SCINOPHARM TAIWAN, LTD.

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2011 AND 2010

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, 2011 and 2010, 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 Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ScinoPharm Taiwan, Ltd. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with the generally accepted accounting principles in the Republic of China.

PricewaterhouseCoopers, Taiwan
March 26, 2012

The accompanying non-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 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	2011	2010
Current Assets		
Cash and cash equivalents (Note 4(1))	$ 3,293,681	$ 1,908,362
Financial assets at fair value through profit or loss – current (Notes 4(2) and 10)	2,066	7,389
Notes receivable, net (Note 3)	—	4,866
Accounts receivable (Notes 3 and 4(3))	843,902	731,424
Other receivables (Notes 3 and 5)	47,983	16,764
Other financial assets – current (Note 6)	19,927	3,508
Inventories, net (Note 4(4))	1,465,462	1,244,358
Prepayments (Note 4(5))	179,883	128,350
Deferred income tax assets – current (Note 4(18))	13,974	33,445
Total Current Assets	5,866,878	4,078,466
Funds and Investments		
Long-term equity investments accounted for under the equity method (Notes 4(7)(11))	172,107	225,694
Other financial assets – non-current (Note 6)	19,442	15,552
Total Funds and Investments	191,549	241,246
Property, Plant and Equipment, Net (Notes 4(8) and 5)		
Cost		
Buildings	1,735,466	1,684,620
Machinery and equipment	3,383,473	3,241,257
Transportation equipment	11,930	11,646
Office equipment	57,991	52,170
Leased assets	14,970	17,815
Other equipment	63,793	32,827
Cost and Revaluation Increment	5,267,623	5,040,335
Less: Accumulated depreciation	(2,703,376)	(2,463,073)
Construction in progress and prepayments for equipment	662,986	234,429
Total Property, Plant and Equipment, Net	3,227,233	2,811,691
Intangible Assets		
Deferred pension cost (Note 4(12))	959	—
Other intangible assets (Notes 4(9)(11))	113,488	60,441
Total Intangible Assets	114,447	60,441
Other Assets		
Idle assets (Notes 4(10)(11))	9,849	10,645
Refundable deposits	8,434	2,817
Deferred expenses	19	71
Deferred income tax assets – non-current (Note 4(18))	61,779	92,853
Total Other Assets	80,081	106,386
TOTAL ASSETS	$ 9,480,188	$ 7,298,230

(Continued)

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

LIABILITIES AND STOCKHOLDERS' EQUITY	2011	2010
Current Liabilities		
Notes payable	$ 83	$ 3,088
Accounts payable	299,250	142,734
Income tax payable (Note 4(18))	114,937	44,934
Accrued expenses	341,093	294,547
Other payables	49,872	56,544
Receipts in advance	16,946	29,508
Capital lease payables – current (Notes 4(8) and 5)	964	1,881
Other current liabilities (Note 5)	19,804	22,077
Total Current Liabilities	842,949	595,313
Long-term Liability		
Capital lease payables – non-current (Notes 4(8) and 5)	–	964
Other Liabilities		
Accrued pension liabilities (Note 4(12))	27,709	24,445
Guarantee deposits received	250	250
Total Other Liabilities	27,959	24,695
Total Liabilities	870,908	620,972
Stockholders' Equity		
Capital		
Common stock (Notes 1 and 4(13))	6,310,000	6,100,000
Capital reserves (Notes 4(13)(14)(15)(16))		
Additional paid-in capital in excess of par - common stock	1,233,286	486,266
Capital reserve from stock warrants	13,691	12,746
Retained Earnings (Notes 4(14)(16))		
Legal reserve	7,962	–
Undistributed earnings	970,012	79,619
Other Adjustments to Stockholders' Equity		
Cumulative translation adjustments	72,610	(1,359)
Total Parent Company's Equity	8,607,561	6,677,272
Minority interest	1,719	(14)
Total Stockholders' Equity	8,609,280	6,677,258
Contingent Liabilities and Commitments (Note 7)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,480,188	$ 7,298,230

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

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars, except for earnings per share data)

	2011	2010
Operating Revenues (Note 5)		
Sales	$ 3,952,417	$ 3,922,222
Sales returns	(55,846)	(70,002)
Sales discounts	(5,045)	—
Net Sales	3,891,526	3,852,220
Technology service revenues	62,052	38,893
Net Operating Revenues	3,953,578	3,891,113
Operating Costs (Notes 4(4)(17))		
Cost of goods sold	(1,944,755)	(1,842,383)
Cost of technology service	(24,405)	(14,761)
Net Operating Costs	(1,969,160)	(1,857,144)
Gross Profit	1,984,418	2,033,969
Operating Expenses (Notes 4(17) and 5)		
Sales and marketing expenses	(168,811)	(169,094)
General and administrative expenses	(390,724)	(340,122)
Research and development expenses	(291,452)	(302,185)
Total Operating Expenses	(850,987)	(811,401)
Operating Income	1,133,431	1,222,568
Non-operating Income and Gains		
Interest income	17,905	4,208
Gain on disposal of property, plant and equipment (Note 5)	—	1,928
Foreign exchange gain, net	14,999	—
Reversal of impairment loss (Notes 4(7)(10) and (11))	6,045	13,403
Gain on valuation of financial assets (Notes 4(2) and 10)	—	4,506
Other non-operating income (Note 5)	57,179	82,309
Total Non-operating Income and Gains	96,128	106,354
Non-operating Expenses and Losses		
Interest expense (Notes 4(8) and 5)	(108)	(4,422)
Investment loss accounted for under the equity method (Note 4(7))	(55,155)	(16,835)
Loss on disposal of property, plant and equipment	(2,093)	(621)
Foreign exchange loss, net	—	(89,815)
Depreciation of idle assets	(7,394)	(8,863)
Loss on valuation of financial assets (Notes 4(2) and 10)	(21,172)	—
Other non-operating losses	(8,322)	(12,570)
Total Non-operating Expenses and Losses	(94,244)	(133,126)
Income before income tax	1,135,315	1,195,796
Income tax expense (Note 4(18))	(173,998)	(155,841)
Consolidated Net Income	$ 961,317	$ 1,039,955
Attributable to:		
Equity holders of the Company	$ 959,355	$ 1,040,003
Minority interest	1,962	(48)
	$ 961,317	$ 1,039,955

	2011 Before Tax	2011 After Tax	2010 Before Tax	2010 After Tax
Basic Earnings Per Share (in dollars) (Note 4(19))				
Net Income	$ 1.84	$ 1.56	$ 2.08	$ 1.81
Diluted Earnings Per Share (in dollars) (Note 4(19))				
Net Income	$ 1.84	$ 1.56	$ 2.08	$ 1.81

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

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars)

			Retained Earnings		Cumulative		
2010	Common Stock	Capital Reserves	Legal Reserve	Undistributed Earnings	Translation Adjustments	Minority Interest	Total
Balance at January 1, 2010	$ 5,513,734	$ –	$ –	($ 1,060,384)	$ 18,654	$ 34	$ 4,472,038
Issuance of common stock	586,266	586,266	–	–	–	–	1,172,532
Employee compensation costs through issuance of common stock	–	12,746	–	–	–	–	12,746
Offset of capital reverse against accumulated deficit	–	(100,000)	–	100,000	–	–	–
Consolidated net income for 2010	–	–	–	1,040,003	–	(48)	1,039,955
Cumulative translation adjustment	–	–	–	–	(20,013)	–	(20,013)
Balance at December 31, 2010	$ 6,100,000	$ 499,012	$ –	$ 79,619	($ 1,359)	($ 14)	$ 6,677,258
2011							
Balance at January 1, 2011	$ 6,100,000	$ 499,012	$ –	$ 79,619	($ 1,359)	($ 14)	$ 6,677,258
Distribution of 2010 consolidated 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 through issuance of common stock	–	945	–	–	–	–	945
Consolidated net income for 2011	–	–	–	959,355	–	1,962	961,317
Cumulative translation adjustment	–	–	–	–	73,969	–	73,969
Decrease 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

(Note) The directors' and supervisors' remuneration was $1,433 and employees' bonus was $143 in 2010, which had been deducted from net income for the year.

