# SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES

## CONSOLIDATED FINANCIAL STATEMENTS AND

## REPORT OF INDEPENDENT ACCOUNTANTS

## DECEMBER 31, 2012 AND 2011

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

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

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

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

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

ScinoPharm Taiwan, Ltd. has adopted, starting from January 1, 2013, International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretation Committee (collectively referred herein as “IFRSs”) as endorsed by the Financial Supervisory Commission, Executive Yuan, R.O.C (“FSC”) and the “Rules Governing the Preparation of Financial Statements by Securities Issuers” effective in 2013 in the preparation of the consolidated financial statements of ScinoPharm Taiwan, Ltd. and its subsidiaries. Information relating to the adoption of IFRSs by ScinoPharm Taiwan, Ltd. is disclosed in Note 13 in accordance with Jin-Guan-Jen-Shen-Zi Letter No. 0990004943 of FSC dated February 2, 2010. The IFRSs may be subject to changes during the time of transition; therefore, the actual impact of IFRSs adoption on ScinoPharm Taiwan, Ltd. and its subsidiaries may also change.

PricewaterhouseCoopers, Taiwan

March 22, 2013

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles 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
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

| ASSETS | Notes | 2012 | 2011 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 4(1) | $ 3,035,012 | $ 3,293,681 |
| Financial assets at fair value through profit or loss - current | 4(2) and 10 | 473 | 2,066 |
| Accounts receivable, net | 3 and 4(3) | 841,334 | 843,902 |
| Other receivables | 3 and 5 | 96,300 | 47,983 |
| Other financial assets - current | 6 | - | 15,552 |
| Inventories, net | 4(4) | 1,870,275 | 1,465,462 |
| Prepayments | 4(5) | 214,261 | 179,883 |
| Deferred income tax assets - current | 4(19) | 854 | 13,974 |
| **Total Current Assets** | | 6,058,509 | 5,862,503 |
| **Funds and Investments** | | | |
| Financial assets carried at cost - non-current | 4(6)(7)(11) | 149,555 | - |
| Long-term investment accounted for under the equity method | 4(6)(7) | - | 172,107 |
| Other financial assets - non-current | 6 | 39,369 | 23,817 |
| **Total Funds and Investments** | | 188,924 | 195,924 |
| **Property, Plant and Equipment** | 4(8) | | |
| **Cost** | | | |
| Buildings | | 2,024,781 | 1,735,466 |
| Machinery and equipment | | 3,663,842 | 3,383,473 |
| Transportation equipment | | 18,421 | 11,930 |
| Office equipment | | 78,758 | 57,991 |
| Leased assets | | - | 14,970 |
| Other equipment | | 135,980 | 63,793 |
| **Cost and Revaluation Increments** | | 5,921,782 | 5,267,623 |
| Less: Accumulated depreciation | | ( 2,982,003 ) | ( 2,703,376 ) |
| Construction in progress and prepayments for equipment | | 850,539 | 662,986 |
| **Total Property, Plant and Equipment, Net** | | 3,790,318 | 3,227,233 |
| **Intangible Assets** | | | |
| Deferred pension costs | | - | 959 |
| Other intangible assets | 4(9)(11) | 107,539 | 113,488 |
| **Total Intangible Assets** | | 107,539 | 114,447 |
| **Other Assets** | | | |
| Idle assets | 4(10)(11) | 6,445 | 9,849 |
| Refundable deposits | | 16,937 | 8,434 |
| Deferred expenses | | - | 19 |
| Deferred income tax assets - non-current | 4(19) | 144,309 | 61,779 |
| **Total Other Assets** | | 167,691 | 80,081 |
| **TOTAL ASSETS** | | $ 10,312,981 | $ 9,480,188 |

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SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

| LIABILITIES AND STOCKHOLDERS' EQUITY | Notes | 2012 | 2011 |
|---|---|---|---|
| **Current Liabilities** | | | |
| Short-term loans | 4(12) | $ 263,676 | $ - |
| Notes payable | | 1,045 | 83 |
| Accounts payable | | 223,074 | 299,250 |
| Income tax payable | 4(19) | 177,539 | 114,937 |
| Accrued expenses | | 369,594 | 341,093 |
| Other payables | | 150,216 | 49,872 |
| Receipts in advance | | 2,183 | 16,946 |
| Capital lease payable - current | 5 | - | 964 |
| Other current liabilities | | - | 19,804 |
| **Total Current Liabilities** | | 1,187,327 | 842,949 |
| **Other Liabilities** | | | |
| Accrued pension liabilities | 4(13) | 30,179 | 27,709 |
| Guarantee deposits received | | - | 250 |
| **Total Other Liabilities** | | 30,179 | 27,959 |
| **Total Liabilities** | | 1,217,506 | 870,908 |
| **Stockholders' Equity** | | | |
| **Capital** | | | |
| Common stock | 1, 4(14)(17) | 6,499,300 | 6,310,000 |
| **Capital Reserves** | 4(14)(15)(16) | | |
| Additional paid-in capital in excess of par - common stock | | 1,233,286 | 1,233,286 |
| Capital reserve from stock warrants | | 13,691 | 13,691 |
| **Retained Earnings** | 4(14)(17) | | |
| Legal reserve | | 103,897 | 7,962 |
| Undistributed earnings | | 1,224,246 | 970,012 |
| **Other Adjustment to Stockholders' Equity** | | | |
| Cumulative translation adjustments | 4(6) | 19,452 | 72,610 |
| **Total Parent Company Stockholders' Equity** | | 9,093,872 | 8,607,561 |
| Minority interest | | 1,603 | 1,719 |
| **Total Stockholders' Equity** | | 9,095,475 | 8,609,280 |
| **Commitments** | 7 | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | | $ 10,312,981 | $ 9,480,188 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 22, 2013.

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

| Items | Notes | 2012 | 2011 |
|---|---|---|---|
| **Operating Revenue** | | | |
| Sales | | $ 4,677,270 | $ 3,952,417 |
| Sales returns | | ( 58,552 ) | ( 55,846 ) |
| Sales discounts | | ( 83,706 ) | ( 5,045 ) |
| **Net Sales** | | 4,535,012 | 3,891,526 |
| Technical service revenues | 5 | 37,497 | 62,052 |
| **Net Operating Revenues** | | 4,572,509 | 3,953,578 |
| **Operating Costs** | 4(4)(18) | | |
| Cost of goods sold | | ( 2,245,784 ) | ( 1,944,755 ) |
| Cost of technical service | | ( 13,297 ) | ( 24,405 ) |
| **Net Operating Costs** | | ( 2,259,081 ) | ( 1,969,160 ) |
| **Gross profit** | | 2,313,428 | 1,984,418 |
| **Operating Expenses** | 4(18) and 5 | | |
| Sales and marketing expenses | | ( 185,346 ) | ( 168,811 ) |
| General and administrative expenses | | ( 565,811 ) | ( 390,724 ) |
| Research and development expenses | | ( 303,023 ) | ( 291,452 ) |
| **Total Operating Expenses** | | ( 1,054,180 ) | ( 850,987 ) |
| **Operating income** | | 1,259,248 | 1,133,431 |
| **Non-operating Income and Gains** | | | |
| Interest income | | 29,797 | 17,905 |
| Foreign exchange gain, net | | - | 14,999 |
| Reversal of impairment loss | 4(11) | 5,857 | 6,045 |
| Gain on valuation of financial assets | 4(2) and 10 | 13,300 | - |
| Other non-operating income | | 136,033 | 57,179 |
| **Total Non-operating Income and Gains** | | 184,987 | 96,128 |
| **Non-operating Expenses and Losses** | | | |
| Interest expense | | ( 29 ) | ( 108 ) |
| Investment loss accounted for under the equity method | 4(7) | ( 4,434 ) | ( 55,155 ) |
| Loss on disposal of property, plant and equipment | | ( 357 ) | ( 2,093 ) |
| Foreign exchange loss, net | | ( 42,709 ) | - |
| Depreciation on idle assets | | ( 6,796 ) | ( 7,394 ) |
| Loss on valuation of financial assets | 4(2) and 10 | - | ( 21,172 ) |
| Other non-operating losses | | ( 18,243 ) | ( 8,322 ) |
| **Total Non-operating Expenses and Losses** | | ( 72,568 ) | ( 94,244 ) |
| **Income before income tax** | | 1,371,667 | 1,135,315 |
| Income tax expense | 4(19) | ( 201,245 ) | ( 173,998 ) |
| **Consolidated net income** | | $ 1,170,422 | $ 961,317 |
| **Attributable to:** | | | |
| Equity holders of the Company | | $ 1,170,469 | $ 959,355 |
| Minority interest | | ( 47 ) | 1,962 |
| | | $ 1,170,422 | $ 961,317 |

| | | 2012 Before Tax | 2012 After Tax | 2011 Before Tax | 2011 After Tax |
|---|---|---|---|---|---|
| **Basic Earnings Per Share ( in dollars )** | | | | | |
| **Net income** | 4(20) | $ 2.11 | $ 1.80 | $ 1.79 | $ 1.51 |
| **Diluted Earnings Per Share ( in dollars )** | | | | | |
| **Net income** | 4(20) | $ 2.11 | $ 1.80 | $ 1.79 | $ 1.51 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 22, 2013.

ScinoPharm Taiwan, Ltd.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

| | | | Retained Earnings | | | | |
|---|---|---|---|---|---|---|---|
| | Common stock | Capital reserves | Legal reserve | Undistributed earnings | Cumulative translation adjustments | Minority interest | Total |
| 2011 | | | | | | | |
| Balance at January 1, 2011 | $ 6,100,000 | $ 499,012 | $ - | $ 79,619 | ($ 1,359) | ($ 14) | $ 6,677,258 |
| Distribution of 2010 net income (Note) | | | | | | | |
| Legal reserve | - | - | 7,962 | ( 7,962) | - | - | - |
| Cash dividends | - | - | - | ( 61,000) | - | - | ( 61,000) |
| Issuance of common stock | 210,000 | 747,020 | - | - | - | - | 957,020 |
| Employee compensation costs by issuance of common stock | - | 945 | - | - | - | - | 945 |
| Consolidated net income for 2011 | - | - | - | 959,355 | - | 1,962 | 961,317 |
| Cumulative translation adjustment | - | - | - | - | 73,969 | - | 73,969 |
| Change in minority interest | - | - | - | - | - | ( 229) | ( 229) |
| Balance at December 31, 2011 | $ 6,310,000 | $ 1,246,977 | $ 7,962 | $ 970,012 | $ 72,610 | $ 1,719 | $ 8,609,280 |
| 2012 | | | | | | | |
| Balance at January 1, 2012 | $ 6,310,000 | $ 1,246,977 | $ 7,962 | $ 970,012 | $ 72,610 | $ 1,719 | $ 8,609,280 |
| Distribution of 2011 net income (Note) | | | | | | | |
| Legal reserve | - | - | 95,935 | ( 95,935) | - | - | - |
| Cash dividends | - | - | - | ( 631,000) | - | - | ( 631,000) |
| Stock dividends | 189,300 | - | - | ( 189,300) | - | - | - |
| Consolidated net income for 2012 | - | - | - | 1,170,469 | - | ( 47) | 1,170,422 |
| Cumulative translation adjustment | - | - | - | - | ( 53,158) | - | ( 53,158) |
| Change in minority interest | - | - | - | - | - | ( 69) | ( 69) |
| Balance at December 31, 2012 | $ 6,499,300 | $ 1,246,977 | $ 103,897 | $ 1,224,246 | $ 19,452 | $ 1,603 | $ 9,095,475 |

(Note) The employees' bonuses were $143 and $1,727, and directors' and supervisors' remuneration were $1,433 and $17,268 for the years ended December 31, 2010 and 2011, respectively, which had been deducted from consolidated net income for the year.

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 22, 2013.

