
Loss on disposal of property, plant and equipment	6(20)	126	196
Gain on reversal of impairment loss	6(8)(20)	-	( 71 )
Amortization	6(22)	3,315	2,136
Employee stock option cost	6(13)(15)	2,542	-
Interest income	6(19)	( 5,281 )	( 8,890 )
Interest expense	6(21)	4,175	1,413
Changes in assets/liabilities relating to operating activities			
Net changes in assets relating to operating activities			
Notes receivable		( 1,378 )	( 468 )
Accounts receivable		342,587	242,547
Other receivables		( 13,807 )	( 18,519 )
Inventories		( 138,424 )	( 396,676 )
Prepayments		37,095	38,896
Other non-current assets		-	( 1,459 )
Net changes in liabilities relating to operating activities			
Notes payable		( 307 )	113
Accounts payable		( 39,417 )	71,167
Other payables		( 39,443 )	13,453
Advance receipts		24,976	1,809
Accrued pension liabilities		31	164
Cash generated from operations		490,958	498,450
Interest received		5,141	9,103
Interest paid		( 4,175 )	( 1,413 )
Income tax paid		( 382 )	( 564 )
Net cash provided by operating activities		<u>491,542</u>	<u>505,576</u>

(Continued)



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

	<u>Notes</u>	<u>For the three-month periods ended March 31,</u>	
		<u>2014</u>	<u>2013</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Increase in pledged deposits		(\$ 67 )	\$ -
Cash paid for acquisition of property, plant and equipment	6(26)	( 286,930 )	( 143,656 )
Proceeds from disposal of property, plant and equipment		324	-
Cash paid for acquisition of intangible assets		( 585 )	-
Increase in prepayment for equipment		( 84,794 )	( 112,718 )
Decrease (increase) in other non-current assets - refundable deposits paid		<u>1,040</u>	<u>( 860 )</u>
Net cash used in investing activities		<u>( 371,012 )</u>	<u>( 257,234 )</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Increase in short-term borrowings		<u>380,373</u>	<u>127,992</u>
Net cash provided by financing activities		<u>380,373</u>	<u>127,992</u>
Effect of foreign exchange rate changes on cash and cash equivalents		<u>2,439</u>	<u>( 301 )</u>
Increase in cash and cash equivalents		503,342	376,033
Cash and cash equivalents at beginning of period		<u>2,289,428</u>	<u>3,035,012</u>
Cash and cash equivalents at end of period		<u>\$ 2,792,770</u>	<u>\$ 3,411,045</u>

The accompanying notes are an integral part of these consolidated financial statements.  
See review report of independent accountants dated May 8, 2014.

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

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

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 materials for medicines, albumin medicines, oligonucleotide medicines, peptide medicines, injections and small molecule drugs, as well as the provision of related consulting and technical services. The Company’s investment plan for the manufacturing of medicine materials 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 May 8, 2014.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“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 in preparing the consolidated financial statements. The related new standards, interpretations and amendments are listed below:

New Standards, Interpretations and Amendments	IASB Effective Date
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	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, sets out a framework for measuring fair value, and 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:

<u>New Standards, Interpretations and Amendments</u>	<u>IASB Effective Date</u>
IFRS 9, 'Financial instruments'	Not yet been decided
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Services related contributions from employees or third parties (amendments to IAS 19R)	July 1, 2014
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014

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

4. 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 "Rules Governing the Preparation of Financial Statements by Securities Issuers" and IAS 34, 'Interim Financial Reporting' as endorsed by the FSC.

(2) Basis of preparation

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

Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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
			March 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 medicine, etc.	100.00	100.00	—
SPT International, Ltd.	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Research, development and manufacture of API and new medicine, etc.	100.00	100.00	—
SPT International, Ltd.	ScinoPharm (Shanghai) Biochemical Technology, Ltd.	Import, export and sales of Active Pharmaceutical Ingredients and intermediates, etc.	100.00	100.00	—

Name of Investor	Name of Subsidiary	Business activities	Company	Note
			March 31, 2013	
ScinoPharm Taiwan, Ltd.	SPT International, Ltd.	Professional investment	100.00	—
ScinoPharm Taiwan, Ltd.	ScinoPharm Singapore Pte Ltd.	Professional investment	100.00	—
ScinoPharm Taiwan, Ltd.	President ScinoPharm (Cayman), Ltd.	Professional investment	60.00	Note
SPT International, Ltd.	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	Research, development and manufacture of API and new medicine, etc.	100.00	—
SPT International, Ltd.	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Research, development and manufacture of API and new medicine, etc.	100.00	—
SPT International, Ltd.	ScinoPharm (Shanghai) Biochemical Technology, Ltd.	Import, export and sales of Active Pharmaceutical Ingredients and intermediates, etc.	100.00	—

Note: Liquidated in September, 2013.