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

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 961,317	$ 1,039,955
Adjustments to reconcile net income to net cash provided by operating activities		
Loss (gain) on valuation of financial assets	5,323	(5,506)
Provision for doubtful accounts	—	4,271
Reversal of allowance for doubtful accounts	(287)	—
Provision for inventory market price decline	21,794	—
Reversal of allowance for inventory market price decline	—	(21,337)
Provision for obsolescence of supplies	6,620	2,627
Investment loss accounted for under the equity method	55,155	16,835
Depreciation	343,980	338,343
Gain on disposal of property, plant and equipment and idle assets	—	(1,928)
Loss on disposal of property, plant and equipment and idle assets	2,807	621
Reversal of impairment loss	(6,045)	(13,403)
Amortization	3,647	28,484
Realized gain between affiliated companies	(2,273)	—
Unrealized gain or loss between affiliated companies	—	19,666
Employee compensation costs through issuance of common stock	945	12,746
Effect of exchange rate changes on cash	23,977	4,439
Changes in assets and liabilities		
Financial assets at fair value through profit or loss - current	—	43,013
Notes receivable	4,866	14,493
Accounts receivable	(112,191)	155,665
Other receivables	(31,219)	(9,168)
Inventories	(243,826)	(274,679)
Prepayments	(58,153)	(53,257)
Deferred income tax assets – current	19,471	8,483
Deferred pension costs	(959)	—
Deferred income tax assets – non-current	31,074	92,119
Notes payable	(3,005)	3,088
Accounts payable	156,516	78,908
Income tax payable	70,003	38,227
Accrued expenses	46,546	32,935
Other payables	7,522	(5,923)
Receipts in advance	(12,562)	12,462
Accrued pension liabilities	3,264	2,201
Net cash provided by operating activities	1,294,307	1,564,380

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SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31

(Expressed in thousands of New Taiwan dollars)

	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in time deposits pledged	($ 20,309)	$ —
Increase in long-term investments – non subsidiaries	—	(225,980)
Cash paid for acquisition of property, plant and equipment	(761,314)	(349,073)
Proceeds from disposal of property, plant and equipment and idle assets	26,526	16,252
Increase in other intangible assets	(48,831)	(56,550)
(Increase) decrease in refundable deposits	(5,617)	13,074
Net cash used in investing activities	(809,545)	(602,277)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in long-term loans	—	(937,150)
Payment of cash dividends	(61,000)	—
Proceeds from issuance of common stock	957,020	1,172,532
Decrease in minority interest	(229)	—
Net cash provided by financing activities	895,791	235,382
Effect of exchange rate changes on cash	4,766	(28,758)
Increase in cash and cash equivalents	1,385,319	1,168,727
Cash and cash equivalents at beginning of year	1,908,362	739,635
Cash and cash equivalents at end of year	$ 3,293,681	$ 1,908,362
Supplemental disclosures of cash flow information		
1. Interest paid (excluding capitalized interest)	$ 108	$ 4,765
2. Income tax paid	$ 53,450	$ 17,012
Investing activities with partial cash payment		
Acquisition of property, plant and equipment	$ 745,239	$ 371,347
Add : Other payables, beginning of year	51,749	25,274
Capital lease payables, beginning of year	2,845	7,046
Less: Other payables, end of year	(37,555)	(51,749)
Capital lease payables, end of year	(964)	(2,845)
Cash paid for acquisition of property, plant and equipment	$ 761,314	$ 349,073

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

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,

EXCEPT AS OTHERWISE INDICATED)

Note 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, 2011, the Company's authorized capital was $10,000,000, and the paid-in capital was $6,310,000, consisting of 631,000,000 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 and technical services. The Company's investment plan for the manufacture 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, 2011, the Company and its subsidiaries had approximately 840 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.

Note 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 generally accepted accounting principles in the Republic of China. The Group's significant accounting policies are as follows:

1. Principles of consolidation

(1) 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.

(2)Subsidiaries included in the consolidated financial statements and their changes in 2011 were as follows:

			Percentage owned by the Company		
Name of Investor	Name of Subsidiaries	Business activities	December 31, 2011	December 31, 2010	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	—
	HanFeng (BVI), Ltd.	〃	—	100.00	(Note 1)
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.	〃	〃	〃	—
HanFeng (BVI), Ltd.	HanFeng Biopharmaceutical (Shanghai) Co., Ltd.	Research and sales of biomedical and related production, etc.	—	〃	(Note 2)

(Note 1)HanFeng (BVI), Ltd. was liquidated in December, 2011.

(Note 2)HanFeng Biopharmaceutical (Shanghai) Co., Ltd. was liquidated in September, 2011.

(3)Subsidiaries not included in the consolidated financial statements: None.

(4)Adjustments for subsidiaries with different balance sheet dates: None.

(5)Special operating risk of foreign subsidiaries: None.

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

(7)Contents of subsidiaries' securities issued by the parent company: None.

(8)Information on convertible bonds and common stock issued by subsidiaries:

(a) SPT International, Ltd. at its Board of Directors’ meeting in April 2010 and June 2010 adopted a resolution to increase paid-in capital by USD 2,000,000 and USD 2,500,000, respectively.

(b) ScinoPharm (Changshu) Pharmaceuticals, Ltd. at its Board of Directors' meeting in April 2010 and May 2010 adopted a resolution to increase paid-in capital by USD 2,000,000 and USD 2,500,000, respectively.

(c) SPT International, Ltd. at its Board of Directors' meeting in February 2011 , May 2011, August 2011 and November 2011 adopted a resolution to increase paid-in capital by USD 3,000,000, USD 5,000,000, USD 3,500,000, and USD 4,000,000, respectively.

(d) ScinoPharm (Changshu) Pharmaceuticals Ltd. at its Board of Directors' meeting in February 2011, May 2011, August 2011 and November 2011 adopted a resolution to increase paid-in capital by USD 3,000,000, USD 5,000,000, USD 3,500,000, and USD 4,000,000, respectively.

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

(1) The Group maintains its accounts in New Taiwan dollars, except for the accounts of SPT International, Ltd., President ScinoPharm (Cayman) Ltd. and HanFeng (BVI), Ltd., which are maintained in US dollars, and ScinoPharm Singapore Pte Ltd. which is maintained in SGD and ScinoPharm (Kunshan) Biochemical Technology Co., Ltd., ScinoPharm (Changshu) Pharmaceuticals, Ltd. and HanFeng Biopharmaceutical (Shanghai) Co., Ltd. which are maintained in RMB 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.

(2) 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.

(3) 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

(1) 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.

(2) 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

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

(2) 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

(1) Financial assets and liabilities at fair value through profit or loss are recognized and derecognized using trade date accounting and settlement date accounting for equity and debt financial instruments, respectively, and are recognized initially at fair value.

(2) 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.

(3) When a derivative is an ineffective hedging instrument, it is initially recognized at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. If a derivative is a non-option derivative, the fair value initially recognized is zero.

(4) 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.<u>Notes receivable and accounts receivable, other receivables</u>

(1)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.

(2)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.<u>Inventories</u>

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.<u>Financial assets carried at cost</u>

(1) 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.

(2) 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.<u>Long-term equity investments accounted for under the equity method</u>

(1) Long-term equity investments accounted for under the equity method are stated at cost. Cost is determined using the weighted average method. Long-term equity 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.

(2) 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.

(3) 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.

(4) "Cumulative translation adjustments" resulting from translation of all assets and liabilities of the investee foreign companies accounted for under the equity method are recognized proportionately based on the percentage of ownership of the Group and are reflected in the stockholders' equity account.

11.<u>Property, plant and equipment and idle assets</u>

(1) 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.

(2) Depreciation is determined using the straight-line method over the estimated economic useful lives. The useful lives of fixed assets and idle assets are 2-12 years for machinery and equipment and 2-35 years for other property, plant and equipment and idle assets.

(3) 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.

(4) 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.<u>Other intangible assets</u>

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

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

13.<u>Deferred expenses</u>

Deferred expenses, mainly Tap Water expense, 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

(1) 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.