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | $ 1,170,422 | $ 961,317 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Loss on valuation of financial assets | 1,593 | 5,323 |
| Write-off of allowance for doubtful accounts | - | ( 228 ) |
| Reversal of allowance for doubtful accounts | ( 4,115 ) | ( 59 ) |
| Loss on inventory market price decline | 37,209 | 21,794 |
| Provision for obsolescence of supplies | - | 6,620 |
| Reversal of obsolescence of supplies | ( 11,009 ) | - |
| Investment loss accounted for under the equity method | 4,434 | 55,155 |
| Depreciation | 357,884 | 343,980 |
| Loss on disposal of property, plant and equipment and idle assets | 357 | 2,807 |
| Reversal of impairment loss | ( 5,857 ) | ( 6,045 ) |
| Amortization | 5,384 | 3,647 |
| Realized gain between affiliated companies | ( 19,804 ) | ( 2,273 ) |
| Employee compensation costs through issuance of common shares | - | 945 |
| Effect of exchange rate changes on cash | 40,788 | 23,977 |
| Changes in assets and liabilities | | |
| Notes receivable | - | 4,866 |
| Accounts receivable | 6,683 | ( 112,191 ) |
| Other receivables | ( 48,317 ) | ( 31,219 ) |
| Inventories | ( 441,576 ) | ( 243,826 ) |
| Prepayments | ( 23,369 ) | ( 58,153 ) |
| Deferred income tax assets - current | 13,120 | 19,471 |
| Deferred pension costs | 959 | ( 959 ) |
| Deferred income tax assets - non-current | ( 82,530 ) | 31,074 |
| Notes payable | 962 | ( 3,005 ) |
| Accounts payable | ( 76,176 ) | 156,516 |
| Income tax payable | 62,602 | 70,003 |
| Accrued expenses | 28,501 | 46,546 |
| Other payables | 15,203 | 7,522 |
| Receipts in advance | ( 14,763 ) | ( 12,562 ) |
| Accrued pension liabilities | 2,470 | 3,264 |
| Net cash provided by operating activities | 1,021,055 | 1,294,307 |

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SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

| | 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Increase in time deposits pledged | $ - | ($ 20,309 ) |
| Cash paid for acquisition of property, plant and equipment | ( 873,274 ) | ( 761,314 ) |
| Proceeds from disposal of property, plant and equipment | 24,789 | 26,526 |
| Increase in other intangible assets | ( 7,905 ) | ( 48,831 ) |
| Proceeds from disposal of other intangible assets | 5,046 | - |
| Increase in refundable deposits | ( 8,503 ) | ( 5,617 ) |
| Net cash used in investing activities | ( 859,847 ) | ( 809,545 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | 263,676 | - |
| Decrease in guarantee deposits received | ( 250 ) | - |
| Cash dividends paid | ( 631,000 ) | ( 61,000 ) |
| Issuance of common stock | - | 957,020 |
| Decrease in minority interest | ( 69 ) | ( 229 ) |
| Net cash (used in) provided by financing activities | ( 367,643 ) | 895,791 |
| Effect of exchange rate changes on cash | ( 52,234 ) | 4,766 |
| (Decrease) increase in cash and cash equivalents | ( 258,669 ) | 1,385,319 |
| Cash and cash equivalents at beginning of year | 3,293,681 | 1,908,362 |
| Cash and cash equivalents at end of year | $ 3,035,012 | $ 3,293,681 |
| Supplemental disclosures of cash flow information | | |
| 1. Interest paid (excluding capitalized interest) | $ 29 | $ 108 |
| 2. Income tax paid | $ 208,053 | $ 53,450 |
| Investing activities with partial cash payment | | |
| Acquisition of property, plant and equipment | $ 957,451 | $ 745,239 |
| Add: Other payables, beginning of year | 37,555 | 51,749 |
| Capital lease payables, beginning of year | 964 | 2,845 |
| Less: Other payables, end of year | ( 122,696 ) | ( 37,555 ) |
| Capital lease payables, end of year | - | ( 964 ) |
| Cash paid for acquisition of property, plant and equipment | $ 873,274 | $ 761,314 |
| Other activities with no cash flow effect | | |
| Long-term equity investments accounted for under the equity method and cumulative translation adjustments transferred to financial assets carried at cost | $ 149,555 | $ - |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 22, 2013.

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

## 1. HISTORY AND ORGANIZATION

(1) ScinoPharm Taiwan, Ltd. (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China on November 11, 1997, with a paid-in capital of $675,000. As of December 31, 2012, the Company's authorized capital was $10,000,000 and the paid-in capital was $6,499,300, consisting of 649,930,000 shares of common stock with a par value of $10 (NT dollars) per share. The Company is engaged in the research and development and manufacture of materials for medicine, as well as the provision of related consulting, technical services and international trade. 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) As of December 31, 2012, the Company and its subsidiaries had approximately 1,010 employees.

(3) The common shares of the Company have been listed on the Taiwan Stock Exchange since September 2011.

(4) Uni-President Enterprises Corp., the Company's ultimate parent company, holds 37.94% equity interest in the Company.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Principles of consolidation

A. All majority-owned subsidiaries or controlled entities, which meet the criteria of the amended Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements", even though the Company owns less than 50% of the voting rights of the investee companies directly or indirectly, are included in the consolidated financial statements. The income (loss) of the subsidiaries is included in the consolidated statement of income effective on the date the Company gains control over the subsidiaries. The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective the date on which the Company loses control over the subsidiaries. The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries after eliminating all significant intercompany accounts and transactions.

B. Subsidiaries included in the consolidated financial statements and their changes in 2012 were as follows:

| Name of Investor | Name of Subsidiaries | Business activities | Percentage owned by the Company December 31, 2012 | Percentage owned by the Company December 31, 2011 | Note |
|---|---|---|---|---|---|
| ScinoPharm Taiwan, Ltd. | SPT International Ltd. | Professional investment | 100.00 | 100.00 | — |
| | ScinoPharm Singapore Pte Ltd. | 〃 | 〃 | 〃 | — |
| | President ScinoPharm (Cayman), Ltd. | 〃 | 60.00 | 60.00 | — |
| SPT International Ltd. | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | Research, development and manufacture of new medicine, etc. | 100.00 | 100.00 | — |
| | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | 〃 | 100.00 | 〃 | — |
| | ScinoPharm (Shanghai) Biochemical Technology, Ltd. | Import, export and sales of Active Pharmaceutical Ingredients and intermediates, etc. | 100.00 | — | (Note) |

(Note) New corporation in January, 2012.

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

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

E. Special operating risk of foreign subsidiaries: None.

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

G. Contents of subsidiaries' securities issued by the parent company: None.

H. Information on convertible bonds and common stock issued by subsidiaries:

(a) The board of directors of SPT International, Ltd. during its meeting in February 2011, May 2011, August 2011 and November 2011 adopted a resolution to increase paid-in capital by USD 3 million, USD 5 million, USD 3.5 million, and USD 4 million, respectively.

(b) The board of directors of ScinoPharm (Changshu) Pharmaceuticals, Ltd. during its meeting in February 2011, May 2011, August 2011 and November 2011 adopted a resolution to increase paid-in capital by USD 3 million, USD 5 million, USD 3.5 million, and USD 4 million, respectively.

(c) The board of directors of SPT International, Ltd. during its meeting in January 2012, March 2012, June 2012, July 2012 and December 2012 adopted a resolution to increase paid-in capital by USD 720 thousand, USD 5 million, USD 2 million, USD 3 million, and USD 3 million, respectively.

(d) The board of directors of ScinoPharm (Changshu) Pharmaceuticals, Ltd. during its meeting in March 2012, July 2012, and December 2012 adopted a resolution to increase paid-in capital by USD 5 million, USD 5 million and USD 3 million, respectively.

(f) The board of directors of ScinoPharm (Shanghai) Biochemical Technology, Ltd. during its meeting in January 2012 adopted a resolution to increase paid-in capital by USD 720 thousand.

(2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates except for beginning retained earnings, which is carried forward from prior year’s balance. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation differences are included in “cumulative translation adjustments” under stockholders’ equity.

(3) Foreign currency transactions and translation

(a) Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates, the functional currency. The consolidated financial statements are presented in New Taiwan dollars. Foreign currency transactions are measured and recorded in their functional currencies using the exchange rate in effect on that date. Any change in the exchange rate between the date of transaction and the settlement date which results in an exchange gain or loss is charged to income for the period. The unrealized exchange gain or loss on monetary assets and liabilities denominated in foreign currencies at the balance sheet date is included in income for the period.

(b) Monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss. However, translation exchange gains or losses on intercompany accounts that are, in nature, deemed long term is accounted for as a reduction in stockholders’ equity.

(c) When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

(4) Classification of current and non-current items

(a) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

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

B. Assets held mainly for trading purposes;

C. Assets that are expected to be realized within 12 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 12 months after the balance sheet date.

(b) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

A. Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;

B. Liabilities arising mainly from trading activities;

C. Liabilities to be paid off within 12 months from the balance sheet date; and

D. Liabilities for which the repayment date cannot be extended unconditionally to more than 12 months after the balance sheet date.

(5) Cash equivalents

(a) Cash equivalents represent short-term, highly-liquid investments that are readily convertible into fixed amounts of cash and which are subject to insignificant risk of change in value resulting from fluctuations in interest rates.

(b) The Group’s statement of cash flows is prepared on the basis of cash and cash equivalents.

(6) Financial assets and financial liabilities at fair value through profit or loss

(a) Investment in unquoted equity instruments is recognized or derecognized using trade date accounting, and is stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

(b) These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks, OTC stocks and closed-end mutual funds is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.

(c) For derivatives that do not qualify for hedge accounting, if the derivative is an option, then the transaction is recognized at fair value on the trade date, and if the derivative is not an option, then the transaction is recognized at zero fair value on the trade date.

(d) Financial assets and financial liabilities at fair value through profit and loss are classified into asset or liability held for trading and those designated at fair value through profit or loss at inception. Financial assets and financial liabilities are classified as held for trading if acquired principally for the purpose of selling in the short-term. Financial assets and financial liabilities designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with a documented Group's investment strategy. Information about these financial assets and financial liabilities are provided internally on a fair value basis to the Group's management personnel. The Group's investment strategy is to invest free cash resources in equity securities or convertible bonds as part of the Group's long-term capital growth strategy. The Group has designated almost all of its compound debt instruments as financial liabilities at fair value through profit or loss.

(7) Notes receivable and accounts receivable, other receivables

(a) Notes receivable and accounts receivable are claims generated from the sale of goods or services. Other receivables are those receivables arising from transactions other than the sale of goods or services. Notes receivable, accounts receivable and other receivables are recognized initially at fair value, and are subsequently measured at amortized cost less impairment using the effective interest method.

(b) The Group recognizes impairment loss on the financial instruments when there is an objective evidence of impairment. The amount of impairment is the book value less the present value of estimated future cash flows, discounted by original effective interest rate. If, subsequently, an event, directly related to impairment, indicates a decrease in impairment, the impairment loss recognized in prior years shall be recovered. The book value of the financial instruments after recovering the impairment shall not exceed the amortized cost that would have been had no impairment been previously recognized.

(8) Inventories

The perpetual inventory system is adopted for inventory recognition. The cost is determined using the weighted average method. Allocation of fixed production overhead to the costs of conversion is based on the normal capacity of the production facilities. At the end of year, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. When the cost of inventories exceeds the net realizable value, the amount of any write-down of inventories is recognized as cost of sales during the period; and the amount of any reversal of inventory write-down is recognized as a reduction in cost of sales during the period.

(9) Financial assets carried at cost

(a) Investment in unquoted equity instruments is recognized or derecognized using trade date accounting, and is stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

(b) If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. Such impairment loss shall not be reversed when the fair value of the asset subsequently increases.

(10) Long-term investments accounted for under the equity method

(a) Long-term investments in which the Company holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net assets value of investee is attributable to goodwill.

(b) Long-term investments in which the Group owns at least 50% of the investee company's voting rights, or in which the Group has the ability to exercise significant influence, are included in the consolidated financial statements.

(c) Effective January 1, 2005, investment loss on the non-controlled entities over which the Company has the ability to exercise significant influence is recognized to the extent that the amount of long-term investments in such investees is written down to zero. However, if the Company continues to provide endorsements, guarantees or financial support for such investees, the investment loss is recognized continuously in proportion to the Company's equity interest in such investees. In the case of controlled entities, the Company recognizes all the losses incurred by such entities that will not be covered by other stockholders. When the operations of such investees become profitable, the profits shall be allocated to the Company to the extent that the amount of losses previously recognized by the Company is fully recovered.

(d) For foreign investments accounted for under the equity method, the Company's proportionate share for the investee company's cumulative translation adjustment, resulting from translating the foreign investee company's financial statements into New Taiwan Dollars, is recognized by the Company and included as "cumulative translation adjustment" under stockholders' equity.

(11) Property, plant and equipment and idle assets

(a) Property, plant and equipment and idle assets are stated at cost. Interest incurred in connection with the acquisition or construction required to bring the asset to the condition and location for its intended use is capitalized. Major renewals, betterments and additions are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred.

(b) Depreciation is determined using the straight-line method over the estimated economic useful lives. The useful lives of major depreciable assets and idle assets are 2-12 years, except for machinery and equipment which are 2-35 years.

(c) Idle assets are stated at the lower of book value or net realizable value and are reclassified as other assets. The difference between the book value and net realizable value is recorded as a loss in the current period. Depreciation recognized for the period is recorded as non-operating expenses and losses.

(d) When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and any resulting gain or loss on disposal is recorded as non-operating income or loss.