The financial statements of certain subsidiaries were consolidated based on their unreviewed financial statements as of and for the three-month periods ended March 31, 2014 and 2013. Total assets of these subsidiaries amounted to \$2,780,746 and \$1,779,640, representing 23% and 16% of the related consolidated totals, and total liabilities amounted to \$117,920 and \$557,488, representing 5% and 35% of the related consolidated totals, as of March 31, 2014 and 2013, respectively. Total comprehensive income of these subsidiaries amounted to \$54,031 and \$6,841, constituting 33% and 2% of the consolidated total comprehensive income for the three-month periods ended March 31, 2014 and 2013, respectively.

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) Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within "interest income or finance costs". 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.



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.

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

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

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

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

(8) Available-for-sale financial assets

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

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

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

the fair value of these financial assets are recognized in other comprehensive income. 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'.

(9) 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.

(10) 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.

(11) 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.

(12) 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.

(13) 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.

(14) 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	2 ~ 9 years
Other equipment	2 ~ 7 years

(15) 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.

(16) 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.

(17) 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.

(18) 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.

(19) 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.

(20) 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.

(21) 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.

(22) 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 Group pays fixed contributions to an independent, publicly or privately administered pension fund. The Group has no further legal or constructive obligations once the contributions have been paid. 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.

iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. The related information is disclosed accordingly.

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.

(23) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are 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.
- B. For the cash-settled share-based payment arrangements, the employee services received and the liability incurred are measured at the fair value of the liability to pay for those services, and are recognized as compensation cost and liability over the vesting period. The fair value of the liability shall be remeasured at each balance sheet date until settled at the settlement date, with any changes in fair value recognized in profit or loss.

(24) 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.
- G. The interim period income tax expense is recognized based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.

(25) 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.

(26) 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.

(27) 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Manager that makes strategic decisions.

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 March 31, 2014, the carrying amount of inventories was \$2,636,997.

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

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.

## C. Realisability 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 utilised. Assessment of the realisability 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 March 31, 2014, the Group recognized deferred income tax assets amounting to \$329,340.

## D. Calculation of accrued pension obligations

- a) When calculating the present value of defined pension obligations, the Group must apply judgements 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 March 31, 2014, the carrying amount of accrued pension obligations was \$65,579.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) CASH AND CASH EQUIVALENTS

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Cash:			
Cash on hand	\$ 23,734	\$ 304	\$ 167
Checking accounts and demand deposits	<u>276,585</u>	<u>456,017</u>	<u>426,812</u>
	<u>300,319</u>	<u>456,321</u>	<u>426,979</u>
Cash Equivalents:			
Time deposits	2,258,073	1,700,203	2,751,507
Bill under repurchase agreements	<u>234,378</u>	<u>132,904</u>	<u>232,559</u>
	<u>2,492,451</u>	<u>1,833,107</u>	<u>2,984,066</u>
Cash and cash equivalents as per consolidated balance sheet and statement of cash flows	<u>\$ 2,792,770</u>	<u>\$ 2,289,428</u>	<u>\$ 3,411,045</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 March 31, 2014, December 31, 2013 and March 31, 2013 are provided in Note 8.

(2) ACCOUNTS RECEIVABLE, NET

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Accounts receivable	\$ 628,084	\$ 970,671	\$ 598,812
Less: Allowance for doubtful accounts	( 32)	( 30)	( 53)
	<u>\$ 628,052</u>	<u>\$ 970,641</u>	<u>\$ 598,759</u>

A. As of March 31, 2014, December 31, 2013 and March 31, 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:

	<u>2014</u>	<u>2013</u>
	<u>Individual provision</u>	<u>Individual provision</u>
At January 1	\$ 30	\$ 25
Provision for impairment	<u>2</u>	<u>28</u>
At March 31	<u>\$ 32</u>	<u>\$ 53</u>

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

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

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

(3) INVENTORIES

	<u>March 31, 2014</u>		
	<u>Cost</u>	<u>Allowance for market price decline</u>	<u>Book value</u>
Raw materials	\$ 843,604	(\$ 32,162)	\$ 811,442
Supplies	46,299	( 1,520)	44,779
Work in process	1,033,801	( 41,044)	992,757
Finished goods	981,728	( 193,709)	788,019
	<u>\$ 2,905,432</u>	<u>(\$ 268,435)</u>	<u>\$ 2,636,997</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>

	March 31, 2013		
	Cost	Allowance for market price decline	Book value
Raw materials	\$ 720,044	(\$ 51,755)	\$ 668,289
Supplies	21,375	( 913)	20,462
Work in process	927,016	( 56,472)	870,544
Finished goods	847,995	( 181,464)	666,531
	<u>\$ 2,516,430</u>	<u>(\$ 290,604)</u>	<u>\$ 2,225,826</u>

The cost of inventories recognized as expense for the three-month periods ended March 31, 2014 and 2013 was \$661,865 and \$527,449, respectively, including provision for allowance for price decline of inventory of \$13,761 and \$40,742, respectively, due to inventory market price decline. Such provision was recognized as “cost of goods sold”.

