

**STANDARD CHEM. & PHARM. CO., LTD.**

**PARENT COMPANY ONLY FINANCIAL**

**STATEMENTS AND REPORT OF INDEPENDENT  
ACCOUNTANTS**

**DECEMBER 31, 2017 AND 2016**

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

## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of STANDARD CHEM. & PHARM. CO., LTD.

### **Opinion**

We have audited the accompanying parent company only balance sheets of STANDARD CHEM. & PHARM. CO., LTD. (the “Company”) as of December 31, 2017 and 2016, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the reports of other independent accountants, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

### **Basis for opinion**

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters of the parent company only financial statements of the current period are as follows:

## **Evaluation of inventories**

### Description

Refer to Note 4(8) for accounting policies on the evaluation of inventories, Note 5(2) for the uncertainty of significant accounting estimations and assumptions relating to evaluation of inventories, and Note 6(5) for the details of allowance for inventory valuation loss. As of December 31, 2017, the carrying amount of inventories and allowance for inventory valuation loss are \$532,438 thousand and \$11,889 thousand, respectively.

The Company is primarily engaged in the manufacture and sales of human medicine. Due to the influence of market demand and short expiration date of medicines, etc., there is a risk in market price decline and obsolescence of inventories. The Company evaluates inventories at the lower of cost and net realisable value. The net realisable values of the aged and obsolete inventories are evaluated based on the historical information of the selling price and discount rate.

Given that the evaluation of inventories is subject to management's judgement and the accounting estimations will have significant influence on the inventory values, we consider the evaluation of inventories a key audit matter.

### How our audit addressed the matter

We performed the following key audit procedures for the above matter:

1. Assessed the reasonableness of policies on allowance for inventory valuation loss, based on our understanding of the inventory classification and historical information of the selling price and discount rate, etc.
2. Assessed the effectiveness of the management's inventory control, based on our understanding of the operation of the warehouse management, inspected the annual inventory taking plan and performed our observation.
3. Tested whether the basis of inventory aging used in calculating the net realisable value of inventory is consistent with the Company's policy.
4. Validated the net realisable value of inventories and the adequacy of allowance for inventory valuation loss.

## **Existence of domestic sales revenue in human medicines**

### Description

Refer to Note 4(25) for accounting policies on revenue recognition. Revenue is measured at the fair value of the consideration received or receivable taking into account value-added tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity.

The Company is primarily engaged in the manufacturing and sales of human medicines, which amounted to \$2,156,971 thousand for the year ended December 31, 2017. The Company's sales is mainly domestic-based and its customers are numerous, including hospitals, clinics, pharmacies and drug administrations all over the country. Since the sales transactions are numerous and would require a longer period for verification, we consider the existence of domestic sales revenue from human medicines a key audit matter.

### How our audit addressed the matter

We performed the following key audit procedures for the above matter:

1. Assessed the consistency and effectiveness of internal control relevant to sales recognition, taking into consideration customer credit, approved records from sales manager on unusual orders and subsequent cash collection procedures.
2. Assessed the reasonableness of sales price and nature, based on the basic information of the major customers, including the details of chairman and major shareholders, registered address, principal plan of business, capital and main business activities, etc.
3. Selected samples of sales transactions and checked against related supporting documentation, including unit prices, quantities, reasonableness of sales allowance recognition and subsequent cash collection.

## **Other matter –Reference to the audits of other independent accountants**

We did not audit the financial statements of certain investments accounted for under the equity method. These investments amounted to \$143,705 thousand and \$149,226 thousand, constituting 2.71% and 2.90% of total assets as of December 31, 2017 and 2016, respectively, and the share of loss and other comprehensive income of associates accounted for under the equity method was (\$5,756) thousand and

(\$31,089) thousand, constituting (2.60%) and (7.73%) of total comprehensive income for the years then ended, respectively. The financial statements of these investee companies were audited by other independent accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included in the parent company only financial statements and information disclosed relative to these investments, is based solely on the reports of other independent accountants.

### **Responsibilities of management and those charged with governance for the parent company only financial statements**

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including supervisors, are responsible for overseeing the Company’s financial reporting process.

### **Auditor’s responsibilities for the audit of the parent company only financial statements**

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain

professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lin, Tzu-Shu

Independent Accountants

Liu, Tzu-Meng

PricewaterhouseCoopers, Taiwan

Republic of China

March 20, 2018

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The accompanying parent company only 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 parent company only 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.

**STANDARD CHEM. & PHARM. CO., LTD.**  
**PARENT COMPANY ONLY BALANCE SHEETS**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

Assets		Notes	December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 729,506	14	\$ 438,306	8
1125	Available-for-sale financial assets	6(2)				
	- current		-	-	2,469	-
1150	Notes receivable, net	6(3) and 7	119,561	2	133,416	3
1170	Accounts receivable, net	6(4) and 7	421,739	8	484,330	9
1200	Other receivables		3,855	-	6,883	-
1210	Other receivables - related parties	7	89,466	2	97,466	2
130X	Inventories	5(2) and 6(5)	520,549	10	448,633	9
1410	Prepayments		30,775	-	39,932	1
1476	Other financial assets - current	6(1)	59,520	1	64,500	1
1479	Other current assets		2,052	-	-	-
11XX	Total current assets		1,977,023	37	1,715,935	33
Non-current assets						
1523	Available-for-sale financial assets	5(2) and 6(2)				
	- non-current		298,814	6	413,953	8
1543	Financial assets carried at cost -	3(2), 5(2) and 6(6)				
	non-current		17,085	-	17,085	-
1550	Investments accounted for under	6(7), 7 and 8				
	the equity method		1,606,736	30	1,605,339	31
1600	Property, plant and equipment	6(8) and 8	1,193,519	23	1,170,949	23
1760	Investment property, net	6(9)	46,659	1	46,772	1
1780	Intangible assets	6(10)	19,996	-	18,863	1
1840	Deferred income tax assets	6(24)	82,504	2	73,014	2
1915	Prepayments for equipment	6(8)	16,285	-	68,041	1
1920	Guarantee deposits paid		28,947	1	12,477	-
1990	Other non-current assets		19,815	-	6,202	-
15XX	Total non-current assets		3,330,360	63	3,432,695	67
1XXX	TOTAL ASSETS		\$ 5,307,383	100	\$ 5,148,630	100