(12) Other intangible assets

(a) Other intangible assets consist of technology know-how and computer software costs which are capitalized and amortized on the straight-line basis over the estimated useful life of 3~10 years.

(b) Land occupancy rights are stated at cost and amortized using the straight-line basis over the lease period of 50 years.

(13) Deferred expenses

Deferred expenses, mainly water supply increment charge, are stated at cost and amortized using the straight-line basis over the estimated useful life of 2-10 years.

(14) Impairment of non-financial assets

The Group recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

(15) Retirement plan and net periodic pension cost

(a) Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition asset (obligation), gains or losses on plan assets and prior service cost. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

(b) The Group adopts the defined benefit and defined contribution plans, except for the following subsidiaries:

SPT International, Ltd., ScinoPharm Singapore Pte Ltd., and President ScinoPharm (Cayman) Ltd. have no retirement plans as they have no full-time employees. ScinoPharm (Kunshan) Biochemical Technology Co., Ltd., ScinoPharm (Changshu) Pharmaceuticals, Ltd., ScinoPharm (Shanghai) Biochemical Technology Co., Ltd. and ScinoPharm (Shanghai) Biochemical Technology, Ltd. adopt a defined contribution pension plan and make contributions to the plan in accordance with the laws in the respective countries they operate.

(16) Income tax

(a) The Group adopted R.O.C. SFAS No. 22, "Accounting for Income Tax", whereby income tax is provided based on accounting income after adjusting for permanent differences, and inter-period and intra-period allocation of income tax was adopted. The tax effects of taxable temporary differences are recorded as deferred tax liabilities; while the tax effects of deductible temporary differences, net operating loss carryforwards and investment tax credits are recorded as deferred tax assets. A valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized. Deferred tax assets or liabilities are classified into current or non-current items in accordance with the nature of the balance sheet account or the period realization is expected. When a change in the tax law is enacted, the deferred tax liability or asset is recomputed accordingly in the period of change.

The difference between the new amount and the original amount, that is the effect of changes in the deferred tax liability or asset, is reported as an adjustment to current income tax expense (benefit). Adjustments of prior years' income tax liabilities are included in the current year's income tax expense.

(b)The Company adopted R.O.C. SFAS No. 12, “Accounting for Investment Tax Credits”, whereby investment tax credits from the acquisition of machinery and equipment, research and development expenditures and investments in qualified stocks are recognized in the period the related expenditures are incurred.

(c)In accordance with R.O.C. Income Tax Law, the Company’s undistributed earnings is subject to an additional 10% corporate income tax. The tax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.

(d)Effective January 1, 2006, the Company adopted the "Income Basic Tax Act". If the amount of regular income tax is more than or equal to the amount of basic tax, the income tax payable shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas the amount of regular income tax is less than the amount of basic tax, the income tax payable shall also include the difference between the amount of regular income tax and basic tax, in addition to the amount as calculated in accordance with the "Income Tax Act" and other relevant laws. The balance calculated in accordance with the provisions shall not allow for deductions claimed in regard to investment tax credits granted under the provisions of other laws.

(17) <u>Share-based payment – Employee compensation plan</u>

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

(18) <u>Employees’ bonuses and directors’ and supervisors’ remuneration</u>

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, “Accounting for Employees’ Bonuses and Directors’ and Supervisors’ Remuneration”, the costs of employees’ bonuses and directors’ and supervisors’ remuneration are accounted for as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and the amounts can be estimated reasonably. However, if the accrued amounts for employees’ bonuses and directors’ and supervisors’ remuneration are significantly different from the actual distributed amounts resolved by the stockholders at the annual stockholders’ meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, “Criteria for Listed Companies in Calculating the Number of Shares of Employees’ Stock Bonus”, the Company calculates the number of shares of employees’ stock bonus based on the closing price of the Company's common stock 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 ex-rights and ex-dividends. For other non-public subsidiaries pursuant to the Jing-Shang Letter No. 09802028180 of Ministry of Economic Affairs, R.O.C., dated March 17, 2009, the company calculates the number of shares of employees' stock bonus based on the net worth value per share in the latest financial statements.

(19) Use of estimates

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

(20) Revenues, costs and expenses

Revenues are recognized when the earning process is completed and are realized or realizable. Related costs are recognized to match the timing of revenue recognition. Expenses are recorded as incurred.

(21) Settlement date accounting

If an entity recognizes financial assets using settlement date accounting, any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognized for assets carried at cost or amortized cost. For financial asset or financial liability classified as at fair value through profit or loss, the change in fair value is recognized in profit or loss. For available-for-sale financial asset, the change in fair value is recognized directly in equity.

(22) Operating segments

A. The segment information reported is consistent with the internal management reports provided to the Company's chief operating decision maker. The chief operating decision maker is responsible for allocating resources to operating segments and evaluating their performance.

B. The Company discloses the operating segments information in the consolidated financial statements in accordance with R.O.C. SFAS No. 41, "Operating Segments".

## 3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Notes receivable, accounts receivable and other receivables

Effective January 1, 2011, the Group prospectively adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The Group recognizes impairment loss on notes receivable, accounts receivable and other receivables when there is an objective evidence of impairment. This accounting change had no significant effect on the Group's financial statements as of and for the years ended December 31, 2011.

(2) Operating segments

Effective January 1, 2011, the Group adopted the newly issued SFAS No. 41, “Operating Segments” which supersedes SFAS No. 20, “Segment Reporting.” This accounting change had no significant effect on the net income and earnings per common share for the year ended December 31, 2011.

## 4. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) CASH AND CASH EQUIVALENTS

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Cash: | | |
| Cash on hand | $ 250 | $ 101 |
| Checking accounts | 1,245 | 194 |
| Demand deposits | 471,168 | 205,948 |
| Time deposits | 2,416,593 | 3,027,604 |
| | 2,889,256 | 3,233,847 |
| Cash equivalents: | | |
| Bills under repurchase agreement | 145,756 | 59,834 |
| | $ 3,035,012 | $ 3,293,681 |

### (2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Current items: | | |
| Financial assets held for trading | | |
| Derivative − Foreign currency forward contracts | $ 473 | $ 2,066 |

(a)The Group recognized a net gain (loss) of $13,300 and ($21,172) for the years ended December 31, 2012 and 2011, respectively.

(b)The trading items and contract information of derivatives are as follows:

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Contract Amount | Contract Period | Contract Amount | Contract Period |
| Forward exchange contracts | USD14,820,000 | 2012.11.19～2013.2.22 | USD 7,323,000 | 2011.11.25～2012.2.17 |
| | | | EUR 1,100,000 | 2011.11.21～2012.1.20 |

The forward exchange contracts were entered into to hedge the change in exchange rate due to import and export, but not adopting hedge accounting. The fair value was recognized as financial assets held for trading.

(3) ACCOUNTS RECEIVABLE, NET

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Accounts receivable | $ 841,359 | $ 848,042 |
| Less: Allowance for doubtful accounts | ( 25) | ( 4,140) |
| | $ 841,334 | $ 843,902 |

(4) INVENTORIES

| | December 31, 2012 | | |
|---|---|---|---|
| | Cost | Allowance for obsolescence | Book value |
| Raw materials | $ 518,536 | ($ 40,057) | $ 478,479 |
| Raw materials in transit | 68 | - | 68 |
| Supplies | 20,480 | ( 857) | 19,623 |
| Work in process | 773,779 | ( 40,515) | 733,264 |
| Finished goods | 806,891 | ( 168,050) | 638,841 |
| | $ 2,119,754 | ($ 249,479) | $ 1,870,275 |

| | December 31, 2011 | | |
|---|---|---|---|
| | Cost | Allowance for obsolescence | Book value |
| Raw materials | $ 441,619 | ($ 48,431) | $ 393,188 |
| Supplies | 10,353 | ( 1,167) | 9,186 |
| Work in process | 614,824 | ( 31,685) | 583,139 |
| Finished goods | 611,382 | ( 131,433) | 479,949 |
| | $ 1,678,178 | ($ 212,716) | $ 1,465,462 |

Expenses and losses of inventories recognized:

| | For the years ended December 31 | |
|---|---|---|
| | 2012 | 2011 |
| Cost of inventories sold | $ 2,064,442 | $ 1,811,737 |
| Loss on inventory market price decline | 37,209 | 21,794 |
| Idle capacity | 36,859 | 31,029 |
| Loss on production stoppage | 16,468 | 12,572 |
| Loss on discarding inventory | 86,406 | 66,670 |
| Loss on physical inventory | 4,400 | 953 |
| Cost of goods sold | $ 2,245,784 | $ 1,944,755 |

(5) PREPAYMENTS

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Supplies | $ 122,850 | $ 106,336 |
| Prepayment for materials | 78,804 | 75,716 |
| Prepaid expenses | 42,013 | 38,246 |
| | 243,667 | 220,298 |
| Less: Allowance for obsolescence of supplies | ( 29,406) | ( 40,415) |
| | $ 214,261 | $ 179,883 |

(6) FINANCIAL ASSETS CARRIED AT COST

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Non-current items: | | |
| Unlisted stocks | | |
| Tanvex Biologics, Inc. | $ 149,555 | $ - |
| SYNGEN, INC. | 4,620 | 4,620 |
| | 154,175 | 4,620 |
| Less: Accumulated impairment | ( 4,620) | ( 4,620) |
| | $ 149,555 | $ - |

(a)The above investments were measured at cost since its fair value cannot be measured reliably.

(b)Tanvex Biologics, Inc. ("Tanvex") increased its capital on January 19, 2012. The Company did not subscribe to the capital increase proportionately. Accordingly, the Company lost its significant influence in Tanvex as its ownership percentage decreased from 36.36% to 17.02%. The Company then reclassified Tanvex from "Long-term investments accounted for under the equity method to "Financial assets carried at cost".

(c)For details of the accumulated impairment, please refer to Note 4 (11).

(7) LONG-TERM INVESTMENT ACCOUNTED FOR UNDER THE EQUITY METHOD

(a) Details of long-term investment accounted for under the equity method are set forth below:

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| Name of investee company | Book value | Percentage owned | Book value | Percentage owned |
| Tanvex Biologics, Inc. | $ - | - | $ 172,107 | 36.36% |

(b)Investment loss accounted for under the equity method were $4,434 and $55,155 for the years ended December 31, 2012 and 2011, respectively. As of and for the years ended December 31, 2012 and 2011, the Company's long-term investment accounted for under the equity method were based on the financial statements of the investee company, which were audited by independent auditors.

(c)Please refer to Note 4(6) for the details of long-term investment accounted for under the equity method reclassified to financial assets carried at cost.

(8) PROPERTY, PLANT AND EQUIPMENT, NET

(a) As of December 31, 2012 and 2011, accumulated depreciation of property, plant and equipment are listed as follows:

| Assets | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Buildings | $ 487,046 | $ 425,680 |
| Machinery and equipment | 2,417,458 | 2,196,098 |
| Transportation equipment | 8,814 | 7,764 |
| Office equipment | 45,283 | 36,424 |
| Leased assets | - | 14,970 |
| Other equipment | 23,402 | 22,440 |
| | $ 2,982,003 | $ 2,703,376 |

(b) As of December 31, 2012 and 2011, no interest was capitalized in property, plant and equipment.

(9) OTHER INTANGIBLE ASSETS

As of December 31, 2012 and 2011, other intangible assets are as follows:

| 2012 | Technology know-how | Computer software costs | Land occupancy rights | Total |
|---|---|---|---|---|
| Balance at January 1, 2012 | | | | |
| Initial cost | $ 420,000 | $ 23,822 | $ 96,930 | $ 540,752 |
| Accumulated amortization | ( 411,958) | ( 11,129) | ( 4,336) | ( 427,423) |
| Accumulated impairment | ( 8,042) | - | - | ( 8,042) |
| Effect of exchange rate changes | - | 637 | 7,564 | 8,201 |
| January 1, 2012 net book value | - | 13,330 | 100,158 | 113,488 |
| Additions | - | 7,905 | - | 7,905 |
| Disposal | - | - | ( 5,046) | ( 5,046) |
| Amortization | - | ( 3,334) | ( 2,032) | ( 5,366) |
| Effect of exchange rate changes | - | ( 380) | ( 3,062) | ( 3,442) |
| Balance at December 31, 2012 | | | | |
| Initial cost | 420,000 | 31,727 | 91,884 | 543,611 |
| Accumulated amortization | ( 411,958) | ( 14,463) | ( 6,368) | ( 432,789) |
| Accumulated impairment | ( 8,042) | - | - | ( 8,042) |
| Effect of exchange rate changes | - | 257 | 4,502 | 4,759 |
| December 31, 2012 net book value | $ - | $ 17,521 | $ 90,018 | $ 107,539 |

| 2011 | Technology know-how | Computer software costs | Land occupancy rights | Total |
|---|---|---|---|---|
| Balance at January 1, 2011 | | | | |
| Initial cost | $ 420,000 | $ 10,502 | $ 61,419 | $ 491,921 |
| Accumulated amortization | ( 411,958) | ( 9,518) | ( 2,354) | ( 423,830) |
| Accumulated impairment | ( 8,042) | - | - | ( 8,042) |
| Effect of exchange rate changes | - | 6 | 386 | 392 |
| January 1, 2011 net book value | - | 990 | 59,451 | 60,441 |
| Additions | - | 13,320 | 35,511 | 48,831 |
| Amortization | - | ( 1,611) | ( 1,982) | ( 3,593) |
| Effect of exchange rate changes | - | 631 | 7,178 | 7,809 |
| Balance at December 31, 2011 | | | | |
| Initial cost | 420,000 | 23,822 | 96,930 | 540,752 |
| Accumulated amortization | ( 411,958) | ( 11,129) | ( 4,336) | ( 427,423) |
| Accumulated impairment | ( 8,042) | - | - | ( 8,042) |
| Effect of exchange rate changes | - | 637 | 7,564 | 8,201 |
| December 31, 2011 net book value | $ - | $ 13,330 | $ 100,158 | $ 113,488 |

For details of the accumulated impairment, please refer to Note 4(11).