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

SPT International, Ltd., ScinoPharm Singapore Pte Ltd., President ScinoPharm (Cayman) Ltd. and HanFeng (BVI), Ltd., have no retirement plans as they have no full-time employees. ScinoPharm (Kunshan) Biochemical Technology Co., Ltd., ScinoPharm (Changshu) Pharmaceuticals, Ltd. and HanFeng Biopharmaceutical (Shanghai) Co., 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

(1) 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.

(2) 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 stocks are recognized in the year the related expenditures are incurred.

(3) The additional 10% corporate income tax on earnings derived on or after January 1, 1998, which are not distributed in the following year, is included in income tax expense in the year when the shareholders approve the resolution to retain the earnings.

(4) 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.Share-based payment – Employee compensation plan

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.Employees' bonuses and directors' and supervisors' remuneration

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 their 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 asset 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. Costs and 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

(1) The identification and disclosure of operating segments of the Company is on the basis of how the Company's chief operating decision maker regularly reviews information in order to allocate resources and assess performance.

(2) The Company discloses operating segments information on the consolidated financial statements in accordance with SFAS No. 41.

Note 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 for the year 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 statement requires identification and disclosure of operating segments based on how the Group's chief operating decision maker regularly reviews information in order to allocate resources and assess performance. The Group conformed to the disclosure requirements for the year ended December 31, 2011. The information for the year ended December 31, 2010 had been re-prepared to reflect the new segment reporting requirement. This accounting change had no significant effect on the net income and earnings per common share for the years ended December 31, 2011 and 2010.

Note 4. DETAILS OF SIGNIFICANT ACCOUNTS

1. CASH AND CASH EQUIVALENTS

	December 31, 2011	December 31, 2010
Cash:		
Cash on hand	$ 101	$ 495
Checking accounts	194	1,722
Demand deposits	205,948	123,904
Time deposits	3,027,604	1,650,508
	3,233,847	1,776,629
Cash equivalents:		
Callable notes	59,834	—
Callable bonds	—	131,733
	$ 3,293,681	$ 1,908,362

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31, 2011	December 31, 2010
Current items:		
Financial assets held for trading		
Derivative-Foreign currency forward contracts	$ 2,066	$ 7,389

(1) The Group recognized net (loss) gain of ($21,172) and $4,506 for the years ended December 31, 2011 and 2010, respectively.

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

	December 31, 2011		December 31, 2010	
	Contract Amount	Contract Period	Contract Amount	Contract Period
Forward exchange contracts	USD 7,323,000	2011.11.25～2012.2.17	USD11,100,000	2010.11.17～2011.3.15
	EUR 1,100,000	2011.11.21～2012.1.20	EUR 1,770,000	2010.12.28～2011.3.4

The forward exchange contracts were entered into to hedge the change in exchange rate due to import and export, without adopting hedge accounting.

3. ACCOUNTS RECEIVABLE, NET

	December 31, 2011	December 31, 2010
Accounts receivable	$ 848,042	$ 735,851
Less: Allowance for doubtful accounts	(4,140)	(4,427)
	$ 843,902	$ 731,424

4. INVENTORIES, NET

	December 31, 2011		
	Cost	Allowance	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

	December 31, 2010					
	Cost		Allowance		Book Value	
Raw materials	$	376,908	($	47,597)	$	329,311
Supplies		8,320	(	461)		7,859
Work in process		509,794	(	30,673)		479,121
Finished goods		539,330	(	111,263)		428,067
	$	1,434,352	($	189,994)	$	1,244,358

Expenses and losses of inventories recognized:

	2011		2010	
Cost of inventories sold	$	1,811,737	$	1,635,616
Loss on inventory market price decline		21,794		—
Reversal of allowance for inventory market price decline		—	(	21,337)
Idle capacity		31,029		97,911
Loss on production stoppage		12,572		12,661
Loss on discarding inventory		66,670		105,863
Loss on physical inventory		953		11,669
Cost of goods sold	$	1,944,755	$	1,842,383

5. PREPAYMENTS

	December 31, 2011		December 31, 2010	
Supplies	$	106,336	$	78,368
Prepaid expenses		38,246		36,399
Prepayment for materials		75,716		47,378
		220,298		162,145
Less: Allowance for obsolescence of supplies	(	40,415)	(	33,795)
	$	179,883	$	128,350

6. FINANCIAL ASSET CARRIED AT COST

	December 31, 2011	December 31, 2010
Non-current item:		
Unlisted stock		
SYNGEN, INC.	$ 4,620	$ 4,620
Less: Accumulated impairment	(4,620)	(4,620)
	$ —	$ —

(1) The above investment was measured at cost since its fair value cannot be measured reliably.
(2) For details of the accumulated impairment, please refer to Note 4(11).

7. LONG–TERM EQUITY INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

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

	December 31, 2011		December 31, 2010	
Name of investee	Book value	Percentage owned	Book value	Percentage owned
Tanvex Biologics, Inc.	$172,107	36.36%	$225,694	36.36%
Yunnan ZiyunScino Biotech, Co., Ltd.	—	—	4,204	49.00%
	172,107		229,898	
Less: Accumulated impairment	—		(4,204)	
	$172,107		$225,694	

(2) Long-term investment loss accounted for under the equity method was $55,155 and $16,835 for the years ended December 31, 2011 and 2010, respectively. As of and for the years ended December 31, 2011 and 2010, the Company’s long-term investments accounted for under the equity method were based on the subsidiaries’ financial statements which were audited by independent auditors.
(3) For details of the accumulated impairment, please refer to Note 4(11).

8. PROPERTY, PLANT AND EQUIPMENT, NET

(1) As of December 31, 2011 and 2010, accumulated depreciation of property, plant and equipment are listed as follows:

Assets	December 31, 2011	December 31, 2010
Buildings	$ 425,680	$ 365,549
Machinery and equipment	2,196,098	2,021,888
Transportation equipment	7,764	8,060
Furniture and fixtures	36,424	28,053
Leased assets	14,970	17,815
Other equipment	22,440	21,708
	$ 2,703,376	$ 2,463,073

(2)As of December 31, 2011 and 2010, interest expense before capitalization, interest capitalized and capitalized interest rates are listed as follows:

	2011	2010
Interest expense before capitalization	$ 108	$ 5,002
Capitalized interest	$ —	$ 580
Capitalized interest rates	—	2.49%

(3) Leased assets

The major terms of leased assets are as follows:

A. Upon the expiration of the lease contract, the titles of the leased assets accounted for under capital lease are transferred to the Company at no additional cost. The rental payments and the leased assets are listed below:

Category of property	Present value discounted on the implicit interest rate	Period
Other equipment	$ 14,970	1.2009-12.2012 for 48 equal monthly installments

B. As of December 31, 2011, total amount of future rental payments and their present value are as follows:

	Rent Payable	
	Present value of future rental payments	Total future rental payments
1.1.2012-12.31.2012	$ 964	$ 993
Less: Liabilities under capital lease within one year	(964)	
Capital lease payables - non-current	$ —	

9. <u>OTHER INTANGIBLE ASSETS</u>

As of December 31, 2011 and 2010, other intangible assets are as follows:

2011	Technology shares	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

2010	Technology shares	Computer software costs	Land occupancy rights	Total
Balance at January 1, 2010				
Initial cost	$ 420,000	$ 9,518	$ 5,853	$ 435,371
Accumulated amortization	(388,333)	(7,649)	(1,053)	(397,035)
Accumulated impairment	(8,042)	–	–	(8,042)
Effect of exchange rate changes	–	6	636	642
January 1, 2010 net book value	23,625	1,875	5,436	30,936
Additions	–	984	55,566	56,550
Amortization	(23,625)	(1,869)	(1,301)	(26,795)
Effect of exchange rate changes	–	–	(250)	(250)
Balance at December 31, 2010				
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
December 31, 2010 net book value	$ –	$ 990	$ 59,451	$ 60,441

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

10. IDLE ASSETS

	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

	December 31, 2010		
Assets	Cost	Accumulated depreciation	Net book value
Machinery and equipment	$ 94,135	($ 54,523)	$ 39,612
Less: Accumulated impairment			(28,967)
			$ 10,645

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 $39,788 and $45,833 as of December 31, 2011 and 2010, respectively. Details are set forth below:

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

Item	December 31, 2010 Statement of income	Stockholders' equity
Recorded as impairment loss:		
Financial asset carried at cost-non-current	$ 4,620	$ —
Long-term equity investments accounted for under the equity method	4,204	—
Other intangible assets	8,042	—
Idle assets	28,967	—
	$ 45,833	$ —

The accumulated impairment summarized by department is as follows:

Department	December 31, 2011 Statement of income	Stockholders' equity
All company	$ 39,788	$ —

Department	December 31, 2010 Statement of income	Stockholders' equity
All company	$ 45,833	$ —

Long-term equity investments accounted for under the equity method and part of idle assets have been disposed during the years ended December 31, 2011 and 2010. As such, reversal of impairment loss of $6,045 and $13,403 was recognized for the years ended December 31, 2011 and 2010, respectively.