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**STANDARD CHEM. & PHARM. CO., LTD.**  
**PARENT COMPANY ONLY BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity			December 31, 2017		December 31, 2016	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(11) and 8	\$ 470,000	9	\$ 370,000	7
2110	Short-term notes and bills payable	6(12)	200,000	4	200,000	4
2150	Notes payable		119,631	2	142,389	3
2160	Notes payable - related parties	7	26,704	1	30,021	1
2170	Accounts payable	7	55,441	1	72,101	1
2200	Other payables		223,326	4	189,601	4
2230	Current income tax liabilities	6(24)	62,059	1	12,966	-
2310	Receipts in advance	3(2)	41,794	1	49,507	1
21XX	Total current liabilities		1,198,955	23	1,066,585	21
Non-current liabilities						
2540	Long-term borrowings	6(13) and 8	100,000	2	30,000	1
2570	Deferred income tax liabilities	6(24)	61,992	1	61,992	1
2640	Net defined benefit liability - non-current	5(2) and 6(14)	268,642	5	265,415	5
2645	Guarantee deposits received		5,371	-	5,286	-
25XX	Total non-current liabilities		436,005	8	362,693	7
2XXX	Total liabilities		1,634,960	31	1,429,278	28
Equity						
Share capital						
3110	Common stock	6(15)	1,786,961	34	1,786,961	35
3200	Capital surplus	6(16)	197,212	4	286,763	5
	Retained earnings	6(17)(24)				
3310	Legal reserve		548,600	10	514,579	10
3350	Unappropriated retained earnings		982,791	18	844,876	16
3400	Other equity interest	6(2)(7)(14)(18)	156,859	3	286,173	6
3XXX	Total equity		3,672,423	69	3,719,352	72
Significant contingent liabilities and unrecognised contract commitments						
Significant events after the balance sheet date		11				
3X2X	TOTAL LIABILITIES AND EQUITY		\$ 5,307,383	100	\$ 5,148,630	100

The accompanying notes are an integral part of these parent company only financial statements.

**STANDARD CHEM. & PHARM. CO., LTD.**  
**PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE DATA)

For the years ended December 31,						
			2017		2016	
	Items	Notes	AMOUNT	%	AMOUNT	%
4000	Operating revenue	7	\$ 2,410,610	100	\$ 2,357,528	100
5000	Operating costs	6(5)(10)(14)(22)(23) and 7	( 1,290,577)	( 54)	( 1,308,075)	( 56)
5900	Gross profit		<u>1,120,033</u>	<u>46</u>	<u>1,049,453</u>	<u>44</u>
	Operating expenses	6(10)(14)(22)(23) and 7				
6100	Selling expenses		( 381,534)	( 16)	( 397,896)	( 17)
6200	General and administrative expenses		( 196,939)	( 8)	( 161,460)	( 7)
6300	Research and development expenses		( 180,985)	( 7)	( 182,911)	( 7)
6000	Total operating expenses		( 759,458)	( 31)	( 742,267)	( 31)
6900	Operating profit		<u>360,575</u>	<u>15</u>	<u>307,186</u>	<u>13</u>
	Non-operating income and expenses					
7010	Other income	6(9)(19) and 7	69,726	3	83,840	3
7020	Other gains and losses	6(2)(20) and 12	( 64,234)	( 3)	( 7,729)	-
7050	Finance costs	6(8)(21)	( 5,314)	-	( 2,688)	-
7070	Share of profit of subsidiaries, associates and joint ventures accounted for under the equity method, net	6(7)	<u>71,905</u>	<u>3</u>	<u>15,199</u>	<u>1</u>
7000	Total non-operating income and expenses		<u>72,083</u>	<u>3</u>	<u>88,622</u>	<u>4</u>
7900	Profit before income tax		<u>432,658</u>	<u>18</u>	<u>395,808</u>	<u>17</u>
7950	Income tax expense	6(24)	( 69,372)	( 3)	( 55,592)	( 3)
8200	Net income for the year		<u>\$ 363,286</u>	<u>15</u>	<u>\$ 340,216</u>	<u>14</u>
	Other comprehensive (loss) income					
	Components of other comprehensive income that will not be reclassified to profit or loss					
8311	Remeasurement of defined benefit plan	6(14)	( \$ 14,964)	( 1)	\$ 32,483	2
8330	Share of other comprehensive loss of associates and joint ventures accounted for under the equity method	6(7)	( 234)	-	( 303)	-
8349	Income tax related to components of other comprehensive income	6(24)	2,544	-	( 5,522)	-
	Components of other comprehensive income that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations	6(7)(18)	( 8,584)	-	( 16,190)	( 1)
8362	Unrealised (loss) gain on valuation of available-for-sale financial assets	6(2)(18)	( 105,608)	( 4)	44,063	2
8380	Share of other comprehensive (loss) income of associates and joint ventures accounted for under the equity method	6(7)(18)	( 15,122)	( 1)	7,382	-
8300	Total other comprehensive (loss) income for the year		( \$ 141,968)	( 6)	\$ 61,913	3
8500	Total comprehensive income for the year		<u>\$ 221,318</u>	<u>9</u>	<u>\$ 402,129</u>	<u>17</u>
	Earnings per share (in dollars)	6(25)				
9750	Basic		\$ 2.03		\$ 1.90	
9850	Diluted		\$ 2.03		\$ 1.90	

The accompanying notes are an integral part of these parent company only financial statements.