(10) IDLE ASSETS

| | December 31, 2012 | | |
|---|---|---|---|
| Assets | Cost | Accumulated depreciation | Net book value |
| Machinery and equipment | $ 85,218 | ($ 57,504) | $ 27,714 |
| Less: Accumulated impairment | | | ( 21,269) |
| | | | $ 6,445 |

| | December 31, 2011 | | |
|---|---|---|---|
| Assets | Cost | Accumulated depreciation | Net book value |
| Machinery and equipment | $ 99,874 | ($ 62,899) | $ 36,975 |
| Less: Accumulated impairment | | | ( 27,126) |
| | | | $ 9,849 |

For details of the accumulated impairment, please refer to Note 4(11).

(11) IMPAIRMENT OF ASSETS

The Group has recognized an accumulated impairment loss of $33,931 and $39,788 as of December 31, 2012 and 2011, respectively. Details are set forth below:

| Item | December 31, 2012 Statement of income | December 31, 2012 Stockholders' equity |
| --- | --- | --- |
| Recorded as impairment loss: | | |
| Financial assets carried at cost-non-current | $ 4,620 | $ – |
| Other intangible assets | 8,042 | – |
| Idle assets | 21,269 | – |
| | $ 33,931 | $ – |

| Item | December 31, 2011 Statement of income | December 31, 2011 Stockholders' equity |
| --- | --- | --- |
| Recorded as impairment loss: | | |
| Financial assets carried at cost-non-current | $ 4,620 | $ – |
| Other intangible assets | 8,042 | – |
| Idle assets | 27,126 | – |
| | $ 39,788 | $ – |

The accumulated impairment summarized by segment is as follows:

| Segment | December 31, 2012 Statement of income | December 31, 2012 Stockholders' equity |
| --- | --- | --- |
| The Company | $ 33,931 | $ – |

| Segment | December 31, 2011 Statement of income | December 31, 2011 Stockholders' equity |
| --- | --- | --- |
| The Company | $ 39,788 | $ – |

Certain idle assets had been disposed during the years ended December 31, 2012 and 2011. As such, reversal of impairment loss of $5,857 and $6,045 were recognized for the years ended December 31, 2012 and 2011, respectively.

(12) SHORT-TERM LOANS

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Unsecured bank loans | $ 263,676 | $ - |
| Range of interest rates | 1.31%～1.35% | - |

(13) RETIREMENT PLAN

A. The Company has set up a defined benefit pension plan in accordance with the Labor Standards Law, which applies to all regular employees before the enforcement of the Labor Pension Act (the “Act”) on July 1, 2005 and the employees who choose to be covered under the pension scheme of the Labor Standards Law after the enforcement of the Act. In accordance with the Company's retirement plan, an employee may retire when the employee either (i) attains the age of 55 with 15 years of service, (ii) has more than 25 years of service, (iii) has reached the age of 65, or (iv) is incapacitated to work (compulsory retirement).

The employees earn two units for each year of service for the first 15 years, and one unit for each additional year thereafter up to a maximum of 45 units. Any fraction of a year equal to or more than six months shall be counted as one year of service, and any fraction of a year less than six months shall be counted as half a year. 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.

B. The information relative to the Company's defined benefit pension plan is set forth below:

(a) The actuarial assumptions used to measure the funded status of the plan are as follows:

| | 2012 | 2011 |
|---|---|---|
| Discount rate | 1.75% | 1.90% |
| Rate of increase in compensation levels | 3.00% | 3.00% |
| Expected return on plan assets | 1.75% | 1.90% |

(b) The funded status of the plan at December 31, 2012 and 2011 is as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Benefit obligation: | | |
| Vested benefit obligation | ($ 2,145) | ($ 1,751) |
| Non-vested benefit obligation | ( 75,461) | ( 70,338) |
| Accumulated benefit obligation | ( 77,606) | ( 72,089) |
| Additional benefit based on future salaries | ( 32,915) | ( 33,630) |
| Projected benefit obligation | ( 110,521) | ( 105,719) |
| Fair value of plan assets | 48,020 | 44,380 |
| Plan funded status | ( 62,501) | ( 61,339) |
| Unrecognized net transition obligation | 917 | 1,223 |
| Unrecognized service cost | 862 | 928 |
| Unrecognized loss on plan assets | 30,543 | 32,438 |
| Minimum pension liability | - | ( 959) |
| Accrued pension liabilities | ($ 30,179) | ($ 27,709) |
| Vested benefit | $ 2,145 | $ 1,751 |

(c) The net periodic pension cost for the years ended December 31, 2012 and 2011 consists of the following:

| | 2012 | 2011 |
|---|---|---|
| Service cost | $ 3,453 | $ 2,704 |
| Interest cost | 2,008 | 1,768 |
| Expected return on plan assets | ( 843) | ( 774) |
| Amortization of unrecognized net transition obligation | 306 | 306 |
| Amortization of unrecognized prior service cost | 66 | 66 |
| Amortization of unrecognized loss on plan assets | 1,682 | 1,517 |
| Net periodic pension cost | $ 6,672 | $ 5,587 |

C. 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 net pension costs recognized under the defined contribution plan for the years ended December 31, 2012 and 2011 were $25,055 and $ 22,258, respectively.

D. The subsidiaries in Mainland China are subject to a statutory non-contributory and funded 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 a retirement fund. All benefits and welfare payments for current and retired employees from the retirement fund are administered by a government agency. For the years ended December 31, 2012 and 2011, the retirement fund under the non-contributory and funded defined contribution plan were $7,159 and $3,094, respectively.

(14) COMMON STOCK AND STOCK DIVIDEND DISTRIBUTABLE

A. For the purpose of initial public offering, the Board of Directors during its meeting on August 3, 2011 adopted a resolution to increase capital by issuing common stocks of 21 million shares at a premium price of $46 (in NT dollars) per share. Pursuant to the approval by the Financial Supervisory Commission, Securities and Futures Bureau, the capital increase was effective on September 27, 2011. After the capital increase, the authorized capital was $10,000,000, and paid-in capital was $6,310,000, consisting of 631 million shares with a par value of $10 (in NT dollars) per share.

B. The stockholders at their annual stockholders' meeting on June 13, 2012 adopted a resolution to increase capital through unappropriated retained earnings of $189,300. Pursuant to the approval by the Financial Supervisory Commission, Securities and Futures Bureau, the capital increase was effective on August 16, 2012. After the capital increase, the authorized capital was $10,000,000, and the paid-in capital was $6,499,300, consisting of 649,930 thousand shares with a par value of $10 (in NT dollars) per share.

(15) CAPITAL RESERVE

Pursuant to the R.O.C. Company Law, 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 of, 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 in insufficient.

(16) SHARE-BASED PAYMENT – EMPLOYEE COMPENSATION PLAN

The Company adopted a resolution to increase capital by cash, and reserved 2,249 thousand shares for employees granted on September 27, 2011 at a price of $46 (in NT dollars) per share. The amount of employee compensation costs for the cash capital increase reserved for employees above was $945 for the year ended December 31, 2011.

The employee preemption above is estimated by using the Black-Scholes option-pricing model. The weighted-average parameters used in the estimation of the fair value are as follows:

| | |
|---|---|
| Expected dividend yield | 0% |
| Expected volatility | 36.54% |
| Risk-free interest rate | 0.60% |
| Expected life | 0.14 year |
| Weighted-average fair value (per share) (in NT dollars) | $0.42 |

(17) RETAINED EARNINGS

A. Pursuant to the amended R.O.C. Company Law, 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' bonuses 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. (a)The appropriations of 2011 and 2010 earnings had been resolved at the stockholders' meeting on June 13, 2012 and June 30, 2011, respectively. Details are summarized below:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Amount | Dividends per share (in dollars) | Amount | Dividends per share (in dollars) |
| Legal reserve | $ 95,935 | | $ 7,962 | |
| Cash dividends | 631,000 | $ 1.00 | 61,000 | $ 0.10 |
| Stock dividends | 189,300 | 0.30 | - | |
| Directors' and supervisors' remuneration | 17,268 | | 1,433 | |
| Employees' cash bonus | 1,727 | | 143 | |
| | $ 935,230 | | $ 70,538 | |

(b)The appropriations of 2012 earnings had been proposed by the Board of Directors on March 22, 2013. Details are summarized below:

| | 2012 | |
|---|---|---|
| | Amount | Dividend per share (in dollars) |
| Legal reserve | $ 117,047 | |
| Cash dividends | 779,916 | $ 1.20 |
| Stock dividends | 259,972 | 0.40 |
| Directors' and supervisors' remuneration | 21,068 | |
| Employees' cash bonus | 2,107 | |
| | $1,180,110 | |

As of March 22, 2013, the appropriations of 2012 earnings had not been resolved by the stockholders.

D. The estimated amounts of employees' bonus and directors' and supervisors' remuneration for the years ended December 31, 2012 and 2011 are $23,180 and $19,029, respectively. The basis of estimates is based on a certain percentage of 2012 and 2011 net income after taking into account the legal reserve and other factors, as prescribed under the Company's Articles of Incorporation. Information on the appropriation of the Company's employees' bonus and directors' and supervisors' remuneration as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange. The actual amounts approved at the stockholders' meeting for employees' bonus and directors' and supervisors' remuneration for 2011 and 2010 were $19,029 and $2,000, which were different from the estimated amounts recognized in the 2011 and 2010 financial statements by $34 and $424, respectively. Such differences were recognized in profit or loss for the years ended December 31, 2012 and 2011, respectively.

E. As of December 31, 2012 and 2011, the balances of unappropriated earnings were as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Unappropriated earnings in and after 1998 | $ 1,224,246 | $ 970,012 |

F. As of December 31, 2012 and 2011, the imputation tax credit account balance amounted to $11,793 and $65,847, respectively. The Company distributed unappropriated earnings in 2011 and 2010 as dividends in accordance with the resolution adopted at the stockholders' meeting on June 13, 2012 and June 30, 2011, respectively, and the date of dividends distribution was on August 16, 2012 and August 1, 2011, respectively. The 2012 and 2011 creditable ratio was 18.47% and 20.48%, respectively. The amount of deductible tax distributable by the Company to its shareholders shall be limited to an amount not exceeding the amount of the imputation tax credit account balance on the date of distribution of the dividends. Accordingly, the actual creditable ratio for the distribution of 2012 undistributed earnings will be based on the imputation tax credit account balance up to the date of distribution of the dividends.