12. RETIREMENT PLAN

(1)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.

(2) 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 plan are as follows:

	2011	2010
Discount rate	1.90%	1.75%
Rate of increase in compensation levels	3.00%	3.00%
Expected return on plan assets	1.90%	1.75%

B. The funded status of the plan at December 31, 2011 and 2010 is as follows:

	2011	2010
Benefit obligation:		
Vested benefit obligation	($ 1,751)	($ 3,270)
Non-vested benefit obligation	(70,338)	(64,332)
Accumulated benefit obligation	(72,089)	(67,602)
Additional benefit based on future salaries	(33,630)	(33,422)
Projected benefit obligation	(105,719)	(101,024)
Fair value of plan assets	44,380	44,227
Plan funded status	(61,339)	(56,797)
Unrecognized net transition obligation	1,223	1,529
Unrecognized service cost	928	994
Unrecognized loss on plan assets	32,438	29,829
Minimum pension liabilities	(959)	—
Accrued pension liabilities	($ 27,709)	($ 24,445)
Vested benefit	$ 1,751	$ 3,386

C. The net periodic pension cost for the years ended December 31, 2011 and 2010 consists of the following:

	2011	2010
Service cost	$ 2,704	$ 2,865
Interest cost	1,768	2,008
Expected return on plan assets	(774)	(907)
Amortization of unrecognized net transition obligation	306	306
Amortization of unrecognized service cost	66	66
Amortization of unrecognized loss on plan assets	1,517	1,144
Net periodic pension cost	$ 5,587	$ 5,482

(3)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, 2011 and 2010 were $22,258 and $21,260, respectively.

(4)The subsidiaries in Mainland China have a 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, 2011 and 2010, the retirement fund under the non-contributory and funded defined contribution plan were $3,094 and $3,537, respectively.

13. COMMON STOCK

(1)To encourage and maintain excellent people and inspire the employees' identification, the Board of Directors during its meeting on May 27, 2010 adopted a resolution to increase capital by issuing common stocks of 58,627 thousand shares at a premium price of $20 (in NT dollars) per share. Pursuant to the approval by the Southern Taiwan Science Park Administration on August 18, 2010, the capital increase was effective on July 30, 2010. After the capital increase, the authorized and paid-in capital was $6,100,000, consisting of 610 million shares with a par value of $10 (in NT dollars) per share.

(2)The Company adopted a resolution to increase the authorized capital by $3,900,000 on December 9, 2010. After the capital increase, the authorized capital was $10,000,000.

(3) 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 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.

14. CAPITAL RESERVE

(1) According to the R.O.C. Company Law, the capital reserve arising from paid-in capital in excess of par value on issuance of common stock and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. However, capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(2) The stockholders adopted a resolution to offset capital reserve of $100,000 against the accumulated deficit during an interim stockholders' meeting on December 9, 2010.

15. SHARE-BASED PAYMENT – EMPLOYEE COMPENSATION PLAN

(1) 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 of cash capital increase reserved for employees was $945 for the year ended December 31, 2011.

The employee preemption above was 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

(2) The Company adopted a resolution to increase capital by cash, and reserved 7,498 thousand shares for employees granted on May 27, 2010 at a price of $20 (in NT dollars) per share. The amount of employee compensation costs of cash capital increase reserved for employees was $12,746 for the year ended December 31, 2010.

The employee preemption above was estimated 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	37.68%
Risk-free interest rate	0.11%
Expected life	0.18 year
Weighted-average fair value (per share) (in NT dollars)	$ 1.7

16. RETAINED EARNINGS

(1) Pursuant to the R.O.C. Company Law, the annual net income should be used initially to cover any accumulated deficit; thereafter 10% of the annual net income should be set aside as legal reserve until the balance of legal reserve is equal to that of issued share capital. The legal reserve shall be exclusively used to cover accumulated deficit and distribute by issuing new shares which shall be distributable as dividend shares to its original shareholders in proportion to the number of shares being held by each of them or by cash. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

(2) 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, 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.

(3) (i)Due to the Company's accumulated deficit, no cash dividend was distributed in 2009. The appropriations of 2010 earnings had been resolved at the stockholders' meeting on June 30, 2011. Details are summarized below:

	2010	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 7,962	
Cash dividends	61,000	$ 0.10
Directors' and supervisors' remuneration	1,433	
Employees' cash bonus	143	
	$ 70,538	

(ii)The appropriations of 2011 earnings had been proposed by the Board of Directors on March 26, 2012. Details are summarized below:

	2011	
	Amount	Dividends per share (in dollars)
Legal reserve	$ 95,935	
Cash dividends	631,000	$ 1.00
Stock dividends	189,300	0.30
Directors' and supervisors' remuneration	17,268	
Employees' cash bonus	1,727	
	$ 935,230	

As of March 26, 2012, the appropriations of 2011 earnings had not been resolved by the stockholders.

(4) The estimated amounts of employees' bonus and directors' and supervisors' remuneration for the years ended December 31, 2011 and 2010 are $19,029 and $2,000, respectively. The basis of estimates is based on a certain percentage of 2011 and 2010 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 differences between the actual distribution as approved at the stockholders' meeting and the amounts recognized in the 2010 financial statements were $424 for employees' bonus and directors' and supervisors' remuneration, due to differences in estimate calculation. Such differences were recognized in profit or loss for the year ended December 31, 2011.

(5) As of December 31, 2011 and 2010, the balance of unappropriated earnings were as follows:

	December 31, 2011	December 31, 2010
Unappropriated earnings in and after 1998	$ 970,012	$ 79,619

(6) As of December 31, 2011 and 2010, the imputation tax credit account balance amounted to $65,847 and $35,355, respectively. The Company distributed unappropriated earnings in 2010 as dividends in accordance with the resolution adopted at the stockholders' meeting on June 30, 2011, and the date of dividends distribution was on August 1, 2011. The 2010 creditable ratio was 20.48%. The 2011 estimated creditable ratio was 6.79%. 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 2011 undistributed earnings will be based on the imputation tax credit account balance up to the date of distribution of the dividends.

17. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

For the years ended December 31, 2011 and 2010, the personnel, depreciation and amortization expenses were as follows:

	2011		
	Operating costs	Operating expenses	Total
Personnel expenses			
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

	2010		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries and wages	$ 341,085	$ 258,812	$ 599,897
Insurance	22,718	13,394	36,112
Pension	16,457	13,822	30,279
Others	4,398	14,359	18,757
	$ 384,658	$ 300,387	$ 685,045
Depreciation	$ 268,565	$ 60,915	$ 329,480
Amortization	$ 848	$ 27,636	$ 28,484

18. DEFERRED INCOME TAX AND INCOME TAX EXPENSE

(1)Adjustments for corporate income tax expense and income tax payable are as follows:

	2011	2010
Income tax at the statutory tax rate	$ 196,559	$ 212,260
Tax effect of permanent differences	(7,312)	—
Tax effect of operating loss carryforwards	—	8,570
Tax effect of investment tax credits	(5,050)	(2,093)
Tax effect of Five-year tax-free project	(4,475)	(57,196)
Under (over) provision of prior year's income tax	3,445	(835)
10% tax on unappropriated earnings	1,066	—
Tax effect of change in tax rate	—	17,634
Tax effect of valuation allowance	(10,235)	(22,499)
Income tax expense	173,998	155,841
Net changes of deferred income tax assets (liabilities)	(50,545)	(100,602)
(Under) over provision of prior year's income tax	(3,445)	835
Prepaid income taxes	(5,071)	(11,140)
Income tax payable	$ 114,937	$ 44,934

(2) The details of deferred income tax assets or liabilities resulting from temporary differences, loss carryforwards and investment tax credits are as follows:

	December 31, 2011		December 31, 2010	
	Amount	Tax effect	Amount	Tax effect
Current Items:				
Temporary differences				
Unrealized decline in value of inventories	$ 212,716	$ 36,162	$ 189,994	$ 32,193
Unrealized obsolescence of supplies	40,415	6,871	33,795	5,745
Unrealized loss on foreign currency	3,207	545	31,768	5,401
Unrealized gain on valuation of financial assets	(2,066)	(351)	(7,389)	(1,256)
Unrealized gain or loss between affiliated companies	19,804	3,367	22,077	3,753
Investment tax credits		10,413		25,548
		57,007		71,384
Less: Valuation allowance		(43,033)		(37,939)
		$ 13,974		$ 33,445
Non-Current Items:				
Temporary differences				
Pension cost	$ 26,750	$ 4,547	$ 24,445	$ 4,156
Technology shares	213,892	36,362	235,643	40,059
Investment loss	95,643	16,259	53,786	9,144
Impairment loss	27,126	4,611	28,967	4,924
Loss carryforwards	64,088	16,022	—	—
Investment tax credits		—		65,921
		77,801		124,204
Less: Valuation allowance		(16,022)		(31,351)
		$ 61,779		$ 92,853

(3) As of December 31, 2011, the Group's investment tax credits consisted of the follows:

Regulation	Item	Amount	Unused balance	Year of expiry
Statute for Upgrading Industries	Research and development expenditures	$ 76,835	$ 10,413	2013
Enterprise Income Tax Law of the People's Republic of China	Loss carryforwards	16,022	16,022	2015
		$ 92,857	$ 26,435	

(4) The Company's income tax returns through 2009 have been assessed and approved by the Tax Authority. As of March 26, 2012, there were no disputes existing between the Company and the Tax Authority.

19. EARNINGS PER COMMON SHARE

	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	615,523	$ 1.84	$ 1.56
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	$1,135,315	$ 959,355	615,554	$ 1.84	$ 1.56

	2010				
	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	$1,195,796	$1,040,003			
Basic earnings per share					
Net income of common stockholders	$1,195,796	$1,040,003	576,109	$ 2.08	$ 1.81
Dilutive effect of common stock equivalents:					
Employees' bonuses	—	—	17		
Diluted earnings per share					
Effect on the net income of common stockholders plus dilutive effect of common stock equivalents	$1,195,796	$1,040,003	576,126	$ 2.08	$ 1.81

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.

Note 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.	Parent company
President Tokyo Corp.	A subsidiary of Uni-President Enterprises Corp. accounted for under the equity method
Tanvex Biologics Corp.	A subsidiary of Tanvex Biologics, Inc. (a subsidiary of the Company accounted for under the equity method) accounted for under the equity method
La Jolla Biologics, Inc.	〃
Watson Laboratories, Inc.	An investee of the Company's stockholder, Watson Pharmaceuticals, Inc. (Note)
ScinoPharm International, Ltd.	Same general manager
Taiwan Sugar Corp.	A corporate supervisor of the Company

Other related parties had no material transactions with the Company for the years ended December 31, 2011 and 2010. Please refer to Note 11 for related information.

(Note) During March 2010, Watson Pharmaceuticals, Inc. transferred all of its ownership of the Company, and became a non-related party.

2.Transactions and balances with related parties

(1)Sales

	For the years ended December 31,			
	2011		2010	
.	Amount	Percentage of net sales	Amount	Percentage of net sales
Watson Laboratories, Inc.	$ —	—	$ 51,614	1

The terms of sales to and collection (wire transfer) from related parties were the same with regular customers. The term of receivables were which closes it accounts 60 days from the end of each month.

(2)Disposal of property, plant, and equipment

	2010			
	Item	Selling price	Book value	Gain
Tanvex Biologics Corp.	Machinery and equipment	$ 8,161	$ 1,530	$ 6,631

1.The Company sold property, plant and equipment to the related party at negotiated prices. The unrealized gain of $2,411 was recorded as 「Other current liabilities」.

2.No such transaction occured for the year ended December 31, 2011.

(3)Other expenses

	For the years ended December 31,	
	2011	2010
Repair fees:		
President Tokyo Corp.	$ 2,829	$ 2,748
Management consultancy fees:		
Taiwan Sugar Corp.	$ 2,180	$ 2,135
ScinoPharm International, Ltd.	－	4,127
	$ 2,180	$ 6,262
Research & Development fees:		
ScinoPharm International, Ltd.	$ －	$ 13,205
Rental expenses:		
President Tokyo Corp.	$ 1,410	$ 2,204

(4)Other income

	For the years ended December 31,	
	2011	2010
Tanvex Biologics Corp.	$ －	$ 54,087

The Company sold other assets to Tanvex Biologics Corporation and the unrealized gain of $19,666 was recorded as 「Other current liabilities」.

(5)Other receivable

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
La Jolla Biologics, Inc.	$ 25	－	$ －	－

(6)Capital lease payables

	December 31, 2011		December 31, 2010	
	Amount	%	Amount	%
President Tokyo Corp.	$ 964	100	$ 2,845	100

(7)Compensation of directors, supervisors and management personnel

	2011	2010
Salaries	$ 21,721	$ 21,698
Bonuses	11,600	16,419
Service execution fees	10,704	8,144
Earnings distribution	17,325	1,433
	$ 61,350	$ 47,694

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

(ii) Bonuses include various bonuses and rewards.

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

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

3.Financing

Loans payable to related party (recorded as 「Long-term liabilities – current portion」)

	For the year ended December 31, 2010				
	Maximum balance date	Maximum balance	Ending balance	Annual interest rate	Total interest expense
President Tokyo Corp.	2010.1.1	$ 3,727	$ —	4.50%	$ 76

No such transaction occurred for the year ended December 31, 2011.

Note 6. PLEDGED ASSETS

As of December 31, 2011 and 2010, the details of pledged assets for various purposes were as follows:

Assets	December 31, 2011	December 31, 2010	Purpose of collateral
Time deposits (recorded as 「Other financial assets – current」 and 「Other financial assets – non-current」)	$ 39,369	$ 19,060	Performance guarantee and customs duty

Note 7. CONTINGENT LIABILITIES AND COMMITMENTS

1.As of December 31, 2011 and 2010, the unused letters of credit amounted to $42,028 and $－, respectively.

2.As of December 31, 2011 and 2010, the remaining balance due for construction in progress and prepayments for equipment was $269,993 and $145,446, respectively.

3.Major Agreement

Nature	Party concerned	Contract 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, 2011, the total amount of future rental payments is listed as follows:

Term of lease contract	Total rental payments
2012	$ 18,516
2013	18,516
2014	18,516
2015	18,516
2016	18,516
2017～2018 (Present value of $20,150)	21,602
	$ 114,182

Note 8. SIGNIFICANT CATASTROPHE: None.

Note 9. SIGNIFICANT SUBSEQUENT EVENT: None.

10.OTHERS

(1)Fair values of the financial instruments

	December 31, 2011						December 31, 2010					
			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	$	4,205,493	$	–	$	4,205,493	$	2,664,924	$	–	$	2,664,924
Other financial assets – non-current		19,442		–		19,442		15,552		–		15,552
Refundable deposits		8,434		–		8,434		2,817		–		2,817
Liabilities												
Financial liabilities with book value equal to fair value		691,262		–		691,262		498,794		–		498,794
Capital lease payables – non-current		–		–		–		964		–		964
Guarantee deposits received		250		–		250		250		–		250
Derivative financial instruments												
Assets												
Foreign currency forward contracts		2,066		–		2,066		7,389		–		7,389

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

A.The due dates of short-term financial instruments are near the balance sheet date. Accordingly, the fair value of short-term financial instruments are estimated based on the book value at the balance sheet date which include the accounts of cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets – current, notes and accounts payable, accrued expenses, other payables and capital lease payables – 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, 2011 and 2010.