**STANDARD CHEM. & PHARM. CO., LTD.**  
**PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)**

Notes	Common stock	Additional paid-in capital	Capital Surplus		Retained Earnings			Other Equity			Total equity
			Difference between proceeds from acquisition or disposal of subsidiaries and book value	Change in net equity of associates and joint ventures accounted for using the equity method	Legal reserve	Unappropriated retained earnings	Financial statements differences of foreign operations	Unrealised gain on available-for-sale financial assets			
<b>For the year ended December 31, 2016</b>											
Balance at January 1, 2016	\$ 1,786,961	\$ 322,049	\$ 9,958	\$ 3,460	\$ 479,790	\$ 691,487	\$ 15,628	\$ 235,290	\$	\$ 3,544,623	
Difference between proceeds from acquisition or disposal of subsidiaries and book value	6(7)	-	40,644	-	-	-	-	-	-	40,644	
Appropriations of 2015 earnings (Note):											
Legal reserve	-	-	-	-	34,789	( 34,789 )	-	-	-	-	
Cash dividends	6(17)	-	-	-	-	( 178,696 )	-	-	( 178,696 )	-	
Cash dividends from capital surplus	6(16)	( 89,348 )	-	-	-	-	-	-	( 89,348 )	-	
Net income for the year	-	-	-	-	-	340,216	-	-	340,216	-	
Other comprehensive income for the year	-	-	-	-	-	26,658	( 16,190 )	51,445	61,913	-	
Balance at December 31, 2016	<u>\$ 1,786,961</u>	<u>\$ 232,701</u>	<u>\$ 50,602</u>	<u>\$ 3,460</u>	<u>\$ 514,579</u>	<u>\$ 844,876</u>	<u>( \$ 562 )</u>	<u>\$ 286,735</u>	<u>\$</u>	<u>\$ 3,719,352</u>	
<b>For the year ended December 31, 2017</b>											
Balance at January 1, 2017	\$ 1,786,961	\$ 232,701	\$ 50,602	\$ 3,460	\$ 514,579	\$ 844,876	( \$ 562 )	\$ 286,735	\$	\$ 3,719,352	
Difference between proceeds from acquisition or disposal of subsidiaries and book value	6(7)	-	( 203 )	-	-	-	-	-	( 203 )	-	
Appropriations of 2016 earnings (Note):											
Legal reserve	-	-	-	-	34,021	( 34,021 )	-	-	-	-	
Cash dividends	6(17)	-	-	-	-	( 178,696 )	-	-	( 178,696 )	-	
Cash dividends from capital surplus	6(16)	( 89,348 )	-	-	-	-	-	-	( 89,348 )	-	
Net income for the year	-	-	-	-	-	363,286	-	-	363,286	-	
Other comprehensive loss for the year	-	-	-	-	-	( 12,654 )	( 8,584 )	( 120,730 )	( 141,968 )	-	
Balance at December 31, 2017	<u>\$ 1,786,961</u>	<u>\$ 143,353</u>	<u>\$ 50,399</u>	<u>\$ 3,460</u>	<u>\$ 548,600</u>	<u>\$ 982,791</u>	<u>( \$ 9,146 )</u>	<u>\$ 166,005</u>	<u>\$</u>	<u>\$ 3,672,423</u>	

(Note) The employees' compensation were \$4,233 and \$4,078, and the directors' and supervisors' remuneration were \$8,466 and \$8,156 in 2015 and 2016, respectively, which had been deducted from net income for the years.

The accompanying notes are an integral part of these parent company only financial statements.

STANDARD CHEM. & PHARM. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	For the years ended December 31,	
		2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 432,658	\$ 395,808
Adjustments			
Adjustments to reconcile profit (loss)			
Impairment loss on financial assets	6(2)(20)	12,000	-
Provision for doubtful accounts	6(3)(4)	-	7,220
Reversal of allowance for doubtful accounts	6(3)(4)	( 7,016 )	-
Reversal of allowance for loss on inventory market price decline	6(5)	( 6,616 )	( 2,696 )
Share of profit of subsidiaries, associates and joint ventures accounted for under the equity method	6(7)	( 71,905 )	( 15,199 )
Depreciation	6(8)(9)	124,660	129,005
Net (gain) loss on disposal of property, plant and equipment	6(20)	( 50 )	460
Amortisation	6(10)(22)	4,670	4,013
Dividend income	6(19)	( 14,377 )	( 14,853 )
Interest income	6(19)	( 7,015 )	( 3,012 )
Interest expense	6(21)	5,314	2,688
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		13,628	13,292
Accounts receivable		69,834	( 14,386 )
Other receivables		3,028	( 1,631 )
Other receivables - related parties		530	( 511 )
Inventories		( 65,300 )	( 35,471 )
Prepayments		9,157	20,820
Other current assets		( 2,052 )	-
Changes in operating liabilities			
Notes payable		( 29,066 )	5,267
Notes payable - related parties		( 3,317 )	( 2,662 )
Accounts payable		( 16,660 )	9,466
Other payables		28,902	( 764 )
Receipts in advance		( 7,713 )	( 13,604 )
Net defined benefit liability - non-current		( 11,737 )	( 148,916 )
Cash inflow generated from operations		461,557	334,334
Dividends received	6(7)(19)	63,985	59,495
Interest received		7,015	3,012
Interest paid		( 5,183 )	( 2,626 )
Income tax paid		( 27,225 )	( 78,104 )
Net cash flows from operating activities		500,149	316,111

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STANDARD CHEM. & PHARM. CO., LTD.  
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	<u>Notes</u>	<u>For the years ended December 31,</u>	
		<u>2017</u>	<u>2016</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other receivables - related parties		\$ 7,470	\$ 1,740
Decrease (increase) in other financial assets - current		4,980	( 64,500 )
Acquisition of investments accounted for under the equity method	6(7) and 7	( 4,500 )	( 53,669 )
Proceeds from disposal of investments accounted for under the equity method	6(7) and 7	1,257	10,259
Cash paid for acquisition of property, plant and equipment	6(26)	( 24,231 )	( 51,185 )
Interest paid for acquisition of property, plant and equipment	6(8)(21)(26)	( 365 )	( 267 )
Proceeds from disposal of property, plant and equipment		50	305
Acquisition of intangible assets	6(10)	( 5,803 )	( 1,630 )
Increase in prepayments for equipment		( 59,765 )	( 80,765 )
(Increase) decrease in guarantee deposits paid		( 16,470 )	4,165
(Increase) decrease in other non-current assets		( 13,613 )	3,760
Net cash flows used in investing activities		( 110,990 )	( 231,787 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings		100,000	290,000
Increase in short-term notes and bills payable		-	100,000
Increase in long-term borrowings		70,000	30,000
Redemption of long-term borrowings		-	( 100,000 )
Increase (decrease) in guarantee deposit received		85	( 7 )
Payment of cash dividends from capital surplus	6(16)	( 89,348 )	( 89,348 )
Payment of cash dividends	6(17)	( 178,696 )	( 178,696 )
Net cash flows (used in) from financing activities		( 97,959 )	51,949
Net increase in cash and cash equivalents		291,200	136,273
Cash and cash equivalents at beginning of year	6(1)	438,306	302,033
Cash and cash equivalents at end of year	6(1)	\$ 729,506	\$ 438,306