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

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

A. Based on the Group’s intension, 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 and 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 March 31, 2014, December 31, 2013 and March 31, 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>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Foreseeacer Pharmaceuticals, Inc.	<u>\$ 92,193</u>	<u>\$ 90,455</u>	<u>\$ -</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>March 31, 2014</u>					
Foreseeacer Pharmaceuticals, Inc.	<u>\$ 623,447</u>	<u>\$ 11,911</u>	<u>\$ -</u>	<u>(\$ 10,021)</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 \$334 thousand for the three-month period ended March 31, 2014, which was recognized based on the unreviewed financial statements of the investee company for the corresponding period.

(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>
<b>For the three-month period ended March 31, 2014</b>							
At January 1, 2014	\$ 1,636,388	\$ 1,575,012	\$ 15,710	\$ 70,176	\$ 92,351	\$ 824,345	\$ 4,213,982
Additions	-	-	-	-	-	297,102	297,102
Disposals—Cost	-	( 25,273)	-	( 78)	-	-	( 25,351)
— Accumulated depreciation	-	24,848	-	53	-	-	24,901
Reclassification (note)	9,855	43,903	2,244	3,731	2,276	( 18,767)	43,242
Depreciation charge	( 21,383)	( 79,146)	( 1,157)	( 7,079)	( 5,729)	-	( 114,494)
Net exchange differences	( 907)	( 768)	( 43)	( 105)	( 305)	( 3,664)	( 5,792)
At March 31, 2014	<u>\$ 1,623,953</u>	<u>\$ 1,538,576</u>	<u>\$ 16,754</u>	<u>\$ 66,698</u>	<u>\$ 88,593</u>	<u>\$ 1,099,016</u>	<u>\$ 4,433,590</u>
<b>March 31, 2014</b>							
Cost	\$ 2,190,941	\$ 4,300,569	\$ 30,271	\$ 146,886	\$ 134,251	\$ 1,109,016	\$ 7,911,934
Accumulated depreciation	( 566,988)	( 2,743,909)	( 13,517)	( 80,188)	( 45,658)	-	( 3,450,260)
Accumulated impairment	-	( 18,084)	-	-	-	-	( 18,084)
	<u>\$ 1,623,953</u>	<u>\$ 1,538,576</u>	<u>\$ 16,754</u>	<u>\$ 66,698</u>	<u>\$ 88,593</u>	<u>\$ 1,109,016</u>	<u>\$ 4,443,590</u>

	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Others	Construction in progress	Total
<u>January 1, 2013</u>							
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>
<u>For the three-month period ended March 31, 2013</u>							
At January 1, 2013	\$ 1,537,735	\$ 1,252,829	\$ 9,607	\$ 33,475	\$ 112,578	\$ 613,004	\$ 3,559,228
Additions	-	51	-	-	-	158,142	158,193
Disposals—Cost	-	( 2,742)	-	( 109)	( 25)	-	( 2,876)
—Accumulated depreciation	-	2,627	-	47	6	-	2,680
Reversal of impairment loss	-	71	-	-	-	-	71
Reclassification (note)	105,974	388,538	159	25,561	( 19,695)	( 318,728)	181,809
Depreciation charge	( 19,618)	( 71,477)	( 695)	( 5,235)	( 4,709)	-	( 101,734)
Net exchange differences	7,509	4,191	169	260	3,591	6,583	22,303
At March 31, 2013	<u>\$ 1,631,600</u>	<u>\$ 1,574,088</u>	<u>\$ 9,240</u>	<u>\$ 53,999</u>	<u>\$ 91,746</u>	<u>\$ 459,001</u>	<u>\$ 3,819,674</u>
<u>March 31, 2013</u>							
Cost	\$ 2,138,437	\$ 4,139,531	\$ 18,802	\$ 109,704	\$ 115,384	\$ 459,001	\$ 6,980,859
Accumulated depreciation	( 506,837)	( 2,544,245)	( 9,562)	( 55,705)	( 23,638)	-	( 3,139,987)
Accumulated impairment	-	( 21,198)	-	-	-	-	( 21,198)
	<u>\$ 1,631,600</u>	<u>\$ 1,574,088</u>	<u>\$ 9,240</u>	<u>\$ 53,999</u>	<u>\$ 91,746</u>	<u>\$ 459,001</u>	<u>\$ 3,819,674</u>

(Note) Reclassified from “prepayment for equipment”.

A. As of and for the three-month periods ended March 31, 2014 and 2013, the Group has not capitalized any interest.

B. Please refer to Note 6 (8) for details of impairment provision and reversal of impairment loss on property, plant and equipment in the prior period.

C. As of March 31, 2014, December 31, 2013 and March 31, 2013, no property, plant and equipment were pledged to others as collateral.



(7) LONG-TERM PREPAID RENT

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Long-term prepaid rent	<u>\$ 92,135</u>	<u>\$ 92,994</u>	<u>\$ 92,327</u>

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 \$507 and \$490 for the three-month periods ended March 31, 2014 and 2013, respectively.