C.The fair value of capital lease payables – non-current and 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, 2011 and 2010.

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)<u>Significant gains and losses of financial instruments</u>

The Group recognized the amount of ($5,323) and $5,548 as addition to stockholders' equity for the changes in financial assets at fair value through profit or loss for the years ended December 31, 2011 and 2010, respectively.

(3)<u>Procedures of financial risk control and hedge</u>

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

(4)<u>Information of financial risk</u>

A.Market risk

(A)Exchange rate risk

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

(b)The Group'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 Group's accounts receivable and accounts payable are the same, so the market risk would be offset.

(B)The Group 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, 2011 Foreign currency amount (in thousands)	December 31, 2011 Exchange rate	December 31, 2010 Foreign currency amount (in thousands)	December 31, 2010 Exchange rate
Financial assets				
Monetary items				
USD:NTD	$ 27,254	30.28	$ 22,003	29.13
EUR:NTD	2,354	39.18	2,427	38.92
GBP:NTD	35	46.77	44	45.19
SGD:NTD	—	—	12	22.73
Long-term equity investment				
USD:NTD	2,537	30.28	4,477	29.13
Financial liabilities				
Monetary items				
USD:NTD	2,257	30.28	1,406	29.13
EUR:NTD	56	39.18	26	38.92
JPY:NTD	—	—	3,458	0.36

(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 Group are classified either as available-for-sale or at fair value through profit or loss. The Group 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 are 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 change cash flow risk

The Group’s interest rate risk arises from long-term loans. Long-term loans are debts with floating interest rates that change with market interest rate fluctuations.

11.ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES

(1)Related information of significant transactions

(For the year ended December 31, 2011)

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

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

(C) The balance of securities held as of December 31, 2011 are summarized as follows (Units in thousands of currencies indicated):

Investor	Types and name of securities	Relationship with the issuer	Accounts (Note)	December 31, 2011 Number of shares (in thousands)	Book value	Percentage of ownership	Market value	Note
ScinoPharm Taiwan, Ltd.	Callable notes：							
	China Trust Commercial Bank	—	1	-	$ 49,846	-	$ 49,846	—
	International Bill Finance Corporation	—	1	-	9,988	-	9,988	—
	Stock：							
	SYNGEN, INC.	—	2	245	-	7.40%	-	—
	SPT International, Ltd.	Subsidiary accounted for under the equity method	3	29,825	957,265	100.00%	1,059,138	—
	ScinoPharm Singapore Pte Ltd.	Subsidiary accounted for under the equity method	3	-	-	100.00%	-	—
	President ScinoPharm (Cayman), Ltd.	Subsidiary accounted for under the equity method	3	102	2,579	60.00%	2,579	—
	Tanvex Biologics, Inc.	Subsidiary accounted for under the equity method	3	28,800	172,107	36.36%	76,818	—
SPT International, Ltd.	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	An investee company accounted for under the equity method	3	-	USD 10,669	100.00%	USD 10,669	—
	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	An investee company accounted for under the equity method	3	-	USD 24,053	100.00%	USD 24,053	—

(Note) The code number explanation is as follows:

1.Cash equivalents

2.Financial assets carried at cost – non-current

3.Long-term equity 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 currencies indicated) ：

Investor	Type of securities	General ledger account	Name of the counter -party	Relationship	Beginning balance: Number of shares (in thousands)	Beginning balance: Amount	Addition: Number of shares (in thousands)	Addition: Amount	Disposal: Number of shares (in thousands)	Disposal: Sale Price	Disposal: Book value	Disposal: Gain (loss) on disposal	Other increase (decrease): Number of shares (in thousands)	Other increase (decrease): Amount	Ending balance: Number of shares (in thousands)	Ending balance: Amount
ScinoPharm Taiwan, Ltd.	Callable bonds：															
	International Bills Finance Corporation	Cash equivalents	–	–	–	$ 73,038	–	$ 882,770	–	$ 955,859	($ 955,808)	$ 51	–	$ –	–	$ –
	China Bill Finance Corporation	Cash equivalents	–	–	–	58,695	–	1,185,518	–	1,244,278	(1,244,213)	65	–	–	–	–
	Callable notes：															
	China Trust Commercial Bank	Cash equivalents	–	–	–	–	–	629,281	–	579,499	(579,435)	64	–	–	–	49,846
	International Bills Finance Corporation	Cash equivalents	–	–	–	–	–	768,077	–	758,168	(758,089)	79	–	–	–	9,988
	Taishin International Bank	Cash equivalents	–	–	–	–	–	789,269	–	789,362	(789,269)	93	–	–	–	–
	China Bill Finance Corporation	Cash equivalents	–	–	–	–	–	815,995	–	816,080	(815,995)	85	–	–	–	–
	Stocks：															
	SPT International, Ltd.	Subsidiary accounted for under the equity method	Capital Increase	–	14,325	441,699	15,500	454,128	–	–	–	–	–	61,438	29,825	957,265
SPT International, Ltd.	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Subsidiary accounted for under the equity method	Capital Increase	–	–	USD 9,122	–	USD 15,500	–	–	–	–	–	(USD 569)	–	USD 24,053

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

Company name	Types of property	Transaction date	Transaction amount	Payment	Name of the counterparty	Relationship	Prior transaction of related counterparty: Owner	Relationships	Transfer date	Amount	Price reference	Purpose of Acquisition
ScinoPharm (Changshu) Pharmaceuticals, Ltd.	Plant	2010.4～2011.12	RMB 57,600	RMB 49,628	Zhejiang Meiyang International Engineering Design Co., Ltd. etc.	－	－	－	－	－	Negotiation	Building for operation use

(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 currencies indicated):

			Description of transaction				Description and reasons for difference in transaction terms compared to non-related party transactions		Notes or accounts receivable / (payable)		
Purchases/(sales) company	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	$ 292,083	22%	(Note)	$ -	－	($ 77,872)	(30%)	-
ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	ScinoPharm Taiwan, Ltd.	The Company	(Sales)	(RMB 64,466)	(94%)	(Note)	-	－	RMB 16,161	73%	-

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

(H) Receivable from related parties exceeding $100,000 or 20 percent of the 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, 2011 (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 period	Currency	Ending balance of prior period (Note 1)	Shares	Percentage of ownership	Currency	Book value	Currency	Amount	Currency	Amount (Note 3)	Note
ScinoPharm Taiwan, Ltd.	SPT International, Ltd.	Tortola, British Virgin Islands	Professional investment	TWD	$ 922,419	TWD	$ 468,291	29,824,644	100.00	TWD	$ 957,265	TWD	($ 13,655)	TWD	($ 11,623)	Subsidiary
ScinoPharm Taiwan, Ltd.	ScinoPharm Singapore Pte Ltd.	Singapore	Professional investment	TWD	-	TWD	-	2	100.00	TWD	-	TWD	-	TWD	-	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	2,579	TWD	4,907	TWD	2,944	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	36.36	TWD	172,107	TWD	(151,691)	TWD	(55,155)	—
ScinoPharm Taiwan, Ltd.	HanFeng (BVI), Ltd. (Note 2)	Tortola, British Virgin Islands	Professional investment	TWD	-	TWD	25,590	-	-	TWD	-	TWD	284	TWD	284	Subsidiary
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	10,669	USD	938	USD	-	Subsidiary of subsidiary
SPT International, Ltd.	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	China	Research, development and manufacture of new medicine, etc.	USD	25,000	USD	9,500	-	100.00	USD	24,053	USD	(1,326)	USD	-	Subsidiary of subsidiary
Han Feng (BVI), Ltd.	HanFeng Biopharmaceutical (Shanghai) Co., Ltd. (Note 4)	China	Research and sales of biomedical and related production, etc.	USD	-	USD	800	-	-	USD	-	USD	-	USD	-	Subsidiary of subsidiary
President ScinoPharm (Cayman), Ltd.	Yunnan ZiyunScino Biotech, Ltd. (Note 5)	China	Plant, research, and development of natural medicine, etc.	USD	-	USD	138	-	-	USD	-	USD	-	USD	-	Subsidiary of subsidiary

(Note 1) Ending balance of December 31, 2010.