The accompanying notes are an integral part of these parent company only financial statements.

STANDARD CHEM. & PHARM. CO., LTD.  
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

**1. HISTORY AND ORGANISATION**

(1) Standard Chem. & Pharm. Co., Ltd. (the 'Company') was incorporated on June 30, 1967 under the provisions of the Company Act of the Republic of China (R.O.C.) and other regulations. The Company is primarily engaged in the manufacturing and sales of Chinese and western medicine, cosmetics, beverage, normal instruments and medical instruments.

(2) The Company has been listed on the Taiwan Stock Exchange starting from December 1995.

**2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION**

These parent company only financial statements were authorised for issuance by the Board of Directors on March 20, 2018.

**3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS**

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board ("IASB")
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Defined benefit plans: employee contributions (amendments to IAS 19)	July 1, 2014
Annual improvements to IFRSs 2010-2012 cycle	July 1, 2014
Annual improvements to IFRSs 2011-2013 cycle	July 1, 2014
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations (amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Annual improvements to IFRSs 2012-2014 cycle	January 1, 2016

The above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

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

New standards, interpretations and amendments as endorsed by FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective date by IASB
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9, 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle - Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment.

A. Amendments to IAS 7, 'Disclosure initiative'

This amendment requires that an entity shall provide more disclosures related to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Company expects to provide additional disclosure to explain the changes in liabilities arising from financing activities.

B. IFRS 9, 'Financial instruments'

- (a) Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

C. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15, is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

When adopting the new standards endorsed by the FSC effective from 2018, the Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. Further, the Company expects to adopt IFRS 15 using the modified retrospective approach. The significant effects of applying the new standards as of January 1, 2018 are summarised below:

- A. In accordance with IFRS 9, the Company expects to reclassify financial assets carried at cost-non-current of \$17,085, by increasing financial assets at fair value through profit or loss-non-current and financial assets at fair value through other comprehensive income in the amounts of \$13,845 and \$1,263, respectively, and decreasing retained earnings and increasing other equity interest in the amounts of \$2,440 and \$463, respectively.
- B. Under IFRS 15, liabilities in relation to sales contracts are recognised as contract liabilities, but



were previously presented as 'receipts in advance' in the balance sheet amounting to \$41,794.

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

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Prepayment features with negative compensation (amendments to IFRS 9)	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Plan amendment, curtailment or settlement (amendments to IAS 19)	January 1, 2019
Long-term interests in associates and joint ventures (amendments to IAS 28)	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by IASB

Except for the following, the above standards and interpretations have no significant impact to the Company's financial condition and financial performance based on the Company's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The parent company only financial statements of the Company have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers".

(2) Basis of preparation

A. Except for the following items, the parent company only financial statements have been prepared under the historical cost convention:

- (a) Available-for-sale financial assets measured at fair value.
- (b) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting

Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5. Critical accounting judgements, estimates and key sources of assumption uncertainty.

(3) Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The parent company only financial statements are presented in New Taiwan dollars, which is the Company's functional and presentation currency.

Foreign currency transactions and balances

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- D. All other foreign exchange gains and losses based on the nature of those transactions are presented in the statement of comprehensive income within other gains and losses.

(4) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
  - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
  - (b) Assets held mainly for trading purposes;
  - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
  - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to

be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

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

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

(5) Cash equivalents

- A. Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- B. Time deposits and repurchase bonds that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) Available-for-sale financial assets

- A. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- B. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- C. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets carried at cost'.

(7) Loans and receivables

Accounts receivable are receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(8) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (allocated based on normal

operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses. If the cost exceeds net realisable value, valuation loss is accrued and recognised in operating costs. If the net realisable value reverses, valuation is eliminated within credit balance and is recognised as deduction of operating costs.

**(9) Impairment of financial assets**

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
  - (a) Significant financial difficulty of the issuer or debtor;
  - (b) The disappearance of an active market for that financial asset because of financial difficulties;
  - (c) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
  - (d) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
  - (e) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
  - (a) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, then such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss.

Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

(b) Financial assets carried at cost

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

(c) Financial assets carried at amortised cost

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

(10) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Operating lease (Lessor)

Lease income from an operating lease ( net of any incentives given to lessee) is recognised in profit or loss on straight-line basis over the lease term.

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

- A. Subsidiaries are all entities controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
- B. Unrealised profit (loss) occurred from the transactions between the Company and subsidiaries have been offset. The accounting policies of the subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognise losses proportionate to its ownership.

- D. If changes in the Company's shares in subsidiaries do not result in loss in control (transactions with non-controlling interest), transactions shall be considered as equity transactions, which are transactions between owners. Difference of adjustment of non-controlling interest and fair value of consideration paid or received is recognised in equity.
- E. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for under the equity method and are initially recognised at cost.
- F. The Company's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- G. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognises the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- H. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- I. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- J. Pursuant to the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", profit (loss) of the current period and other comprehensive income in the parent company only financial statements shall equal to the amount attributable to owners of the parent in the financial statements prepared with basis for consolidation. Owners' equity in the parent company only financial statements shall equal to equity attributable to owners of the parent in the financial statements prepared with basis for consolidation.