(18) PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

For the years ended December 31, 2012 and 2011, the personnel, depreciation and amortization expenses were as follows:

| | 2012 | | |
|---|---|---|---|
| | Operating costs | Operating expenses | Total |
| Personnel expenses<br>Salaries and wages | $ 445,480 | $ 333,606 | $ 779,086 |
| Insurance | 32,746 | 18,896 | 51,642 |
| Pension | 21,677 | 17,209 | 38,886 |
| Others | 12,648 | 19,421 | 32,069 |
| | $ 512,551 | $ 389,132 | $ 901,683 |
| Depreciation | $ 285,045 | $ 66,043 | $ 351,088 |
| Amortization | $ 285 | $ 5,099 | $ 5,384 |

| | 2011 | | |
|---|---|---|---|
| | Operating costs | Operating expenses | Total |
| Personnel expenses<br>Salaries and wages | $ 353,331 | $ 311,028 | $ 664,359 |
| Insurance | 24,548 | 16,805 | 41,353 |
| Pension | 16,483 | 14,456 | 30,939 |
| Others | 8,745 | 16,743 | 25,488 |
| | $ 403,107 | $ 359,032 | $ 762,139 |
| Depreciation | $ 272,375 | $ 64,211 | $ 336,586 |
| Amortization | $ 289 | $ 3,358 | $ 3,647 |

(19) DEFERRED INCOME TAX AND INCOME TAX EXPENSE

A. Adjustments for corporate income tax expense and income tax payable are as follows:

| | 2012 | 2011 |
|---|---|---|
| Income tax at the statutory tax rate | $ 253,124 | $ 196,559 |
| Tax effect of permanent differences | ( 9,991) | ( 7,312) |
| Tax effect of operating loss carryforwards | ( 43,494) | - |
| Tax effect of investment tax credits | ( 6,675) | ( 5,050) |
| Tax effect of five-year tax-free project | ( 4,732) | ( 4,475) |
| Under provision of prior year's income tax | 20,346 | 3,445 |
| 10% tax on unappropriated earnings | 4,312 | 1,066 |
| Tax effect of valuation allowance | ( 11,645) | ( 10,235) |
| Income tax expense | 201,245 | 173,998 |
| Net changes of deferred income tax assets (liabilities) | 69,410 | ( 50,545) |
| Under provision of prior year's income tax | ( 20,346) | ( 3,445) |
| Unpaid income tax under provision of prior year | 21,548 | - |
| Prepaid income taxes | ( 94,318) | ( 5,071) |
| Income tax payable | $ 177,539 | $ 114,937 |

B. The details of deferred income tax assets or liabilities resulting from temporary differences and investment tax credits are as follows:

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Amount | Tax effect | Amount | Tax effect |
| Current Items: | | | | |
| Temporary differences | | | | |
| Unrealized decline in value of inventories | $ 249,479 | $ 42,411 | $ 212,716 | $ 36,162 |
| Unrealized obsolescence of supplies | 29,406 | 4,999 | 40,415 | 6,871 |
| Unrealized gain on foreign currency translation | 5,497 | 934 | 3,207 | 545 |
| Unrealized loss on valuation of financial assets | ( 473) | ( 80) | ( 2,066) | ( 351) |
| Unrealized gain between affiliated companies | - | - | 19,804 | 3,367 |
| Investment tax credits | | - | | 10,413 |
| | | 48,264 | | 57,007 |
| Less: Valuation allowance | | ( 47,410) | | ( 43,033) |
| | | $ 854 | | $ 13,974 |
| Non-Current Items: | | | | |
| Temporary differences | | | | |
| Pension cost | $ 30,179 | $ 5,130 | $ 26,750 | $ 4,547 |
| Technology know-how | 192,140 | 32,664 | 213,892 | 36,362 |
| Investment loss | 349,440 | 59,405 | 95,643 | 16,259 |
| Impairment loss | 21,269 | 3,616 | 27,126 | 4,611 |
| Loss carryforwards | 286,581 | 43,494 | 64,088 | 16,022 |
| | | 144,309 | | 77,801 |
| Less: Valuation allowance | | - | | ( 16,022) |
| | | $ 144,309 | | $ 61,779 |

C. As of December 31, 2012, the Group's investment tax credits consisted of the following:

| Regulation | Item | Amount | Unused amount | Year of expiry |
|---|---|---|---|---|
| Enterprise Income Tax Law of the People's Republic of China | Loss carryforwards | $ 43,494 | $ 43,494 | 2016 |

D. The Company's income tax returns through 2009 have been assessed and approved by the Tax Authority. As of March 22, 2013, there were no disputes existing between the Company and the Tax Authority.

(20) EARNINGS PER COMMON SHARE (“EPS”)

| | For the year ended December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Amount | | Weighted average number of shares outstanding during the year | EPS ( in NT Dollars) | |
| | Before tax | After tax | (shares in thousands) | Before tax | After tax |
| Net income | $1,371,667 | $1,170,469 | | | |
| Basic earnings per share | | | | | |
| Net income of common stockholders | $1,371,667 | $1,170,469 | 649,930 | $ 2.11 | $ 1.80 |
| Dilutive effect of common stock equivalents: | | | | | |
| Employees’ bonuses | – | – | 31 | | |
| Diluted earnings per share | | | | | |
| Effect on the net income of common stockholders plus dilutive effect of common stock equivalents | $1,371,667 | $1,170,469 | 649,961 | $ 2.11 | $ 1.80 |

| | For the year ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Amount | | Weighted average number of shares outstanding during the year | EPS ( in NT Dollars) | |
| | Before tax | After tax | (shares in thousands) | Before tax | After tax |
| Net income | $1,135,315 | $ 959,355 | | | |
| Basic earnings per share | | | | | |
| Net income of common stockholders | $1,135,315 | $ 959,355 | 633,989 | $ 1.79 | $ 1.51 |
| Dilutive effect of common stock equivalents: | | | | | |
| Employees' bonuses | - | - | 32 | | |
| Diluted earnings per share | | | | | |
| Effect on the net income of common stockholders plus dilutive effect of common stock equivalents | $1,135,315 | $ 959,355 | 634,021 | $ 1.79 | $ 1.51 |

A. The above weighted-average outstanding common shares have been adjusted retroactively in proportion to retained earnings as of December 31, 2011.

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 effects 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, the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

5. RELATED PARTY TRANSACTIONS

(1) Related parties and their relationship with the Company

| Name of related parties | Relationship with the Company |
|---|---|
| Uni-President Enterprises Corp. | The Company's ultimate parent company |
| President Tokyo Corp. | An investee of Uni-President Enterprises Corp. accounted for under the equity method |
| President Securities Corp. | 〃 |
| Tanvex Biologics Corp. | An associate company of Tanvex Biologics, Inc., an investee company accounted for under the equity |
| Taiwan Sugar Corp. | A director of the Company |

Other related parties did not have material transactions with the Company for the years ended December 31, 2012 and 2011. Please refer to Note 11 for related information.

(2) Transactions and balances with related parties

A. Technical service revenues

| | For the year ended December 31 | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| | Amount | Percentage of technical service revenues | Amount | Percentage of technical service revenues |
| Tanvex Biologics Corp. | $ 2,615 | 7 | $ - | - |

The terms of providing technical services to and receivables from related party were the same with regular customers. The above related party closes its accounts 60 days from the end of each month.

B. Other expenses

| | 2012 | 2011 |
|---|---|---|
| Repair fees: | | |
| President Tokyo Corp. | $ 2,919 | $ 2,829 |
| Management consultancy fees: | | |
| Uni-President Enterprises Corp. | $ 3,015 | $ 12 |
| Taiwan Sugar Corp. | 2,281 | 2,180 |
| | $ 5,296 | $ 2,192 |
| Rental expense: | | |
| President Tokyo Corp. | $ 990 | $ 1,410 |
| Other outsourcing services | | |
| President Securities Corp. | $ 1,484 | $ 843 |

C. Capital lease payable

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| President Tokyo Corp. | $ – | – | $ 964 | 100 |

D. Compensation of directors and management personnel

| | 2012 | 2011 |
|---|---|---|
| Salaries | $ 31,730 | $ 21,721 |
| Bonuses | 12,742 | 11,600 |
| Service execution fees | 11,459 | 10,704 |
| Earnings distribution | 21,089 | 17,325 |
| | $ 77,020 | $ 61,350 |

(a) Salaries include regular wages, special responsibility allowances, pensions, severance pay, etc.

(b) Bonuses include various bonuses and rewards.

(c) Service execution fees include travel allowances, special expenditures, various dorms and vehicles offering, etc.

(d) Earnings distribution represent directors' and supervisors' remuneration and employees' bonus accrued in current year.

6. PLEDGED ASSETS

As of December 31, 2012 and 2011, the details of pledged assets for various purposes were as follows:

| Assets | December 31, 2012 | December 31, 2011 | Purpose of collateral |
|---|---|---|---|
| Time deposits (recorded as「other financial assets – current」 and 「other financial assets – non-current」) | $ 39,369 | $ 39,369 | Performance guarantee and customs duty |

7. CONTINGENT LIABILITIES AND COMMITMENTS

(1) As of December 31, 2012 and 2011, the unused letters of credit amounted to $8,203 and $42,028, respectively.

(2) As of December 31, 2012 and 2011, the remaining balance due for construction in progress and prepayments for equipment was $636,466 and $269,993, respectively.

(3) Major agreement

| Nature | Party concerned | Term | Major content |
|---|---|---|---|
| Land lease | Science Park Management | 2011.6.1～2018.2.28 | The lease term is less than 20 years. |

As of December 31, 2012, the amounts of future rental payments are listed as follows:

| Term of lease contract | Total rental payments |
|---|---|
| 2013 | $ 18,516 |
| 2014 | 18,516 |
| 2015 | 18,516 |
| 2016 | 18,516 |
| 2017 | 18,516 |
| 2018 (Present value of $2,864) | 3,086 |
| | $ 95,666 |

8. SIGNIFICANT CATASTROPHE: None.

9. SIGNIFICANT SUBSEQUENT EVENT: None.

10. OTHERS

(1) Fair values of the financial instruments

| | December 31, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | | Fair value | | | Fair value | |
| | Book value | Quotations in an active market | Estimated using a valuation method | Book value | Quotations in an active market | Estimated using a valuation method |
| Non–derivative financial instruments | | | | | | |
| Assets | | | | | | |
| Financial assets with book value equal to fair value | $ 3,972,646 | $ - | $ 3,972,646 | $ 4,201,118 | $ - | $ 4,201,118 |
| Financial assets carried at cost - non-current | 149,555 | - | - | - | - | - |
| Other financial assets - non-current | 39,369 | - | 39,369 | 23,817 | - | 23,817 |
| Refundable deposits | 16,937 | - | 16,937 | 8,434 | - | 8,434 |
| Liabilities | | | | | | |
| Financial liabilities with book value equal to fair value | 1,007,605 | - | 1,007,605 | 691,262 | - | 691,262 |
| Guarantee deposits received | - | - | - | 250 | - | 250 |
| Derivative financial instruments | | | | | | |
| Assets | | | | | | |
| Foreign currency forward contracts | 473 | - | 473 | 2,066 | - | 2,066 |

The methods and assumptions used to estimate the fair value of financial instruments are summarized as follows:

A. For short-term financial instruments, the fair values were determined based on their carrying amount because of short maturities of the instruments. This was applied to cash and cash equivalents, accounts receivable, other receivables, other financial assets–current, notes and accounts payable, accrued expenses, other payables and capital lease payable–current.

B. The fair value of other financial assets–non-current and refundable deposits is based on the discounted value of expected future cash inflows, and the discount rate is based on the fixed rate of one year time deposit of the post office at December 31, 2012 and 2011.

C. The fair value of guarantee deposits received is based on the discounted value of expected future cash flows, and the discount rate is based on the interest rates of similar long-term loans at December 31, 2012 and 2011.

D. The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based on the amounts to be received or paid assuming the contracts were settled as of the reporting date.

(2) Significant gains and losses of financial instruments

The Company recognized a loss of $1,593 and $5,323 for the changes in financial assets at fair value through profit or loss for the years ended December 31, 2012 and 2011, respectively.

(3) Financial risk management and hedging strategy

The Company adopt a comprehensive control system to identify all risks (including market risk, credit risk, liquidity risk and cash flow risk), which enables the Company to control and measure the market risk, credit risk, liquidity risk and cash flow risk effectively. The target of the market risk management is to appropriately consider the economic environment, competition, and impact of market value risks, to optimize risk, to optimize risk exposure, to sustain liquidity, and to manage all the foreseen market risk collectively.

In order to achieve the target of risk management, the hedge strategies of the Company focus on the market value risk and cash flow risk.

(4) Information of financial risk

A. Market risk

(a) Exchange rate risk

(i) The Company has set a “stop loss” amount to limit its market risk on forward contracts that are affected by foreign exchange risk.

(ii) The Company’s major import and export transactions are in US dollars. The change in fair value will be caused by foreign exchange rate changes, however, the amounts and periods of the Company’s accounts receivable and accounts payable are the same, so the market risk would be offset.