(Note 2) Han Feng (BVI), Ltd. was liquidated in December, 2011.

(Note 3) According to the related regulations, it is not required to disclose income (loss) of subsidiary of subsidiary recognized by the Company.

(Note 4) Han Feng Biopharmaceutical (Shanghai) Co., Ltd. was liquidated in September, 2011.

(Note 5) Yunnan ZiyunScino Biotech, Ltd. was disposed in July, 2011.

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

Related information on investee companies for the year ended December 31, 2011 (Units in thousands of currencies indicated)

(A) The basic information of investments in Mainland China as of December 31, 2011 are as follows (Units in thousands of currencies indicated) :

Name of investee in Mainland China	Main Business	Capital	Investment method	Beginning investment balance from Taiwan	Investment Amount Payment	Investment Amount Remittance	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, 2011	Accumulated remittance	Note
ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	Research, development and manufacture of new medicine, etc.	$121,120	(Note 1)	$ 112,763	$ -	$ -	$ 112,763	100.00	$ 28,403	$ 323,057	$ -	—
ScinoPharm (Changshu) Pharmaceuticals, Ltd.	〃	757,000	(Note 1)	287,660	469,340	-	757,000	100.00	(40,151)	728,325	-	—
HanFeng Biopharmaceutical (Shanghai) Co., Ltd.	Research and sales of biomedical and related production, etc.	-	(Note 1)	24,224	-	(3,997)	20,227	-	-	-	-	(Note 3)
Yunnan ZiyunScino Biotech, Ltd.	Plant, research, and development of natural medicine, etc.	-	(Note 1)	4,179	-	-	4,179	-	-	-	-	(Note 4)

(B) The ceiling amount of investment in Mainland China (Units in thousands of 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 5)
ScinoPharm Taiwan, Ltd.	$ 918,029	$ 1,538,769	$ 5,165,568

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

(Note 2)Recognized based on financial statements audited byindependent accountants for the year ended December 31, 2011 for each entity.

(Note 3)Liquidated in September, 2011.

(Note 4)Yunnan ZiyunScino Biotech, Ltd. was disposed in July, 2011.

(Note 5)The net capital is counted by 60%.

(Note 6)Calculated at exchange rate of $30.28(US dollars to NT dollars).

(C)The transactions across third region company with the investees in Mainland China:

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

(i)Purchases

		For the year ended December 31, 2011	
Third region Company's name	Name of investee In Mainland China	Amount	Percentage of net purchases
—	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	$ 292,083	22

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

(ii)Accounts payable

		December 31, 2011	
Third region Company's name	Name of investee in Mainland China	Amount	%
—	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	$ 77,872	30

(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)The financing of maximum balance, ending balance, range of interest rates and interest expense： 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, 2011
Research & Development fees	—	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	$ 7,896
		ScinoPharm (Changshu) Pharmaceuticals, Ltd.	2,747
			$ 10,643
Management consultancy revenue	—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	$ 11,484
		ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	8,971
			$ 20,455

			December 31, 2011	
			Amount	%
Other receivables	—	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	$ 4,727	25

(4) Intercompany relationships and significant intercompany transactions:

For the year ended December 31, 2011

Number (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Transaction terms: Subject	Amount	Transaction condition	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 each month	7%
				Research & Development fees	7,896	—	—
				Income from management and technical consultancy	(8,971)	—	—
				Accounts payable	(77,872)	—	(1%)
		ScinoPharm (Changshu) Pharmaceuticals, Ltd.	1	Research & Development fees	2,747	—	—
				Income from management and 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 each month	(7%)
				Management consultancy fees	8,971	—	—
				Accounts receivable	77,872	—	1%
				Sales	(2,747)	Closes its account 90 days from the end each month	—
2	ScinoPharm (Changshu) Pharmaceuticals, Ltd.	ScinoPharm Taiwan, Ltd.	2	Management consultancy fees	11,484	—	—
				Accrued expenses	(4,727)	—	—

For the year ended December 31, 2010:

Number (Note 1)	Name of counterparty	Name of transaction parties	Relationship (Note 2)	Transaction terms: Subject	Amount	Transaction condition	The percentage of combined revenue or total assets (Note 3)
0	ScinoPharm Taiwan, Ltd.	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	1	Purchases	$ 331,093	Closes its account 90 days from the end each month	9%
				Research & Development fees	2,960	–	–
				Income from management and technical consultancy	(9,926)	–	–
				Accounts payable	(24,591)	–	–
		ScinoPharm (Changshu) Pharmaceutical, Ltd.	1	Income from management and technical consultancy	(4,787)	–	–
				Other receivables	4,346	–	–
		HanFeng Biopharmaceutical (Shanghai) Co., Ltd.	1	Research & Development fees	3,389	–	–
				Income from management and technical consultancy	(323)	–	–
1	ScinoPharm (Kunshan) Biochemical Technology Co., Ltd.	ScinoPharm Taiwan, Ltd.	2	Sales	(331,093)	Closes its account 90 days from the end each month	(9%)
				Income from management and consultancy	(2,960)	–	–
				Management consultancy fees	9,926	–	–
				Accounts receivable	24,591	–	–
2	HanFeng Biopharmaceutical (Shanghai) Co., Ltd.	ScinoPharm Taiwan, Ltd.	2	Sales	(3,389)	Closes its account 90 days from the end each month	–
				Management consultancy fees	323	–	–
3	ScinoPharm (Changshu) Pharmaceutical, Ltd.	ScinoPharm Taiwan, Ltd.	2	Management consultancy fees	4,787	–	–
				Accrued expenses	(4,346)	–	–

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 subsidary.

2.The consolidated subsidiary to the Company.

3.The consolidated subsidiary to another consolidated subsidiary.

Note 3: The counting to the percentage of transaction amount consolidated total operating revenues or total assets is as follows: Assets and liabilities are counting at the amount period of consolidated total assets at ending period; Income is counting at the amount of consolidated total revenue at ending period.

12. OPERATING SEGMENTS INFORMATION

(1) Basic information

The management of the Company has identified the operating segments based on how the Company's chief operating decision marker 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 chief operating decision maker is as follows:

	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 revenue	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
The amounts of additions to non-current assets	333,512	460,558	794,070
Segment liabilities	810,754	146,258	957,012

	As of and for the year ended December 31, 2010		
	ScinoPharm Taiwan Ltd.	Others	Total
Segment revenue	$ 3,887,455	$ 341,100	$ 4,228,555
Revenue from internal customers	—	337,442	337,442
Revenue from external customers	3,887,455	3,658	3,891,113
Interest revenue	3,741	467	4,208
Depreciation and amortization	352,048	14,779	366,827
Interest expense	4,422	—	4,422
Income from segment before income tax	1,185,041	74,127	1,259,168
Segment assets	7,287,082	593,604	7,880,686
The amounts of additions to non-current assets	194,025	233,872	427,897
Segment liabilities	609,810	40,246	650,056

(4) Reconciliation information of segment income and assets

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

	2011	2010
Income of reportable segments	$ 1,124,135	$ 1,185,041
Income of other operating segments	469	74,127
Elimination of intersegment transactions	10,711	(63,372)
Income before income tax	$ 1,135,315	$ 1,195,796

(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, 2011	December 31, 2010
Assets of reportable segments	$ 9,418,315	$ 7,287,082
Assets of other operating segments	1,209,694	593,604
Elimination of intersegment transactions	(1,147,821)	(582,456)
Total assets	$ 9,480,188	$ 7,298,230