(13) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

<u>Assets</u>	<u>Useful Life</u>
Buildings (including auxiliary equipment)	2 ~ 60 years
Machinery and equipment	2 ~ 15 years
Utility equipment	2 ~ 15 years
Other equipment	2 ~ 15 years

(14) Investment property

An investment property is stated initially at its cost and measured subsequently using the cost model. Except for land, investment property is depreciated on a straight-line basis over its estimated useful life of 60 years.

(15) Intangible assets

A. Patents

Patents is stated at cost and amortised on a straight-line basis over its estimated useful life of 5 to 10 years.

B. Computer software

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 5 to 10 years.

(16) Operating leases (lessee)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(17) Impairment of non-financial assets

- A. The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Except for goodwill, when the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.
- B. The recoverable amounts of goodwill has not yet been available for use are evaluated periodically. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Impairment loss of goodwill previously recognised in profit or loss shall not be reversed in the following years.
- C. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units, or groups of cash-generating units, that is/are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(18) Borrowings

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

(19) Notes and accounts payable

Notes and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. However, short-term accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(20) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(21) Employee benefits

A. Short-term employee benefits

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



## B. Pensions

### (a) Defined contribution plan

For defined contribution plan, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

### (b) Defined benefit plan

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds of a currency and term consistent with the currency and term of the employment benefit obligations.
- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

## C. Employees' compensation and directors' and supervisors' remuneration

Employees' remuneration and directors' and supervisors' remuneration are recognised as expenses and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the amounts as resolved by the stockholders at the stockholders' meeting and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Company calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

## (22) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences

arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously
- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from research and development expenditures, etc., to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(23) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(24) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are approved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(25) Revenue recognition

A. Sales of goods

The Company manufactures and sells human pharmaceuticals, etc. Revenue is measured at the fair value of the consideration received or receivable taking into account business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognised when the Company has delivered the goods to the customer, the amount of sales revenue can be measured reliably

and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

**B. Rendering of services**

The Company provides processing services. Revenue from delivering services is recognised under the percentage-of-completion method when the outcome of services provided can be estimated reliably.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and the related information is addressed below:

**(1) Critical judgements in applying the Company's accounting policies**

**Financial assets—impairment of equity investments**

The Company follows the guidance of IAS 39 to determine whether a financial asset—equity investment is impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the decline of the fair value of an individual equity investment below cost was considered significant or prolonged, the Company would suffer a loss in its financial statements, being the transfer of the accumulated fair value adjustments recognised in other comprehensive income on the impaired available-for-sale financial assets to profit or loss or being the recognition of the impairment loss on the impaired financial assets carried at cost in profit or loss.

**(2) Critical accounting estimates and assumptions**

**A. Evaluation of inventories**

- (a) As inventories are stated at the lower of cost and net realisable value, the Company must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the influence of different market demand and expiration date, etc., the Company evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of

inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

(b) As of December 31, 2017, the carrying amount of inventories was \$520,549.

B. Financial assets—fair value measurement of unlisted stocks without active market

(a) The fair value of unlisted stocks held by the Company that are not traded in an active market is determined considering those companies' recent fund raising activities and technical development status, fair value assessment of other companies of the same type, market conditions and other economic indicators existing on balance sheet date. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(3) for the fair value estimation for the financial instruments fair value information.

(b) As of December 31, 2017, the carrying amount of unlisted stocks without active market was \$105,408.

C. Calculation of net defined benefit liabilities – non-current

(a) When calculating the present value of defined pension obligations, the Company must apply judgements and estimates to determine the actuarial assumptions on balance sheet date, including discount rates and future salary growth rate. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.

(b) As of December 31, 2017, the carrying amount of net defined benefit liabilities-non-current was \$268,642.

## 6. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Cash:		
Revolving funds and petty cash	\$ 4, 293	\$ 4, 100
Checking accounts and demand deposits	<u>350, 199</u>	<u>224, 125</u>
	<u>354, 492</u>	<u>228, 225</u>
Cash equivalents:		
Time deposits	359, 985	193, 867
Repurchase bonds	<u>15, 029</u>	<u>16, 214</u>
	<u>375, 014</u>	<u>210, 081</u>
	<u>\$ 729, 506</u>	<u>\$ 438, 306</u>

A. The Company associates with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. As of December 31, 2017 and 2016, the carrying amount of more than 3-month time deposits

(shown as “Other financial assets – current”) was \$59,520 and \$64,500, respectively.

C. As of December 31, 2017 and 2016, the Company has no cash and cash equivalents pledged to others.

(2) Available-for-sale financial assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Current items:		
Unlisted stocks	\$ 12,000	\$ 12,000
Valuation adjustment of available-for-sale financial assets	– (	9,531)
Accumulated impairment loss of available-for-sale financial assets	( 12,000)	–
	<u>\$ –</u>	<u>\$ 2,469</u>
Non-current items:		
Listed stocks	\$ 89,569	\$ 89,569
Unlisted stocks	<u>48,526</u>	<u>48,526</u>
	138,095	138,095
Valuation adjustment of available-for-sale financial assets	<u>160,719</u>	<u>275,858</u>
	<u>\$ 298,814</u>	<u>\$ 413,953</u>

A. The Company recognised (\$115,139) and \$44,063 in other comprehensive income for fair value change for the years ended December 31, 2017 and 2016, respectively.

B. As the operating performance of the Company’s equity investment - Original BioMedicals Co., Ltd. did not meet the original expectation, the fair value was lower than its initial investment cost. Accordingly, the Company recognised impairment loss of \$12,000 and \$— (shown as “other gains and losses”) for the years ended December 31, 2017 and 2016, respectively, including the amount of \$9,531 and \$— that was transferred from equity to profit or loss, respectively.