(b) The Company carries on business transactions involving non-functional currency which would be affected by fluctuations in exchange rates. Certain foreign currency denominated assets and liabilities affected by significant fluctuations in exchange rates are shown below:

| (Foreign currency: functional currency) | December 31, 2012 Foreign currency amount (in thousands) | December 31, 2012 Exchange rate (in dollars) | December 31, 2011 Foreign currency amount (in thousands) | December 31, 2011 Exchange rate (in dollars) |
|---|---|---|---|---|
| Financial assets | | | | |
| Monetary items | | | | |
| USD:NTD | $ 31,791 | 29.04 | $ 27,254 | 30.28 |
| EUR:NTD | 232 | 38.49 | 2,354 | 39.18 |
| GBP:NTD | 3 | 46.83 | 35 | 46.77 |
| JPY:NTD | 69 | 0.34 | - | - |
| CNY:NTD | 13 | 4.76 | - | - |
| Long-term investments accounted for under the equity method | | | | |
| USD:NTD | - | - | 2,537 | 30.28 |
| Financial liabilities | | | | |
| Monetary items | | | | |
| USD:NTD | 690 | 29.04 | 2,257 | 30.28 |
| EUR:NTD | 135 | 38.49 | 56 | 39.18 |

(c) Interest rate risk

The Group issues debt financial instruments with fixed interest rate. The fair value of debt financial instruments would change due to changes in market interest rate.

(d) Price risk

The Group is exposed to equity securities price risk because the investments held by the Company are classified either as available-for-sale or at fair value through profit or loss. The Company sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its market risk.

B. Credit risk

(A) The Group entered into derivative financial instruments with financial institutions with good credit ratings. The possibility of default by those parties is very low. The maximum market value is the carrying amount of derivative financial instruments.

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

C. Liquidity risk

(A) The available-for-sale financial assets are publicly traded stocks which have active markets and the Group can sell these assets near their fair value. The liquidity risk exposure is low.

(B) The Group is exposed to a higher liquidity risk since investment securities have no active market. However, the Group has no intention to hold these financial assets for trading and does not expect to sell these financial assets frequently. Therefore, the exposure to liquidity risk would be effectively reduced.

D. Interest rate change cash flow risk

The Group has no long-term loans at the end of year. Therefore, the Company has no interest rate change cash flow risk.

(5) Financial statement presentation

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

11. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

(1)Related information of significant transactions

(For the year ended December 31, 2012)

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

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

(C) The balance of securities held as of December 31, 2012 are summarized as follows (Units in thousands of New Taiwan Dollars or currencies indicated):

| | | | | December 31, 2012 | | | | |
|---|---|---|---|---|---|---|---|---|
| Investor | Type and name of securities | Relationship with the issuer | Accounts (Note) | Number of shares (in thousands) | Book value | Percentage of ownership | Market value | Note |
| ScinoPharm Taiwan, Ltd. | Bills under repurchase agreement: | | | | | | | |
| | Mega Bills Finance Co., Ltd. | — | 1 | - | $ 85,794 | - | $ 85,794 | — |
| | Taishin International Bank | — | 1 | - | 59,962 | - | 59,962 | — |
| | Stock: | | | | | | | |
| | Tanvex Biologics, Inc. | The Company is a dirctor of Tanvex Biologics, Inc. | 2 | 28,800 | 149,555 | 17.02% | - | — |
| | SYNGEN, INC. | — | 2 | 245 | - | 7.40% | - | — |
| | SPT International, Ltd. | An investee company accounted for under the equity method | 3 | 43,545 | 1,239,905 | 100.00% | 1,338,960 | — |
| | ScinoPharm Singapore Pte Ltd. | An investee company accounted for under the equity method | 3 | - | 5 | 100.00% | 5 | — |
| | President ScinoPharm (Cayman), Ltd. | An investee company accounted for under the equity method | 3 | 102 | 2,405 | 60.00% | 2,405 | — |
| SPT International, Ltd. | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | An investee company accounted for under the equity method by the investor | 3 | - | USD 14,405 | 100.00% | USD 14,405 | — |
| | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | An investee company accounted for under the equity method by the investor | 3 | - | USD 30,829 | 100.00% | USD 30,829 | — |
| | ScinoPharm (Shanghai) Biochemical Technology, Ltd. | An investee company accounted for under the equity method by the investor | 3 | - | USD 618 | 100.00% | USD 618 | — |

(Note) The code number explanation is as follows:

1. Cash equivalents
2. Financial assets carried at cost - non-current
3. Long-term investments accounted for under the equity method

(D)The cumulative buying or selling amount of one specific security exceeding the lower of $100,000 or 20 percent of the contributed capital (Unit in thousands of New Taiwan Dollars or currencies indicated):

| | | | | | Beginning balance | | Addition | | Disposal | | | | Other increase (decrease) | | Ending balance | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investor | Type of securities | General ledger account | Name of the counter -party | Relationship | 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 Taiwan, Ltd. | Bill under repurchase agreement: | | | | | | | | | | | | | | | |
| | China Trust Commercial Bank | Cash equivalents | – | – | – | $ 49,846 | – | $ 602,771 | – | $ 652,684 | ($ 652,617) | $ 67 | – | $ – | – | $ – |
| | International Bills Finance Corporation | Cash equivalents | – | – | – | 9,988 | – | 501,252 | – | 511,294 | ( 511,240) | 54 | – | – | – | – |
| | China Bill Finance Corporation | Cash equivqlents | – | – | – | – | – | 661,975 | – | 662,052 | ( 661,975) | 77 | – | – | – | – |
| | Mega Bills Finance Co., Ltd. | Cash equivqlents | – | – | – | – | – | 2,529,716 | – | 2,444,207 | ( 2,443,922) | 285 | – | – | – | 85,794 |
| | Taishin International Bank | Cash equivalents | – | – | – | – | – | 1,758,198 | – | 1,698,444 | ( 1,698,236) | 208 | – | – | – | 59,962 |
| | Stocks: | | | | | | | | | | | | | | | |
| | SPT International, Ltd. | Long-term investment accounted for under the equity method | Capital Increase | – | 29,825 | 957,265 | 13,720 | 406,243 | – | – | – | – | – | (123,603) | 43,545 | 1,239,905 |
| SPT International, Ltd. | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | Long-term investment accounted for under the equity method | Capital Increase | – | – | USD 24,053 | – | USD 13,000 | – | – | – | – | – | (USD6,224) | – | USD 30,829 |

(E) Acquisition of real estate with an amount exceeding $100,000 or 20 percent of the contributed capital (Unit in thousands of New Taiwan Dollars or currencies indicated):

| | | | | | | | Prior transaction of related counterparty | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company name | Type of property | Transaction date | Transaction amount | Payment | Name of the counterparty | Relationship | Owner | Relationships | Transfer date | Amount | Price reference | Purpose of Acquisition | Other terms |
| ScinoPharm Taiwan, Ltd. | Plant | 2012.6 | Approximately $ 1,100,000 | — | — | — | — | — | — | — | Negotiation | Building for operation use | None |
| ScinoPharm (Changshu) Pharmaceuticals, Ltd. | Plant (Phase I) | 2010.4～2012.12 | CNY 58,758 | CNY 54,286 | Zhejiang Meiyang International Engineering Design Co., Ltd. etc. | 〃 | 〃 | 〃 | 〃 | 〃 | 〃 | 〃 | 〃 |
| | Plant (Phase II) | 2012.11～2012.12 | CNY 130,000 | CNY 15,372 | Jiangsu Qian Construction Group Co., Ltd. | 〃 | 〃 | 〃 | 〃 | 〃 | 〃 | 〃 | 〃 |

(F) Disposal of real estate with an amount exceeding $100,000 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 (Unit in thousands of New Taiwan Dollars or currencies indicated):

| | | | Description of transaction | | | | Description and reasons for difference in transaction terms compared to non-related party transactions | | Notes or accounts receivable / (payable) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Company name | Name of the counterparty | Relationship | Purchases/ (sales) | Amount | Percentage of net purchases /(sales) | Credit terms | Unit Price | Credit Period | Amount | Percentage of notes or accounts receivable / (payable) | Note |
| ScinoPharm Taiwan, Ltd. | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | An investee company of SPT International Ltd. accounted for under the equity method | Purchases | $ 326,510 | 21% | (Note) | $ - | — | ($ 16,338) | ( 11%) | - |
| ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | ScinoPharm Taiwan, Ltd. | The Company | (Sales) | (CNY 70,083) | (97%) | 90 days after delivery | - | — | CNY 3,536 | 29% | - |

(Note) Please refer to Note 5 for the terms of purchases.

(H) Receivable from related parties exceeding $100,000 or 20 percent of the contributed capital : None.

(I) Derivative financial instrument transactions: For the Company's derivative financial instrument transactions, please refer to Note 4(2).

(2) Disclosure information of investee company

Related information on investee companies for the year ended December 31, 2012 (Units in thousands of currencies indicated)

| | | | | Original investments | | | | Holding status | | | | Net income (loss) of the investee | | Income (loss) recognized by the Company | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investors | Name of investees | Address | Main Business | Currency | Ending balance of the current year | Currency | Ending balance of prior year (Note 1) | Shares | Percentage of ownership | Currency | Book value | Currency | Amount | Currency | Amount (Note 2) | Note |
| ScinoPharm Taiwan, Ltd. | SPT International, Ltd. | Tortola, British Virgin Islands | Professional investment | TWD | $ 1,328,662 | TWD | $ 922,419 | 43,544,644 | 100.00 | TWD | $1,239,905 | TWD | ($ 91,485) | TWD | ($ 88,667) | Subsidiary |
| ScinoPharm Taiwan, Ltd. | ScinoPharm Singapore Pte Ltd. | Singapore | Professional investment | TWD | - | TWD | - | 2 | 100.00 | TWD | 5 | TWD | 5 | TWD | 5 | Subsidiary |
| ScinoPharm Taiwan, Ltd. | President ScinoPharm (Cayman), Ltd. | Grand Cayman, Cayman Islands | Professional investment | TWD | 3,541 | TWD | 3,541 | 101,700 | 60.00 | TWD | 2,546 | TWD | ( 118) | TWD | ( 71) | Subsidiary |
| ScinoPharm Taiwan, Ltd. | Tanvex Biologics, Inc. | California, U.S.A | Research, biomedical and related production, etc. | TWD | 225,980 | TWD | 225,980 | 28,800,000 | 17.02 | TWD | 149,555 | TWD | ( 19,898) | TWD | ( 4,434) | (Note 3) |
| SPT International, Ltd. | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | China | Research, development and manufacture of new medicine, etc. | USD | 3,724 | USD | 3,724 | - | 100.00 | USD | 14,405 | USD | 3,583 | USD | - | Subsidiary of subsidiary |
| SPT International, Ltd. | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | China | Research, development and manufacture of new medicine, etc. | USD | 38,000 | USD | 25,000 | - | 100.00 | USD | 30,829 | USD | ( 6,559) | USD | - | Subsidiary of subsidiary |
| SPT International, Ltd. | ScinoPharm (Shanghai) Biochemical Technology, Ltd. | China | Import, export and sales of active pharmaceutical ingredients and intermediates, etc. | USD | 720 | USD | - | - | 100.00 | USD | 618 | USD | ( 112) | USD | - | Subsidiary of subsidiary |

(Note 1) Ending balance as of December 31, 2011.

(Note 2) According to the related regulations, it is only required to disclose income (loss) of subsidiary recognized by the Company.

(Note 3)Reclassified as financial assets carried at cost in January, 2012.

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

Related information on investee companies for the year ended December 31, 2012 (Units in thousands of currencies indicated)

(A) The basic information of investments in Mainland China as of December 31, 2012 are as follows :

| Name of investee in Mainland China | Main Business | Capital | Investment method | Beginning investment balance from Taiwan | Investment Amount | | Ending investment balance from Taiwan | Percentage of ownership held by the Company (direct or indirect) | Investment gain (loss) (Note 2) | Investment balance as of December 31, 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Remited | Received | | | | |
| ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | Research, development and manufacture of new medicine, etc. | $ 116,160 | (Note 1) | $ 108,145 | - | - | $ 108,145 | 100.00 | $104,050 | $ 418,321 |
| ScinoPharm (Changshu) Pharmaceuticals, Ltd. | 〃 | 1,103,520 | (Note 1) | 726,000 | 377,520 | - | 1,103,520 | 100.00 | ( 190,473) | 895,274 |
| ScinoPharm (Shanghai) Biochemical Technology, Ltd. | Import, export and sales of active pharmaceutical ingredients and intermediates, etc. | 20,909 | (Note 1) | - | 20,909 | - | 20,909 | 100.00 | ( 3,252) | 17,947 |

(B) The ceiling amount of investment in Mainland China (Units in thousands of New Taiwan Dollars or currencies indicated)

| Name of Company | Accumulated investment balance from Taiwan to Mainland China | Amount approved by MOEA | Ceiling amount of investment in Mainland China by MOEA (Note 3) |
|---|---|---|---|
| ScinoPharm Taiwan, Ltd. | $ 1,277,486 | $ 1,496,686 | $ 5,457,285 |

(Note 1) Indirect investment in PRC through existing companies located in the third area.