(8) IMPAIRMENT OF NON-FINANCIAL ASSETS

A. The Group reversed the impairment loss recognized in prior period amounting to \$ - and \$71 for the three-month periods ended March 31, 2014 and 2013, respectively, which was recognized in profit or loss for the corresponding periods, as some of the idle machineries were again utilized in production. For details of accumulated impairment, please refer to Note 6(6) Property, plant and equipment.

B. The impairment loss reported by operating segments is as follows:

	<u>For the three-month period ended March 31, 2013</u>	
	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>
ScinoPharm Taiwan	<u>\$ 71</u>	<u>\$ -</u>

(9) SHORT-TERM BORROWINGS

<u>Type of borrowings</u>	<u>March 31, 2014</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank loans			
Unsecured loans	<u>\$ 1,070,158</u>	1.15%~1.33%	None
<u>Type of borrowings</u>	<u>December 31, 2013</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank loans			
Unsecured loans	<u>\$ 689,785</u>	1.16%~2.20%	None
<u>Type of borrowings</u>	<u>March 31, 2013</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank loans			
Unsecured loans	<u>\$ 391,668</u>	1.20%~1.31%	None

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

<u>Liabilities</u>	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Current items:			
Financial assets held for trading			
Non-hedging derivatives	<u>\$ 1,104</u>	<u>\$ 1,138</u>	<u>\$ 1,151</u>

A. The Group recognized net loss on financial liabilities held for trading amounting to \$10,552 and \$11,085 for the three-month periods ended March 31, 2014 and 2013, respectively (listed as “other gains and losses”).

B. The contract information of non-hedging derivative instrument transactions is as follows:

	<u>March 31, 2014</u>	
<u>Derivative Instruments</u>	<u>Contract amount</u>	<u>Contract period</u>
Forward exchange contracts	USD 7,845,000	2.2014~5.2014
	EUR 730,000	3.2014~4.2014
	<u>December 31, 2013</u>	
<u>Derivative Instruments</u>	<u>Contract amount</u>	<u>Contract period</u>
Forward exchange contracts	USD14,915,000	11.2013~3.2014
	<u>March 31, 2013</u>	
<u>Derivative Instruments</u>	<u>Contract amount</u>	<u>Contract period</u>
Forward exchange contracts	USD 7,080,000	2.2013~5.2013
	EUR 490,000	3.2013~4.2013

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

(11) OTHER PAYABLES

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Accrued expenses	\$ 402,984	\$ 409,220	\$ 337,920
Payables on equipment	109,539	99,367	137,233
Others	53,006	86,213	88,992
	<u>\$ 565,529</u>	<u>\$ 594,800</u>	<u>\$ 564,145</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 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 pension costs under the defined contribution pension plans of the Group for the three-month periods ended March 31, 2014 and 2013 were \$850 and \$971, respectively.

(b) Details of cost and expenses recognized in statements of comprehensive income are as follows:

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Cost of sales	\$ 481	\$ 488
Selling expenses	55	44
General and administrative expenses	104	225
Research and development expenses	<u>210</u>	<u>214</u>
	<u>\$ 850</u>	<u>\$ 971</u>

(c) The Group's expected contributions to the pension plans for the period from March 31, 2014 to March 31, 2015 amounted to \$2,549.

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 three-month periods ended March 31, 2014 and 2013, the pension cost recognized under the aforementioned defined contribution pension plan were \$9,204 and \$7,737, respectively.

(13) SHARE-BASED PAYMENT

A. A. The Company issued 1,000 thousand 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 Company recognized compensation costs relating to the employee stock options plan of \$2,542 for the the three-month period ended March 31, 2014 and none for the three-month period ended March 31, 2013.

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

	<u>For the three-month period ended March 31, 2014</u>	
	<u>Numbers of options (in thousand units)</u>	<u>Weighted-average exercise price (in dollars)</u>
Options outstanding at beginning of the period	1,000	\$ 91.70
Options granted	-	-
Options outstanding at end of the period	<u>1,000</u>	-
Options exercisable at end of the period	<u>-</u>	-

C. B. As of March 31, 2014, the exercise price of stock options outstanding was \$91.7 (in dollars); and the weighted-average remaining contractual period was 10 years.

D. C. 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	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 past one year, the annualized volatility is 28.5%.

(14) SHARE CAPITAL

A. As of March 31, 2014, the Company's authorized capital was \$10,000,000, and the paid-in capital was \$6,759,272, consisting of 675,927 thousand shares of common stock, with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

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

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
At January 1 and March 31	<u>675,927</u>	<u>649,930</u>

(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 stock 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:

	<u>For the three-month period ended March 31, 2014</u>		
	<u>Share premium</u>	<u>Stock options</u>	<u>Total</u>
At January 1	\$ 1,233,286	\$ 14,510	\$ 1,247,796
Employee stock options cost	-	2,542	2,542
At March 31	<u>\$ 1,233,286</u>	<u>\$ 17,052</u>	<u>\$ 1,250,338</u>

  

	<u>For the three-month period ended March 31, 2013</u>		
	<u>Share premium</u>	<u>Stock options</u>	<u>Total</u>
At January 1 and March 31	<u>\$ 1,233,286</u>	<u>\$ 13,691</u>	<u>\$ 1,246,977</u>

(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 three-month periods ended March 31, 2014 and 2013, employees' bonus and directors' and supervisors' remuneration were accrued at \$3,273 and \$6,938, 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 \$23,175 in the 2012 stockholders' meeting, which was different from the estimated amount recognized in the 2012 financial statements by \$5. 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 March 21, 2014, the Board of Directors during its 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.