C. As of December 31, 2017 and 2016, the Company has no available-for-sale financial assets pledged to others.

(3) Notes receivable, net

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Notes receivable	\$ 119,918	\$ 133,546
Less: Allowance for bad debts	( 357)	( 130)
	<u>\$ 119,561</u>	<u>\$ 133,416</u>

A. The Company has no significant past due but not impaired notes receivable as of December 31, 2017 and 2016.

B. Movement analysis of financial assets that were impaired is as follows:

	For the years ended December 31,	
	2017	2016
	Group provision	Group provision
Beginning balance	\$ 130	\$ 1,519
Provision for impairment	227	-
Reversal of impairment	-	( 349)
Write-offs during the year	-	( 1,040)
Ending balance	<u>\$ 357</u>	<u>\$ 130</u>

C. As of December 31, 2017 and 2016, the notes receivable that were neither past due nor impaired have good credit quality.

D. As of December 31, 2017 and 2016, the Company has no notes receivable pledged to others.

(4) Accounts receivable, net

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 428,535	\$ 501,293
Less: Allowance for bad debts	( 6,796)	( 16,963)
	<u>\$ 421,739</u>	<u>\$ 484,330</u>

A. The Company has no significant past due but not impaired accounts receivable as of December 31, 2017 and 2016.

B. Movement analysis of financial assets that were impaired is as follows:

	For the years ended December 31,	
	2017	2016
	Group provision	Group provision
Beginning balance	\$ 16,963	\$ 9,394
Provision for impairment	-	7,569
Reversal of impairment	( 7,243)	-
Write-offs during the year	( 2,924)	-
Ending balance	<u>\$ 6,796</u>	<u>\$ 16,963</u>

C. As of December 31, 2017 and 2016, the accounts receivable that were neither past due nor impaired have good credit quality.

D. As of December 31, 2017 and 2016, the Company has no accounts receivable pledged to others.

(5) Inventories

December 31, 2017			
	Cost	Allowance for valuation loss	Book value
Merchandise	\$ 55,150	(\$ 349)	\$ 54,801
Raw materials	201,996	( 5,224)	196,772
Supplies	31,370	( 1,034)	30,336
Work in process	47,338	( 192)	47,146
Finished goods	196,584	( 5,090)	191,494
	<u>\$ 532,438</u>	<u>(\$ 11,889)</u>	<u>\$ 520,549</u>
December 31, 2016			
	Cost	Allowance for valuation loss	Book value
Merchandise	\$ 35,155	(\$ 455)	\$ 34,700
Raw materials	145,590	( 4,474)	141,116
Supplies	30,584	( 549)	30,035
Work in process	59,976	( 7,409)	52,567
Finished goods	195,833	( 5,618)	190,215
	<u>\$ 467,138</u>	<u>(\$ 18,505)</u>	<u>\$ 448,633</u>

The cost of inventories recognised as expenses for the year:

	For the years ended December 31,	
	2017	2016
Cost of goods sold	\$ 1,271,223	\$ 1,295,267
Loss on scrapped inventories	26,370	15,885
Reversal of allowance for loss on inventory market price decline (Note)	( 6,616)	( 2,696)
Gain on physical inventory	( 400)	( 381)
Total operating costs	<u>\$ 1,290,577</u>	<u>\$ 1,308,075</u>

(Note) The Company reversed a previous inventory write-down which was accounted for as reduction of operating costs as these items were subsequently sold or disposed.

(6) Financial assets carried at cost — non-current

	December 31, 2017	December 31, 2016
Unlisted stocks	<u>\$ 17,085</u>	<u>\$ 17,085</u>

A. According to the Company's intention, its investment in other company stocks should be classified as 'available-for-sale financial assets'. However, as the other company stocks are not traded in active market, and sufficient industry information of companies similar to the other company or the other company's financial information cannot be obtained, the fair value of the investment in other company stocks cannot be measured reliably. Accordingly, the Company classified those

stocks as 'financial assets carried at cost'.

B. As of December 31, 2017 and 2016, the Company has no financial assets carried at cost pledged to others.

(7) Investments accounted for under the equity method

A. Movements of investments accounted for under the equity method:

	For the years ended December 31,	
	2017	2016
At January 1	\$ 1, 605, 339	\$ 1, 559, 839
Acquisition of investments accounted for under the equity method	4, 500	53, 669
Disposal of investments accounted for under the equity method	( 1, 257)	( 10, 259)
Share of profit or loss of investments accounted for under the equity method	71, 905	15, 199
Earnings distribution of investments accounted for under the equity method	( 49, 608)	( 44, 642)
Capital surplus — Difference between the price for acquisition or disposal of subsidiaries and carrying amount	( 203)	40, 644
Other equity interest — Financial statements translation differences of foreign operations	( 8, 584)	( 16, 190)
Other equity interest — Unrealised gain or loss on valuation of available-for-sale financial assets	( 15, 122)	7, 382
Other equity interest — Actuarial losses of defined benefit plan	( 234)	( 303)
At December 31	<u>\$ 1, 606, 736</u>	<u>\$ 1, 605, 339</u>
	December 31, 2017	December 31, 2016
Subsidiaries	\$ 1, 458, 543	\$ 1, 456, 113
Associates	148, 193	149, 226
	<u>\$ 1, 606, 736</u>	<u>\$ 1, 605, 339</u>



B. Details of investments accounted for under the equity method are as follows:

	December 31, 2017	December 31, 2016
Standard Pharmaceutical Co., Ltd.	\$ 158,725	\$ 187,384
Chia Scheng Investment Co., Ltd.	142,175	159,780
STANDARD CHEM. & PHARM. PHILIPPINES, INC.	3,845	5,031
Inforight Technology Co., Ltd.	4,277	4,288
Souriree Biotech & Pharm. Co., Ltd.	26,233	27,386
Multipower Enterprise Corp.	502,682	492,676
Advpharma Inc.	276,322	294,623
Syngen Biotech Co., Ltd.	344,284	284,945
WE CAN MEDICINES CO., LTD.	143,705	149,226
Taiwan Biosim Co., Ltd.	4,488	-
	<u>\$ 1,606,736</u>	<u>\$ 1,605,339</u>

C. Information on the Company's subsidiaries is provided in Note 4(3) of the Company's 2017 consolidated financial statements.