(Note 2) Recognized based on the respective financial statements of the investee companies which were not audited by independent accountants.

(Note 3) The ceiling amount is set as 60% of the net worth.

(Note 4) Foreign currencies were translated into New Taiwan Dollars at exchange rate of $29.04 (US dollars to NT dollars).

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

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

(i)Purchases

| | | 2012 | | |
|---|---|---|---|---|
| Third region Company's name | Name of investee in Mainland China | Amount | | Percentage of net purchases |
| — | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | $ | 326, 510 | 21 |
| — | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | | 24, 975 | 2 |
| | | $ | 351, 485 | 23 |

The term of purchases from and payments (wire transfer ) to related parties were the same with regular suppliers. The above related parties close its accounts 90 days from the end of each month.

(ii)Accounts payable

| | | December 31, 2012 | | |
|---|---|---|---|---|
| Third region Company's name | Name of investee in Mainland China | Amount | | % |
| — | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | $ | 16, 338 | 12 |
| — | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | | 1, 679 | 1 |
| | | $ | 18, 017 | 13 |

(b)Sales amount and percentage of net sales, the ending balance of respective accounts receivable and percentage: None.

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

(d)Endorsement, guarantee and security’s ending balance and purpose: None.

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

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

| Transaction description | Third region Company's name | Name of investee in Mainland China | For the year ended, December 31, 2012 |
| --- | --- | --- | --- |
| Research & development fees | — | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | $ 8,304 |
| | | ScinoPharm (Kunshan) Biochemical Technology, Co., Ltd. | 4,412 |
| | | | $ 12,716 |
| Outsourcing service fees | — | ScinoPharm (Shanghai) Biochemical Technology Ltd. | $ 5,396 |
| Management consultancy revenue | — | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | $ 17,148 |
| | | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | 2,349 |
| | | | $ 19,497 |

| | | | December 31, 2012 | |
| --- | --- | --- | --- | --- |
| | | | Amount | % |
| Other receivables | — | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | $ 8,090 | 65 |
| | | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | 924 | 7 |
| | | | $ 9,014 | 72 |

| Transaction description | Third region Company's name | Name of investee in Mainland China | December 31, 2012 | |
|---|---|---|---|---|
| | | | Amount | % |
| Accrued expense | — | ScinoPharm (Shanghai) Biochemical Technology, Ltd. | $ 1,452 | - |

(4)Intercompany Relationships and Significant Intercompany Transactions

For the year ended December 31, 2012 (Units in thousands of currencies indicated):

| Number (Note 1) | Name of counterparty | Name of transaction parties | Relationship (Note 2) | Transaction terms: Subject | Amount | Transaction terms | Percentage of total combined revenue or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | ScinoPharm Taiwan, Ltd. | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | 1 | Purchases | $ 326,510 | Closes its account 90 days from the end of each month | 7% |
| | | | | Research and development fees | 4,412 | – | – |
| | | | | Income from management and technical consultancy | ( 2,349) | – | – |
| | | | | Other receivables | 924 | – | – |
| | | | | Accounts payable | ( 16,338) | – | – |
| | | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | 1 | Purchases | 24,975 | Closes its account 90 days from the end of each month | 1% |
| | | | | Research and development fees | 8,304 | – | – |
| | | | | Income from management and consultancy | ( 17,148) | – | – |
| | | | | Other receivables | 8,090 | – | – |
| | | | | Accounts payable | ( 1,679) | – | – |
| | | ScinoPharm (Shanghai) Biochemical Technology, Ltd. | 1 | Other outsourcing service | 5,396 | – | – |
| | | | | Accrued expenses | ( 1,452) | – | – |
| 1 | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | ScinoPharm Taiwan, Ltd. | 2 | Sales | ( 330,922) | Closes its account 90 days from the end of each month | (7%) |
| | | | | Management consultancy fees | 2,349 | – | – |
| | | | | Accounts receivable | 16,338 | – | – |
| | | | | Accrued expenses | ( 924) | – | – |
| 2 | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | ScinoPharm Taiwan, Ltd. | 2 | Sales | ( 33,279) | Closes its account 90 days from the end of each month | (1%) |
| | | | | Management consultancy fees | 17,148 | – | – |
| | | | | Accounts receivable | 1,679 | – | – |
| | | | | Accrued expenses | ( 8,090) | – | – |
| 3 | ScinoPharm (Shanghai) Biochemical Technology, Ltd. | ScinoPharm Taiwan, Ltd. | | Service revenue | ( 5,396) | – | – |
| | | | | Accounts receivable | 1,452 | – | – |

For the year ended December 31, 2011 (Units in thousands of currencies indicated):

| Number (Note 1) | Name of counterparty | Name of transaction parties | Relationship (Note 2) | Transaction terms: Subject | Amount | Transaction terms | Percentage of total combined revenue or total assets (Note 3) |
|---|---|---|---|---|---|---|---|
| 0 | ScinoPharm Taiwan, Ltd. | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | 1 | Purchases | $ 292,083 | Closes its account 90 days from the end of each month | 7% |
| | | | | Research and development fees | 7,896 | – | – |
| | | | | Income from management and technical consultancy | ( 8,971) | – | – |
| | | | | Accounts payable | ( 77,872) | – | (1%) |
| | | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | 1 | Research and development fees | 2,747 | – | – |
| | | | | Income from management and technical consultancy | ( 11,484) | – | – |
| | | | | Other receivables | 4,727 | – | – |
| 1 | ScinoPharm (Kunshan) Biochemical Technology Co., Ltd. | ScinoPharm Taiwan, Ltd. | 2 | Sales | ( 299,979) | Closes its account 90 days from the end of each month | (7%) |
| | | | | Management consultancy fees | 8,971 | – | – |
| | | | | Accounts receivable | 77,872 | – | 1% |
| 2 | ScinoPharm (Changshu) Pharmaceuticals, Ltd. | ScinoPharm Taiwan, Ltd. | 2 | Sales | ( 2,747) | Closes its account 90 days from the end of each month | – |
| | | | | Management consultancy fees | 11,484 | – | – |
| | | | | Accrued expenses | ( 4,727) | – | – |

Note 1: The transaction information of the Company and the consolidated subsidiaries should be noted in column "Number". The number means:

1.Number 0 represents the Company.

2.The consolidated subsidiaries are in order from number 1.

Note 2: The kinds of relationship between the transaction parties are as follows:

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 the percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on the ending balance to consolidated total assets for balance sheet accounts and based on the accumulated amount in the interim to consolidated total operating revenues for income statement accounts.

12. SEGMENT INFORMATION

(1) Basic information

The management of the Company 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 of the Company manages the business through the different companies.

(2) Measurement of segment information

The chief operating decision maker evaluates the performance of operating segments based on pre-tax income excluding non-recurring income. For details of operating segments' accounting policies, please refer to Note 2.

(3) Information on profit or loss, assets and liabilities

Information on each reportable segment provided to the chief operating decision maker is as follows:

| | As of and for the year ended December 31, 2012 | | |
|---|---|---|---|
| | ScinoPharm Taiwan Ltd. | Others | Total |
| Segment revenue | $ 4,572,198 | $ 368,042 | $ 4,940,240 |
| Revenue from internal customers | - | 367,731 | 367,731 |
| Revenue from external customers | 4,572,198 | 311 | 4,572,509 |
| Interest income | 24,111 | 5,686 | 29,797 |
| Depreciation and amortization | 356,697 | 36,571 | 393,268 |
| Interest expense | 29 | - | 29 |
| Income from segment before income tax | 1,400,394 | ( 120,277) | 1,280,117 |
| Segment assets | 9,929,624 | 1,760,737 | 11,690,361 |
| Amount of additions to non-current assets | 734,724 | 230,632 | 965,356 |
| Segment liabilities | 835,752 | 417,763 | 1,253,515 |

| | As of and for the year ended December 31, 2011 | | |
|---|---|---|---|
| | ScinoPharm Taiwan Ltd. | Others | Total |
| Segment revenue | $ 3,948,455 | $ 307,849 | $ 4,256,304 |
| Revenue from internal customers | - | 302,726 | 302,726 |
| Revenue from external customers | 3,948,455 | 5,123 | 3,953,578 |
| Interest income | 16,683 | 1,222 | 17,905 |
| Depreciation and amortization | 333,482 | 14,145 | 347,627 |
| Interest expense | 108 | - | 108 |
| Income from segment before income tax | 1,124,135 | 469 | 1,124,604 |
| Segment assets | 9,418,315 | 1,209,694 | 10,628,009 |
| Amount of additions to non-current assets | 333,512 | 460,558 | 794,070 |
| Segment liabilities | 810,754 | 146,258 | 957,012 |

(4) Reconciliation information of segment income and assets

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

| | For the years ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Income of reportable segments | $ 1,400,394 | $ 1,124,135 |
| Income of other operating segments | ( 120,277) | 469 |
| Elimination of intersegment transactions | 91,550 | 10,711 |
| Income before income tax | $ 1,371,667 | $ 1,135,315 |

(b)The amount of total assets provided to the chief operating decision maker adopts the same measurement for assets in the Group's financial report. The reconciliations between reportable segments' assets and total assets were as follows:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Assets of reportable segments | $ 9,929,624 | $ 9,418,315 |
| Assets of other operating segments | 1,760,737 | 1,209,694 |
| Elimination of intersegment transactions | ( 1,377,380) | ( 1,147,821) |
| Total assets | $ 10,312,981 | $ 9,480,188 |

(c)The amount of total liabilities provided to the chief operating decision maker adopts the same measurement for liabilities in the Group's financial report. The reconciliations between reportable segments' liabilities and total liabilities were as follows:

| | December 31, 2012 | December 31, 2012 |
|---|---|---|
| Liabilities of reportable segments | $ 835,752 | $ 810,754 |
| Liabilities of other operating segments | 417,763 | 146,258 |
| Elimination of intersegment transactions | ( 36,009) | ( 86,104) |
| Total liabilities | $ 1,217,506 | $ 870,908 |

(5)Information on products and services

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

| | For the years ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Revenue from Active Pharmaceutical Ingredients | $ 4,528,859 | $ 3,887,107 |
| Technical service income | 37,497 | 62,052 |
| Other income | 6,153 | 4,419 |
| Operating revenues | $ 4,572,509 | $ 3,953,578 |

(6)Information on geographic area

As of and for the years ended December 31, 2012 and 2011, the information on geographic area were as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Revenue | Non-current assets | Revenue | Non-current assets |
| Taiwan | $ 141,620 | $ 3,019,331 | $ 111,067 | $ 2,606,186 |
| America | 1,458,368 | - | 1,299,154 | - |
| Italy | 596,263 | - | 217,549 | - |
| Ireland | 934,166 | - | 271,549 | - |
| Others | 1,442,092 | 901,908 | 2,054,259 | 752,837 |
| | $ 4,572,509 | $ 3,921,239 | $ 3,953,578 | $ 3,359,023 |

(7)Information on significant customers

In 2012 and 2011, customers which constituted more than 10% of the Group’s total revenue were as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Revenue | Segment | Revenue | Segment |
| A Corp. | $ 1,230,091 | All | $ 876,706 | All |
| B Corp. | 887,971 | 〃 | 215,493 | 〃 |
| C Corp. | 596,263 | 〃 | 214,214 | 〃 |

13. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Pursuant to the regulations of the Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards, International Accounting Standards, relevant interpretations and interpretative bulletins (collectively referred herein as “IFRSs”), and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be applied in 2013 that are ratified by the Financial Supervisory Commission.