(17) OTHER EQUITY ITEMS

	For the three-month periods ended March 31,	
	2014	2013
At January 1	\$ 44,355	(\$ 35,040)
Currency translation differences — group	( 3,599)	40,517
At March 31	<u>\$ 40,756</u>	<u>\$ 5,477</u>

(18) OPERATING REVENUE

	For the three-month periods ended March 31,	
	2014	2013
Sales revenue	\$ 1,108,804	\$ 1,201,511
Less: Sales returns	( 13,990)	( 27,193)
Sales discounts	( 5,438)	( 46)
Technical service revenue	7,869	11,344
	<u>\$ 1,097,245</u>	<u>\$ 1,185,616</u>

(19) OTHER INCOME

	For the three-month periods ended March 31,	
	2014	2013
Interest income from bank deposits	\$ 5,281	\$ 8,890
Others	2,200	—
	<u>\$ 7,481</u>	<u>\$ 8,890</u>

(20) OTHER GAINS AND LOSSES

	For the three-month periods ended March 31,	
	2014	2013
Net loss on financial assets/liabilities through profit or loss	(\$ 10,552)	(\$ 11,085)
Net currency exchange gain	11,034	13,281
Loss on disposal of property, plant, and equipment	( 126)	( 196)
Reversal of impairment loss	—	71
Miscellaneous	( 862)	9,332
	<u>(\$ 506)</u>	<u>\$ 11,403</u>

(21) FINANCE COSTS

	For the three-month periods ended March 31,	
	2014	2013
Interest expense:		
Bank loans	<u>\$ 4,175</u>	<u>\$ 1,413</u>

(22) EXPENSES BY NATURE

	<u>For the three-month period ended March 31, 2014</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 132,961	\$ 76,966	\$ 209,927
Depreciation	88,993	25,501	114,494
Amortization	328	2,987	3,315
	<u>\$ 222,282</u>	<u>\$ 105,454</u>	<u>\$ 327,736</u>

	<u>For the three-month period ended March 31, 2013</u>		
	<u>Operating cost</u>	<u>Operating expense</u>	<u>Total</u>
Employee benefit expense	\$ 132,986	\$ 85,698	\$ 218,684
Depreciation	81,068	20,666	101,734
Amortization	168	1,968	2,136
	<u>\$ 214,222</u>	<u>\$ 108,332</u>	<u>\$ 322,554</u>

(23) EMPLOYEE BENEFIT EXPENSE

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Salaries and wages	\$ 177,387	\$ 187,738
Labor and health insurance expenses	15,887	13,096
Pension costs	10,054	8,708
Other personnel expenses	6,599	9,142
	<u>\$ 209,927</u>	<u>\$ 218,684</u>



(24) INCOME TAX

A. Income tax expense

(a) Components of income tax expense:

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Current income tax:		
Income tax incurred in current period	\$ 43,625	\$ 76,175
Prepaid income tax	<u>382</u>	<u>564</u>
Total current income tax	<u>44,007</u>	<u>76,739</u>
Deferred income tax:		
Origination and reversal of temporary differences	<u>(24,322)</u>	<u>(19,630)</u>
Income tax expense	<u>\$ 19,685</u>	<u>\$ 57,109</u>

B. The Company's income tax returns through 2011 have been assessed and approved by the Tax Authority.

C The Company's unappropriated retained earnings listed on the balance sheet as of March 31, 2014, December 31, 2013 and March 31, 2013 were all generated after the year 1998.

D. As of March 31, 2014, December 31, 2013 and March 31, 2013, the balance of the Company's imputation tax credit account was \$155,353, \$155,353 and \$11,793, respectively. The earnings distribution for 2012 was approved at the stockholders' meeting on June 21, 2013 and the date of dividend distribution was set by the Board of Directors on August 15, 2013. The creditable tax rate for 2012 was 21.06%. The creditable tax rate for 2013 is expected to be 21.23%. The Company's imputation tax credit distributed to the stockholders shall be calculated on the basis of the balance of each stockholder on the date of dividend distribution. As a result, the applicable creditable tax ratio for the dividend distributed for the year 2013 shall be adjusted taking into accounts for the imputation tax credits under the Tax Law before the dividend date.