D. The subsidiary, Souriree Biotech & Pharm. Co., Ltd., conducted a capital reduction amounting to \$79,366 to cover accumulated deficit based on the board meeting resolution on September 13, 2016. The amendment to registration was completed on November 16, 2016.

E. Associate:

(a) The basic information of the associate that is material to the Company is as follows:

Company name	Principal place of business	Shareholding ratio	
		December 31, 2017	2016
WE CAN MEDICINES CO., LTD.	Taiwan	33.10%	33.10%

(b) The summarised financial information of the associate that is material to the Company is as follows:

i. Balance sheet

	December 31, 2017	December 31, 2016
Current assets	\$ 646,126	\$ 633,884
Non-current assets	179,950	199,691
Current liabilities	( 360,378)	( 351,937)
Non-current liabilities	( 31,723)	( 30,983)
Total net assets	<u>\$ 433,975</u>	<u>\$ 450,655</u>
Share in associate's net assets	<u>\$ 143,646</u>	<u>\$ 149,167</u>
Carrying amount of the associate	<u>\$ 143,705</u>	<u>\$ 149,226</u>

ii. Statement of comprehensive income

	For the years ended December 31,	
	2017	2016
Revenue	\$ 2, 307, 016	\$ 2, 305, 504
Net loss for the year	(\$ 17, 391)	(\$ 93, 926)
Total comprehensive loss for the year	(\$ 16, 680)	(\$ 94, 743)

(c) As of December 31, 2017 and 2016, the carrying amount of the Company's individually immaterial associates amounted to \$4,488 and \$ — , respectively. The share in associate's financial performance is as follows:

	For the years ended December 31,	
	2017	2016
Net loss for the year	(\$ 26)	\$ -
Total comprehensive income for the year	(\$ 26)	\$ -

- F. For the years ended December 31, 2017 and 2016, the details of the Company's equity transactions are provided in Note 7, " Related party transactions".
- G. As of December 31, 2017 and 2016, the Company pledged subsidiaries' stocks as collateral. Details are provided in Note 8 for the pledged assets.

(8) Property, plant and equipment

	Land	Buildings	Machinery	Utility equipment	Other equipment	Construction in progress and equipment to be inspected	Total
At January 1, 2017							
Cost	\$ 314,060	\$ 553,417	\$ 555,687	\$ 132,167	\$ 823,818	\$ -	\$ 2,379,149
Accumulated depreciation	-	( 192,011)	( 402,915)	( 78,670)	( 534,604)	-	( 1,208,200)
	<u>\$ 314,060</u>	<u>\$ 361,406</u>	<u>\$ 152,772</u>	<u>\$ 53,497</u>	<u>\$ 289,214</u>	<u>\$ -</u>	<u>\$ 1,170,949</u>
2017							
At January 1	\$ 314,060	\$ 361,406	\$ 152,772	\$ 53,497	\$ 289,214	\$ -	\$ 1,170,949
Additions — cost	-	1,689	9,325	467	24,063	52	35,596
Transfer from prepayments for equipment	-	715	65,907	-	44,899	-	111,521
Reclassification — accumulated depreciation	-	-	4,060	-	( 4,060)	-	-
Transferred upon completion	-	-	-	-	52	( 52)	-
Depreciation	-	( 16,040)	( 36,692)	( 6,679)	( 65,136)	-	( 124,547)
Disposals — cost	-	-	( 94)	-	( 9,730)	-	( 9,824)
Disposals — accumulated depreciation	-	-	94	-	9,730	-	9,824
At December 31	<u>\$ 314,060</u>	<u>\$ 347,770</u>	<u>\$ 195,372</u>	<u>\$ 47,285</u>	<u>\$ 289,032</u>	<u>\$ -</u>	<u>\$ 1,193,519</u>
At December 31, 2017							
Cost	\$ 314,060	\$ 555,821	\$ 630,825	\$ 132,634	\$ 883,102	\$ -	\$ 2,516,442
Accumulated depreciation	-	( 208,051)	( 435,453)	( 85,349)	( 594,070)	-	( 1,322,923)
	<u>\$ 314,060</u>	<u>\$ 347,770</u>	<u>\$ 195,372</u>	<u>\$ 47,285</u>	<u>\$ 289,032</u>	<u>\$ -</u>	<u>\$ 1,193,519</u>

	Land	Buildings	Machinery	Utility equipment	Other equipment	Construction in progress and equipment to be inspected	Total
At January 1, 2016							
Cost	\$ 314,060	\$ 548,601	\$ 542,033	\$ 131,877	\$ 785,318	\$ 680	\$ 2,322,569
Accumulated depreciation	-	( 177,045)	( 366,996)	( 71,942)	( 471,561)	-	( 1,087,544)
	<u>\$ 314,060</u>	<u>\$ 371,556</u>	<u>\$ 175,037</u>	<u>\$ 59,935</u>	<u>\$ 313,757</u>	<u>\$ 680</u>	<u>\$ 1,235,025</u>
2016							
At January 1	\$ 314,060	\$ 371,556	\$ 175,037	\$ 59,935	\$ 313,757	\$ 680	\$ 1,235,025
Additions — cost	-	4,358	4,934	290	29,144	263	38,989
Transfer from prepayments for equipment	-	138	8,720	-	17,734	-	26,592
Reclassification — accumulated depreciation	-	780	-	-	( 780)	-	-
Transferred upon completion	-	320	-	-	623	( 943)	-
Depreciation	-	( 15,746)	( 35,919)	( 6,728)	( 70,499)	-	( 128,892)
Disposals — cost	-	-	-	-	( 9,001)	-	( 9,001)
Disposals — accumulated depreciation	-	-	-	-	8,236	-	8,236
At December 31	<u>\$ 314,060</u>	<u>\$ 361,406</u>	<u>\$ 152,772</u>	<u>\$ 53,497</u>	<u>\$ 289,214</u>	<u>\$ -</u>	<u>\$ 1,170,949</u>
At December 31, 2016							
Cost	\$ 314,060	\$ 553,417	\$ 555,687	\$ 132,167	\$ 823,818	\$ -	\$ 2,379,149
Accumulated depreciation	-	( 192,011)	( 402,915)	( 78,670)	( 534,604)	-	( 1,208,200)
	<u>\$ 314,060</u>	<u>\$ 361,406</u>	<u>\$ 152,772</u>	<u>\$ 53,497</u>	<u>\$ 289,214</u>	<u>\$ -</u>	<u>\$ 1,170,949</u>

A. Amount of borrowing costs capitalised as part of property, plant and equipment and the interest rates for such capitalisation for the years ended December 31, 2017 and 2016 are as follows:

	For the years ended December 31,	
	2017	2016
Capitalised interest payments	\$ 365	\$ 267
Interest rate	0.84%	0.79%

B. Information about the property, plant and equipment that were pledged to others as collateral as of December 31, 2017 and 2016 is provided in Note 8.