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

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

The Company has formed an IFRSs group headed by the Company’s financial planning division, which is responsible for setting up a plan relative to the Company’s transition to IFRSs. The major contents and status of execution of this plan are outlined below:

| Working Items for IFRSs Adoption | Status of Execution |
|---|---|
| 1. Formation of an IFRSs group | Completed |
| 2. Setting up a plan relative to the Company’s transition to IFRSs | Completed |
| 3. Identification of the differences between current accounting policies and IFRSs | Completed |
| 4. Identification of consolidated entities under the IFRSs framework | Completed |
| 5. Assessment of the impact of each exemption and option on the Company under IFRS 1 – First-time Adoption of IFRSs | Completed |
| 6. Assessment of changes required in the information system related to adoption of IFRSs | Completed |
| 7. Assessment of changes required in internal control related to adoption of IFRSs | Completed |
| 8. Establish IFRSs accounting policies | Completed |
| 9. Selection of exemptions and options available under IFRS 1 – First-time Adoption of IFRSs | Completed |
| 10. Preparation of opening date statement of financial position under IFRSs | Completed |
| 11. Preparation of IFRSs comparative financial information under IFRSs for 2012 | In progress |
| 12. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments | Completed |

(2) Significant differences and effect that may arise between current accounting policies under R.O.C. GAAP and the ones under IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be used in the preparation of financial statements in the future:

The Group uses the IFRSs already ratified currently by the Financial Supervisory Commission and the “Rules Governing the Preparation of Financial Statements by Securities Issuers” effective in

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

Significant differences identified by the Group that may arise between current accounting policies under R.O.C. GAAP and the ones under IFRSs and “Rules Governing the Preparation of Financial Statements by Securities Issuers” that will be used in the preparation of financial statements in the future, taking into account the exemptions under IFRS 1, “First-time Adoption of International Financial Reporting Standards” (Note 13(3)), are set forth below:

A. Reconciliation of significant differences in the balance sheet as of January 1, 2012:

| Item | ROC GAAP | Adjustments | IFRSs | Note |
|---|---|---|---|---|
| **Assets** | | | | |
| Deferred income tax assets - current | $ 13,974 | ($ 13,974) | $ - | (3) |
| Property, plant and equipment - Machinery and equipment | 3,383,473 | 99,874 | 3,483,347 | (1) |
| Property, plant and equipment - Accumulated depreciation | ( 2,703,376) | ( 62,899) | ( 2,766,275) | (1) |
| Property, plant and equipment - Accumulated impairment | - | ( 27,126) | ( 27,126) | (1) |
| Construction in progress and prepayments for equipment | 662,986 | ( 346,322) | 316,664 | (8) |
| Deferred pension cost | 959 | ( 959) | - | (5) |
| Other intangible assets | 113,488 | ( 100,158) | 13,330 | (2) |
| Idle assets | 9,849 | ( 9,849) | - | (1) |
| Deferred income tax assets - non-current | 61,779 | 22,615 | 84,394 | (3), (4), (5) |
| Long-term prepaid rent expenses | - | 100,158 | 100,158 | (2) |
| Other assets - prepayments for equipment | - | 346,322 | 346,322 | (8) |
| Others | 7,937,056 | - | 7,937,056 | |
| Total assets | $ 9,480,188 | $ 7,682 | $ 9,487,870 | |
| **Liabilities** | | | | |
| Accrued expenses | $ 341,093 | $ 14,843 | $ 355,936 | (4) |
| Accrued pension liabilities | 27,709 | 35,030 | 62,739 | (5) |
| Others | 502,106 | - | 502,106 | |
| Total liabilities | $ 870,908 | $ 49,873 | $ 920,781 | |
| **Stockholders' Equity** | | | | |
| Special reserve | $ - | $ 30,419 | $ 30,419 | (7) |
| Undistributed earnings | 970,012 | - | 970,012 | (4), (5), (6), (7) |
| Cumulative translation adjustments | 72,610 | ( 72,610) | - | (6) |
| Others | 7,566,658 | - | 7,566,658 | |
| Total stockholders' equity | $ 8,609,280 | ($ 42,191) | $ 8,567,089 | |

B. Reconciliation of significant differences in the balance sheet as of December 31, 2012:

| Item | ROC GAAP | Adjustments | IFRSs | Note |
|---|---|---|---|---|
| Assets | | | | |
| Deferred income tax assets - current | $ 854 | ($ 854) | $ - | (3) |
| Financial assets carried at cost - non-current | 149,555 | 18,118 | 167,673 | (9) |
| Property, plant and equipment - Machinery and equipment | 3,663,842 | 85,218 | 3,749,060 | (1) |
| Property, plant and equipment - Accumulated depreciation | ( 2,982,003) | ( 57,504) | ( 3,039,507) | (1) |
| Property, plant and equipment - Accumulated impairment | - | ( 21,269) | ( 21,269) | (1) |
| Construction in progress and prepayments for equipment | 850,539 | ( 237,535) | 613,004 | (8) |
| Other intangible assets | 107,539 | ( 90,018) | 17,521 | (2) |
| Idle assets | 6,445 | ( 6,445) | - | (1) |
| Deferred income tax assets - non-current | 144,309 | 9,631 | 153,940 | (3), (4), (5) |
| Long-term prepaid rent expenses | - | 90,018 | 90,018 | (2) |
| Other assets - prepayments for equipment | - | 237,535 | 237,535 | (8) |
| Others | 8,371,901 | - | 8,371,901 | |
| Total assets | $ 10,312,981 | $ 26,895 | $ 10,339,876 | |
| Liabilities | | | | |
| Accrued expenses | $ 369,594 | $ 16,345 | $ 385,939 | (4) |
| Accrued pension liabilities | 30,179 | 35,283 | 65,462 | (5) |
| Others | 817,733 | - | 817,733 | |
| Total liabilities | $ 1,217,506 | $ 51,628 | $ 1,269,134 | |
| Stockholders' Equity | | | | |
| Special reserve | $ - | $ 22,829 | $ 22,829 | (7), (9) |
| Undistributed earnings | 1,224,246 | 6,930 | 1,231,176 | (4), (5), (6), (7) (9) |
| Cumulative translation adjustments | 19,452 | ( 54,492) | ( 35,040) | (6). (9) |
| Others | 7,851,777 | - | 7,851,777 | |
| Total stockholders' equity | $ 9,095,475 | ($ 24,733) | $ 9,070,742 | |

C. Reconciliation of significant differences in the statement of income for the year ended December 31, 2012:

| Item | ROC GAAP | Adjustments | IFRSs | Note |
|---|---|---|---|---|
| Operating Revenues | $ 4,572,509 | $ - | $ 4,572,509 | |
| Operating Costs | ( 2,259,081) | - | ( 2,259,081) | |
| Operating Expenses | ( 1,054,180) | 490 | ( 1,053,690) | (4),(5) |
| Non-operating Income and Expenses | 112,419 | - | 112,419 | |
| Income Tax Expense | ( 201,245) | ( 83) | ( 201,328) | (4),(5) |
| Net Income | $ 1,170,422 | $ 407 | $ 1,170,829 | |

Notes to the reconciliation:

(a)In accordance with the "Rules Governing the Preparation of Financial Statements by Securities Issuers", idle assets are presented in "Other Assets". The Group reclassified "Idle assets" of $9,849 to "Property, plant and equipment" at the date of transition to IFRSs and increased "Property, plant and equipment - Machinery and equipment" by $99,847, "Property, plant and equipment - Accumulated depreciation" by $62,899 and "Property, plant and equipment - Accumulated impairment" by $27,126 accordingly. In addition, the Group reclassified "Idle assets" of $6,445 to "Property, plant and equipment", and increased "Property, plant and equipment - Machinery and equipment" by $85,218, "Property, plant and equipment - Accumulated depreciation" by $57,504, and "Property, plant and equipment - Accumulated impairment" by $21,269 at December 31, 2012.

(b) In accordance with current accounting standards in R.O.C., the Group's payments to obtain the land use rights and prepayments for leased lands are presented in "Other intangible assets". However, in accordance with IAS 17, "Leases", such long operating lease should be treated as long-term prepaid rent. Therefore, the Group reclassified "Other intangible assets" of $100,158 to "Long-term prepaid rent expenses" at the date of transition to IFRSs. In addition, as of December 31, 2012, "Other intangible assets" of $90,018 was reclassified to "Long-term prepaid rent expenses".

(c) In accordance with current accounting standards in R.O.C., a deferred tax asset or liability should, according to the classification of its related asset or liability, be classified as current or non-current. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or non-current according to the expected period to realize or settle a deferred tax asset or liability. However, under IAS 1, "Presentation of Financial Statements", an entity should not classify a deferred tax asset or liability as current. Therefore, the Group reclassified "Deferred income tax assets - current" of $13,974 to "Deferred income tax assets - non-current" on the date of transition to IFRSs. In addition, as of December 31, 2012, "Deferred income tax assets - current" of $854 was reclassified to "Deferred income tax assets - non-current".

(d) The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Group recognized such costs as expenses upon actual payment. However, IAS 19, "Employee Benefits", requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period. Therefore, the Group increased "Deferred income tax assets - non-current" by $2,523 and "Accrued expenses" by $14,843 and decreased "Undistributed earnings" by $12,320 at the date of the transition to IFRSs. In addition, as of and for the year ended December 31, 2012, "Deferred income tax assets - non-current" and "Accrued expenses" were increased by $2,779 and $16,345, respectively and "Undistributed earnings" was decreased by $13,566 (including increase in "Operating expenses" of $1,502 and decrease in "Income tax expense" of $256).

(e) The discount rate used to calculate pensions shall be determined with reference to the factors specified in R.O.C. SFAS 18, paragraph 23. However, IAS 19, "Employee Benefits", requires an entity to determine the rate used to discount employee benefits with reference to market yields on high quality corporate bonds that match the currency at the end day of the reporting period and duration of its pension plan. The Group selected to recognize all unrecognized transitional net benefit obligation and cumulative actuarial gains and losses relating to employee benefits at the date of transition to IFRSs. Therefore, at the date of transition to IFRSs, the Group increased "Accrued pension liabilities" by $35,030, "Deferred income tax assets - non-current" by $6,118, and decreased "Deferred pension cost" by $959, "Undistributed earnings" by $29,871. In addition, the Group increased "Accrued pension liabilities" by $35,030, "Deferred income tax assets - non-current" by $5,998 and decreased "Undistributed earnings" by $29,285 (including increase in "Income tax expense" of $339; decrease in "Operating expenses" of $5,992 and "actuarial losses" of $1,067 (shown as "Undistributed earnings" listed above)) as of and for the year ended December 31, 2012.

(f) The Group selected to reset the cumulative translation differences from foreign operations to zero at the date of transition to IFRSs, in accordance with IAS 21 - The Effects of Changes in Foreign Exchange Rates. Therefore, the Group decreased cumulative translation adjustments by $72,610 and increased undistributed earnings by $72,610 at the date of transition to IFRSs and December 31, 2012.

(g) In accordance with the Jin-Guan-Zheng-Fa-Zi Order No.1010012865, dated April 6, 2012, the Group set aside special reserve of $30,419 on the date of transition to IFRSs and December 31, 2012, as the Group selected to reclassify the transition differences of items 12 and 13 above to "Retained earnings" account.

(h) The Group purchased fixed assets and made payments in advance. Pursuant to the "Rules Governing the Preparation of Financial Statements by Securities Issuers", such prepayments are presented as “Fixed assets”. Based on the nature of the transactions, the prepayments should be recognized as “Other assets”. Therefore, the Group reclassified “Construction in progress and prepayments for equipment” of $346,322 to “Other assets - prepayment for equipment” at the date of transition to IFRSs. In addition, at December 31, 2012, “Construction in progress and prepayments for equipment” of $237,535 was reclassified to “Other assets - prepayment for equipment”.

(i) The Group reclassified lost its significant influence in Tanvex Biologics, Inc. (“Tanvex”), and reclassified the carrying amount of Tanvex from “Long-term investment accounted for under the equity method” amounting to $167,673 and related “Cumulative translation differences” associated with Tanvex of $18,118 to “Financial assets carried at cost”. However, as the Group had selected to reset the cumulative translation differences from foreign operations to zero at the date of transition to IFRSs, it increased both “Financial assets carried at cost” and “Cumulative translation differences” by $18,118 at December 31, 2012. On the same date, the Group reversed proportionately the special reserve back to “Retained earnings” by $ 7,590, in accordance with the Jin-Guan-Zheng-Fa-Zi Order No.1010012865, dated April 6, 2012.

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

A. Share-based payment

For vested equity instruments and granted liabilities from shared-based payment transactions before January 1, 2012, the Company has elected not to apply IFRS 2, “Share-based Payment.”

B. Employee benefits

The Company has elected to recognize all cumulative actuarial gains and losses relating to employee benefits plan as retained earnings at the date of transition to IFRSs. In accordance with IAS 19, “Employee Benefits” paragraph 120A, the Company discloses present value of defined benefit obligation, fair value of the employee benefit plan assets, surplus or deficit in the employee benefit plan and experience adjustments determined for each accounting period prospectively from the transition date.

C. Cumulative translation differences

The Company has elected to reset the cumulative translation differences to zero at the date of transition to IFRSs, thereafter the exchange differences will comply with IAS 21, “The Effects of Changes in Foreign Exchange Rates”.

D. Borrowing costs

The Company has elected to apply the transitional provisions (paragraph 27.28) of IAS No. 23, “Borrowing costs”, and comply with the principle prospectively from the date of transition to IFRSs.

E. Transfers of assets from customers

The Company has elected to apply the transitional provisions (paragraph 22) of IFRIC No. 18, “Transfers of Assets from Customers”, and comply with the principle prospectively from the date of transition to IFRSs.

The optional exemptions mentioned above may change because FSC may issue new rules governing the adoption of IFRSs or other changes in the economic environment may lead to different choices at the transition date.