(25) EARNINGS PER SHARE (“EPS”)

	For the three-month period ended March 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	\$ 165,345	675,927	\$ 0.24
<u>Diluted earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 165,345	675,927	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	—	42	
Profit attributable to ordinary stockholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 165,345	675,969	\$ 0.24

	For the three-month period ended March 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	\$ 350,120	675,927	\$ 0.52
<u>Diluted earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 350,120	675,927	
Assumed conversion of all dilutive potential ordinary shares			
Employees' bonus	—	104	
Profit attributable to ordinary stockholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ 350,120	676,031	\$ 0.52

- 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, 2012.
- 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) Non-cash transactions

A. Investing activities with partial cash payments

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Purchase of property, plant and equipment	\$ 297,102	\$ 158,193
Add : Begining balance of payable on equipment	99,367	122,696
Less : Ending balance of payable on equipment	( 109,539)	( 137,233)
Cash paid for purchase of property, plant and equipment	<u>\$ 286,930</u>	<u>\$ 143,656</u>

B. Investing activities with no cash flow effects

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Prepayments for equipment reclassified to property, plant and equipment	<u>\$ 43,242</u>	<u>\$ 181,809</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

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Sales of services:		
— Associates	<u>\$ 1,515</u>	<u>\$ —</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. Other expenses:

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Management consultancy fees:		
— Ultimate parent company	<u>\$ 1,070</u>	<u>\$ 1,090</u>

C. Accounts receivable:

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

D. Property transactions:

(a) Purchase of property:

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

E. Period-end balances arising from purchases of goods/services:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Other account payable-related parties:			
-An entity controlled by key management individuals	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,287</u>

The payables to related parties arise mainly from purchase of equipment and transactions between related parties are due 90 days after the date of purchase. The payables bear no interest.

(3) Key management compensation

	<u>For the three-month periods ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Salaries and other short-term employee benefits	<u>\$ 10,975</u>	<u>\$ 10,345</u>

8. PLEDGED ASSETS

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

<u>Assets</u>	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>	<u>Purpose of collateral</u>
Time deposits (note)	<u>\$ 40,286</u>	<u>\$ 40,219</u>	<u>\$ 39,369</u>	Customs duty and performance guarantee

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

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1) As of March 31, 2014, December 31, 2013 and March 31, 2013, the Group's unused letters of credit amounted to \$2,742, \$6,855 and \$5,636, respectively.

(2) As of March 31, 2014, December 31, 2013 and March 31, 2013, the Group's remaining balance due for construction in progress and prepayments for equipment was \$543,527, \$720,902 and \$619,032, 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 \$5,323 was recognized in profit or loss for both the three-month periods ended March 31, 2014 and 2013. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>March 31, 2013</u>
Within one year	\$ 21,291	\$ 21,291	\$ 21,291
Later than one year but not exceeding five years	62,099	67,422	83,390
More than five years	-	-	-
	<u>\$ 83,390</u>	<u>\$ 88,713</u>	<u>\$ 104,681</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.

	<u>March 31, 2014</u>		<u>December 31, 2013</u>		<u>March 31, 2013</u>	
	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>	<u>Book value</u>	<u>Fair value</u>
Financial assets:						
Other financial assets	\$ 40,286	\$40,286	\$40,219	\$40,219	\$39,369	\$39,369
Refundable deposits paid (Note)	16,885	16,885	17,925	17,925	17,833	17,833

Note : Recorded 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:

March 31, 2014				
	Foreign currency amount (in thousands)		Exchange rate	Book value (NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ 28,557		30.47	\$ 870,132
EUR:NTD	1,495		41.93	62,685
CNY:NTD	5,589		4.90	27,386
<u>Non-monetary items</u>				
USD:NTD	3,048		30.47	92,873
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	4,685		30.47	142,752
EUR:NTD	4		41.93	168
CNY:NTD	86		4.90	421
December 31, 2013				
	Foreign currency amount (in thousands)		Exchange rate	Book value (NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ 32,046		29.805	\$ 955,131
EUR:NTD	78		41.09	3,205
CNY:NTD	5,700		4.919	28,038
<u>Non-monetary items</u>				
USD:NTD	3,153		29.805	93,975
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD	2,575		29.805	76,748
EUR:NTD	88		41.09	3,616
CNY:NTD	835		4.919	4,107



March 31, 2013				
		Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$	31,535	29.83	\$ 940,689
EUR:NTD		607	38.23	23,206
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD:NTD		1,070	29.83	31,918
EUR:NTD		143	38.23	5,467

As of March 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 would increase/decrease by \$41,013 and \$45,438, 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 three-month periods ended March 31, 2014 and 2013 would increase/decrease by \$3,126 and \$887, 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 three-month periods ended March 31, 2014 and 2013 would increase/decrease by \$1,384 and \$—, 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 three-month periods ended March 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.