(c)The amount of total liability 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, 2011	December 31, 2010
Liabilities of reportable segments	$ 810,754	$ 609,810
Liabilities of other operating segments	146,258	40,246
Elimination of intersegment transactions	(86,104)	(29,084)
Total liabilities	$ 870,908	$ 620,972

(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:

	2011	2010
Revenue from Active Pharmaceutical Ingredients	$ 3,887,107	$ 3,850,937
Technical service income	62,052	38,893
Other income	4,419	1,283
Operating revenues	$ 3,953,578	$ 3,891,113

(6) Information on geographic area

As of and for the years ended December 31, 2011 and 2010, the information on geographic area were as follows:

	2011		2010	
	Revenue	Non current assets	Revenue	Non current assets
Taiwan	$ 111,067	$ 2,606,186	$ 26,035	$ 2,606,209
America	1,299,154	—	1,314,074	—
India	660,072	—	880,712	—
Germany	351,946	—	352,760	—
Others	1,531,339	752,837	1,317,532	279,456
	$ 3,953,578	$ 3,359,023	$ 3,891,113	$ 2,885,665

(7) Information on significant customers

In 2011 and 2010, which customers constituted more than 10% of the Group’s total revenue were as follows:

	2011		2010	
	Revenue	Segment	Revenue	Segment
A Corp.	$ 876,706	All	$ 900,405	All
B Corp.	213,962	〃	602,093	〃
C Corp.	330,319	〃	469,619	〃

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 ("IFRSs"), International Accounting Standards ("IASs"), and relevant interpretations and interpretative bulletins that are ratified by the Financial Supervisory Commission.

The Company 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:

A. 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, and the audit division is responsible for supervising the transition. 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 International Financial Reporting Standards	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 International Financial Reporting Standards	Completed
10. Preparation of opening date statement of financial position under IFRSs	In progress
11. Preparation of IFRSs comparative financial information under IFRSs for 2012	In progress

Working Items for IFRSs Adoption	Status of Execution
12. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments	In progress

B. Significant differences 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" that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Company's current 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 Company 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 are set forth below:

1.Functional currency

Pursuant to current accounting standards in R.O.C., as the Company is not a foreign company, it does not need to determine its functional currency. However, in accordance with IAS 21, "The Effects of Changes in Foreign Exchange Rates", each of the Group's entities (including parent company) included in the consolidated financial statements should determine its functional currency.

2.Financial assets: equity instruments

In accordance with the amended "Rules Governing the Preparation of Financial Statements by Securities Issuers", dated July 7, 2011, unlisted stocks and emerging stocks held by the Company should be measured at cost and recognized in "Financial assets carried at cost". However, in accordance with IAS 39, "Financial Instruments: Recognition and Measurement", investments in equity instruments without an active market but with reliable fair value measurement (i.e. the variability of the estimation interval of reasonable fair values of such equity instruments is insignificant, or the probability for these estimates can be made reliably) should be measured at fair value.

3.Investments in associates/long-term equity investments accounted for under equity method

(a)Current accounting standards in R.O.C. do not prescribe that the investor and the associate should use uniform accounting policies in the preparation of financial statements. However, in accordance with IAS 28, "Investments in Associates", an associate should use uniform accounting policies as the investor in the preparation of its financial statements for like transactions and other events in similar circumstances; otherwise, the associate's financial statements should be adjusted to reflect the investor's accounting policies for the purpose of applying the equity method.

(b)In accordance with current accounting standards in R.O.C., for long-term equity investment under equity method, if an investor company loses its significant influence over an investee company because of a decrease in ownership or other reasons and therefore ceases using the equity method, the cost of investment will be the book value at the time of change. If there is a balance on additional paid-in capital or other equity adjustment items from the long-term equity investment, then an investor company shall calculate its share when the investment is sold, so that the pro-rata gains or losses from the disposal of the long-term investment can be accounted for. In accordance with IAS 28, “Investments in Associates”, when an investment ceases to be an associate, the fair value of the remaining investment at the date when it ceases to be an associate should be regarded as its fair value on initial recognition of the financial asset. If there is a balance on additional paid-in capital or other equity adjustment items from the long-term equity investment, it shall be written off totally by the investor company when the investment is sold, so that the gains or losses from the disposal of the long-term investment can be accounted for.

(c)In accordance with current accounting standards in R.O.C., if an investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, but the investor company does not lose its significant influence over the investee company, the investment percentage, and therefore the equity in net assets for the investment that an investor company has invested, will be changed. Such difference shall be used to adjust the ‘Additional paid-in capital’ and the ‘Long-term equity investments’ accounts. However, in accordance with IAS 28, “Investments in Associates”, increase in investment percentage is accounted for as an acquisition of investment; while, decrease in investment percentage is accounted for as a disposal of investment and any related disposal gain or loss is recognized.

4.Pensions

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

(b)In accordance with current accounting standards in R.O.C., the unrecognized transitional net benefit obligation should be amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits. However, as the Group will adopt IFRSs for the first time, IFRS 1, "First-time Adoption of International Financial Reporting Standards" should be applied in transition to IFRSs. As a result, the transitioning provision prescribed under IAS 19, "Employee Benefits" is not applicable to the Group and accordingly, no unrecognized transitional net benefit obligation is recognized.

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

(d)In accordance with current accounting standards in R.O.C., actuarial pension gain or loss of the Group is recognized in net pension cost of current period using the ‘corridor’ method. However, IAS 19, “Employee Benefits”, requires that actuarial pension gain or loss should be recognized immediately in other comprehensive income.

5.Employee benefits

The current accounting standards in R.O.C. do not specify the rules on the cost recognition for accumulated unused compensated absences. The Group recognizes such costs as expenses upon actual payment. However, IAS 19, “Employee Benefits”, requires that the costs of accumulated unused compensated absences should be accrued as expenses at the end of the reporting period.

6.Share-based payment

The Group’s share-based payments include cash capital increase reserved for employee preemption and employees’ bonus distributed. Cash capital increase reserved for employee preemption incurred before December 31, 2007 was not recognized as an expense by the Company. Employees’ bonus distributed before January 1, 2007 was accounted for as earnings distribution, and was not recognized as an expense by the Company. However, according to IFRS 2, “Share-based Payment”, the cost of the share-based payment arrangements stated above should be expensed at the fair value of the equity instruments over the vesting period.

7.Income taxes

(a) 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 noncurrent. 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 noncurrent 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.

(b) In accordance with current accounting standards in R.O.C., when evidence shows that part or whole of the deferred tax asset with 50% probability or above will not be realized, an entity should reduce the amount of deferred tax asset by adjusting the valuation allowance account. In accordance with IAS 12, “Income Taxes”, a deferred tax asset should be recognized if, and only if, it is considered highly probable that it will be realized.

(c) Regarding tax rates the shall apply to the deferred tax assets or liabilities associated with unrealized gains or losses arising from transactions between parent company and subsidiaries by buyer tax rate or seller tax rate, the current accounting standards in R.O.C. do not specify the rules for this issue; while, the Company adopts seller tax rate for computation. However, under IAS 12, “Income Taxes”, temporary differences in the consolidated financial statements are determined by comparing the carrying amounts of assets and liabilities in those statements and applicable taxation basis. The Company’s taxation basis is determined by reference to the Group entities’ income tax returns. Accordingly, buyer tax rate shall apply to the deferred tax assets or liabilities in the consolidated financial statements.

8.Transfer to assets from customers

The Company entered into a sales agreement with a customer, which entitled it to receive from the customer an item of property, plant and equipment that must then be used to supply the customer with goods on an ongoing basis. According to IFRIC 18, "Transfer to Assets from Customers", the Company shall recognize the transferred asset as an item of property, plant and equipment at its fair value when the definition of an asset is met and recognize revenue in accordance with IAS 18, "Revenue."

9.Land use rights

In accordance with current accounting standards in R.O.C., land use rights and prepayments to leased lands are treated as intangible assets. However, in accordance with IAS 17, “Leases”, such prepayments should be treated as long-term prepaid rent.

Some of the above differences may not have a significant effect on the Company in transition to IFRSs due to the exemption rules in IFRS 1, “First-time Adoption of International Financial Reporting Standards”, adopted by the Company.