<u>March 31, 2014</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Non-derivative financial liabilities:				
Short-term borrowings	\$ 1,070,158	\$ -	\$ -	\$ -
Notes payable	773	-	-	-
Accounts payable	225,020	-	-	-
Other payables	565,529	-	-	-
<u>December 31, 2013</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Non-derivative financial liabilities:				
Short-term borrowings	\$ 689,785	\$ -	\$ -	\$ -
Notes payable	1,080	-	-	-
Accounts payable	264,437	-	-	-
Other payables	594,800	-	-	-

<u>March 31, 2013</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Non-derivative financial liabilities:				
Short-term borrowings	\$ 391,668	\$ -	\$ -	\$ -
Notes payable	1,158	-	-	-
Accounts payable	294,241	-	-	-
Other payables	564,145	-	-	-

<u>March 31, 2014</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Derivative financial liabilities:				
Forward foreign contracts	\$ 1,104	\$ -	\$ -	\$ -

<u>December 31, 2013</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Derivative financial liabilities:				
Forward foreign contracts	\$ 1,138	\$ -	\$ -	\$ -

<u>March 31, 2013</u>	<u>Less than 1 year</u>	<u>Between 1 and 2 years</u>	<u>Between 2 and 5 years</u>	<u>More than 5 years</u>
Derivative financial liabilities:				
Forward foreign contracts	\$ 1,151	\$ -	\$ -	\$ -

(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 March 31, 2014, December 31, 2013 and March 31, 2013.

<u>March 31, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss – forward foreign contracts	<u>\$ -</u>	<u>\$ 1,104</u>	<u>\$ -</u>	<u>\$ 1,104</u>

<u>December 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss - forward foreign contracts	<u>\$ -</u>	<u>\$ 1,138</u>	<u>\$ -</u>	<u>\$ 1,138</u>
<u>March 31, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through profit or loss - forward foreign contracts	<u>\$ -</u>	<u>\$ 1,151</u>	<u>\$ -</u>	<u>\$ 1,151</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:
- a) Quoted market prices or dealer quotes for similar instruments.
  - b) 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.
  - c) 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 March 31, 2014, December 31, 2013 and March 31, 2013.

13. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

(1) Related information of significant transactions (For the three-month period ended March 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 March 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)	As of March 31, 2014				
				Number of shares (in thousands)	Book value	Percentage of ownership	Market value	Note
ScinoPharm Taiwan, Ltd.	Bill under repurchase agreements:							
	Mega Bills Finance Co., Ltd.	—	Cash equivalents	—	\$ 134,615	—	\$ 134,615	—
	China Bills Finance Co.	—	Cash equivalents	—	99,763	—	99,763	—
	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 counter party	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)	Sale price	Book value	Gain (loss) on disposal	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount
ScinoPharm	Bill under repurchase agreement:															
Taiwan, Ltd.	Mega Bills Finance Co., Ltd.	Cash equivalents	-	-	-	\$ -	-	\$ 533,918	-	\$ 399,346	(\$ 399,303)	\$ 43	-	\$ -	-	\$ 134,615
	International Bills Finance Co.	Cash equivalents	-	-	-	82,933	-	1,580,940	-	1,564,291	( 1,564,110)	181	-	-	-	99,763
	China Bill Finance Co.	Cash equivalents	-	-	-	49,971	-	899,467	-	949,535	( 949,438)	97	-	-	-	-

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

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	
ScinoPharm Taiwan, Ltd.	Plant	6. 2012~3. 2014	\$ 640,808	Approximately \$ 101,763	Cina Ecoteck Co., Ltd. etc.	-	-	-	-	\$ -	Negotiation	Building for operation use	-
ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Plant (Phase II)	11. 2012~3. 2014	553,700	392,181	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: None

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 during the three-month period ended March 31, 2014:

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	ScinoPharm Taiwan, Ltd.	ScinoPharm (KunShan) Biochemical Technology Co., Ltd.	1	Purchases	\$ 63,289	Closes its accounts 90 days from the end of each month after acceptance	6%
				Accounts payable	( 33,722)		
		ScinoPharm (Changshu) Pharmaceuticals, Ltd.	1	Sales	( 5,910)	Closes its accounts 90 days from the shipment completed	(1%)
				Purchases	14,126	Closes its accounts 90 days from the end of each month after acceptance	1%
				Management consultancy revenue	( 6,406)	—	(1%)
				Accounts receivable	8,656	—	—
Other receivables	15,642	—	—				

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 three-month period ended March 31, 2014

Information about the investees' name, locations, etc. (not including investees in Mainland China)

Investor	Investee	Address	Main business	Original investments		Holding status			Net profit (loss) of the investee company for the three-month period ended March 31, 2014	Income (loss) recognised by the company for the three-month period ended March 31, 2014 (Note 1)	Note
				Balance as at March 31, 2014	Balance as at December 31, 2013	Shares	Ownership (%)	Book value			
ScinoPharm Taiwan, Ltd.	SPT International, Ltd.	Tortola, British Virgin Islands	Professional investment	\$ 1,727,867	\$ 1,727,867	57,024,644	100.00	\$ 1,538,355	\$ 46,352	(\$ 48,371)	Subsidiary
ScinoPharm Taiwan, Ltd.	ScinoPharm Singapore Pte Ltd.	Singapore	Professional investment	-	-	2	100.00	31	11	11	Subsidiary
ScinoPharm Taiwan, Ltd.	Foreseeacer Pharmaceuticals, Inc.	Grand Cayman, Cayman Islands	Research and development of peptide injectable drugs	107,388	107,388	3,600,000	15.32	92,193	( 19,511)	( 334)	-



(3) Disclosure of information on indirect investments in Mainland China

Related information on investee companies for the three-month period ended March 31, 2014.

A. The basic information of investments in Mainland China:

Name of investee in China	Main business	Capital	Investment method	Investment amount			Ending investment balance from Taiwan	Income (loss) from the investee company	Ownership held by the company (direct or indirect)	Investment income (loss) recognised	Book value of investments as of March 31, 2014	Accumulated remittance	Note
				Beginning investment balance from Taiwan	Remitted to China	Remitted back to Taiwan							
ScinoPharm (KunShan) Biochemical Technology Co., Ltd.	Research, development, and manufacture of API and new medicine, etc.	\$ 121,880	(Note 1)	\$ 113,470	\$ -	\$ -	\$ 113,470	\$ 5,879	100.00	\$ 5,879	\$ 457,786	\$ -	Subsidiary of subsidiary
ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Research, development, and manufacture of API and new medicine, etc.	1,553,970	(Note 1)	1,553,970	-	-	1,553,970	( 49,474)	100.00	( 49,474)	1,107,183	-	Subsidiary of subsidiary
ScinoPharm (Shanghai) Biochemical Technology, Ltd.	Import, export and sales of Active Pharmaceutical Ingredients and intermediates, etc.	36,564	(Note 1)	36,564	-	-	36,564	( 2,831)	100.00	( 2,831)	25,610	-	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.	\$ 1,741,315	\$ 1,847,960	\$ 5,884,525

Note 1: Setting up a company in the third area, which then invested in the investee in Mainland China.

Note 2: The Investment income (loss) recognized by the Company for the three-month period ended March 31, 2014 was based on audited financial statements of investee companies as of and for the three-month period ended March 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 1:30.47).

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		For the three-month period ended March 31, 2014	
<u>Company's name</u>	<u>Name of investee in Mainland China</u>	<u>Amount</u>	<u>% (Note)</u>
—	ScinoPharm (KunShan) Biochemical Technology Co., Ltd.	\$ 63,289	6
—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	14,126	1
		<u>\$ 77,415</u>	<u>7</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 net purchases.

II. Accounts payable

Third region		For the three-month period ended March 31, 2014	
<u>Company's name</u>	<u>Name of investee in Mainland China</u>	<u>Amount</u>	<u>%</u>
—	ScinoPharm (KunShan) Biochemical Technology Co., Ltd.	\$ 33,722	-

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

I. Sales

Third region		For the three-month period ended March 31, 2014	
<u>Company's name</u>	<u>Name of investee in Mainland China</u>	<u>Amount</u>	<u>% (Note)</u>
—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	\$ 5,910	1

The terms of sales to related parties were the same with regular customers.

(Note): Percentage of the Company's net sales.

## II. Accounts Receivable

Third region		For the three-month period ended March 31, 2014	
<u>Company's name</u>	<u>Name of investee in Mainland China</u>	<u>Amount</u>	<u>%</u>
—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	\$ 8,656	-

(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:

<u>Transaction description</u>	<u>Third region company's name</u>	<u>Name of investee in Mainland China</u>	<u>For the three-month period ended March 31, 2014</u>
Management consultancy revenue	—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	\$ 6,406
			March 31, 2014
Other receivables	—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	\$ 15,642

## 13. 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 focuses 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 "Others".

(2) Segment information

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

	For the three-month period ended March 31, 2014		
	ScinoPharm Taiwan, Ltd.	Others	Total
Segment revenue	\$ 1,102,582	\$ 78,128	\$ 1,180,710
Revenue from internal customers	-	83,465	83,465
Revenue from external customers	1,102,582	( 5,337)	1,097,245
Income from segment before income tax	200,176	( 61,487)	138,689
Segment assets	10,844,116	2,839,882	13,683,998

  

	For the three-month period ended March 31, 2013		
	ScinoPharm Taiwan, Ltd.	Others	Total
Segment revenue	\$ 1,184,079	\$ 116,516	\$ 1,300,595
Revenue from internal customers	-	114,979	114,979
Revenue from external customers	1,184,079	1,537	1,185,616
Income from segment before income tax	426,174	( 81,893)	344,281
Segment assets	10,595,541	1,877,952	12,473,493

(3) Reconciliation for segment income (loss)

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

	For the three-month periods ended March 31,	
	2014	2013
Reportable segments profit before income tax	\$ 200,176	\$ 426,174
Other segments loss before income tax	( 61,487)	( 81,893)
Inter segments profit	46,341	62,992
Profit before income tax	<u>\$ 185,030</u>	<u>\$ 407,273</u>