(9) Investment property, net

	Land	Buildings	Total
<u>At January 1, 2017</u>			
Cost	\$ 43,295	\$ 6,776	\$ 50,071
Accumulated depreciation	—	(3,299)	(3,299)
	<u>\$ 43,295</u>	<u>\$ 3,477</u>	<u>\$ 46,772</u>
<u>2017</u>			
At January 1	\$ 43,295	\$ 3,477	\$ 46,772
Depreciation	—	(113)	(113)
At December 31	<u>\$ 43,295</u>	<u>\$ 3,364</u>	<u>\$ 46,659</u>
<u>At December 31, 2017</u>			
Cost	\$ 43,295	\$ 6,776	\$ 50,071
Accumulated depreciation	—	(3,412)	(3,412)
	<u>\$ 43,295</u>	<u>\$ 3,364</u>	<u>\$ 46,659</u>
<u>At January 1, 2016</u>			
Cost	\$ 43,295	\$ 6,776	\$ 50,071
Accumulated depreciation	—	(3,186)	(3,186)
	<u>\$ 43,295</u>	<u>\$ 3,590</u>	<u>\$ 46,885</u>
<u>2016</u>			
At January 1	\$ 43,295	\$ 3,590	\$ 46,885
Depreciation	—	(113)	(113)
At December 31	<u>\$ 43,295</u>	<u>\$ 3,477</u>	<u>\$ 46,772</u>
<u>At December 31, 2016</u>			
Cost	\$ 43,295	\$ 6,776	\$ 50,071
Accumulated depreciation	—	(3,299)	(3,299)
	<u>\$ 43,295</u>	<u>\$ 3,477</u>	<u>\$ 46,772</u>

- A. Rental income from investment property (shown as “Other income”) and direct operating expenses arising from investment property are as follows:

	For the years ended December 31,	
	2017	2016
Rental income from investment property	\$ 4,706	\$ 4,727
Direct operating expenses of investment properties with rental income	\$ 113	\$ 113
Direct operating expenses of investment properties without rental income	\$ -	\$ -

- B. The fair value of the investment property held by the Company as at December 31, 2017 and 2016 was \$67,241 and \$67,685, respectively, which was valued from the actual real estate price registered on the Department of Land Administration website. The valuation is categorised within Level 2 in the fair value hierarchy.

- C. No borrowing costs were capitalised as part of investment property for the years ended December 31, 2017 and 2016.

- D. As of December 31, 2017 and 2016, the Company has no investment property pledged to others.

(10) Intangible assets

	Patents	Software	Total
<u>At January 1, 2017</u>			
Cost	\$ 11,602	\$ 31,975	\$ 43,577
Accumulated amortisation	( 4,345)	( 20,369)	( 24,714)
	<u>\$ 7,257</u>	<u>\$ 11,606</u>	<u>\$ 18,863</u>
<u>2017</u>			
At January 1	\$ 7,257	\$ 11,606	\$ 18,863
Additions - acquired separately	-	5,803	5,803
Amortisation	( 1,454)	( 3,216)	( 4,670)
At December 31	<u>\$ 5,803</u>	<u>\$ 14,193</u>	<u>\$ 19,996</u>
<u>At December 31, 2017</u>			
Cost	\$ 11,602	\$ 37,778	\$ 49,380
Accumulated amortisation	( 5,799)	( 23,585)	( 29,384)
	<u>\$ 5,803</u>	<u>\$ 14,193</u>	<u>\$ 19,996</u>

	Patents	Software	Total
At January 1, 2016			
Cost	\$ 11,602	\$ 30,345	\$ 41,947
Accumulated amortisation	( 2,891)	( 17,810)	( 20,701)
	<u>\$ 8,711</u>	<u>\$ 12,535</u>	<u>\$ 21,246</u>
2016			
At January 1	\$ 8,711	\$ 12,535	\$ 21,246
Additions—acquired separately	–	1,630	1,630
Amortisation	( 1,454)	( 2,559)	( 4,013)
At December 31	<u>\$ 7,257</u>	<u>\$ 11,606</u>	<u>\$ 18,863</u>
At December 31, 2016			
Cost	\$ 11,602	\$ 31,975	\$ 43,577
Accumulated amortisation	( 4,345)	( 20,369)	( 24,714)
	<u>\$ 7,257</u>	<u>\$ 11,606</u>	<u>\$ 18,863</u>

A. No borrowing costs were capitalised as part of intangible assets for the years ended December 31, 2017 and 2016.

B. Details of amortisation on intangible assets are as follows:

	For the years ended December 31,	
	2017	2016
Operating costs	\$ 1,029	\$ 722
Selling expenses	962	892
General and administrative expenses	2,375	2,209
Research and development expenses	304	190
	<u>\$ 4,670</u>	<u>\$ 4,013</u>

C. As of December 31, 2017 and 2016, the Company has no intangible assets pledged to others.

(11) Short-term borrowings

Type of borrowings	December 31, 2017	Interest rate range	Collateral
Unsecured bank borrowings	\$ 295,000	0.92%~1.00%	None
Bank secured borrowings	175,000	0.99%~1.00%	Land and buildings
	<u>\$ 470,000</u>		
Type of borrowings	December 31, 2016	Interest rate range	Collateral
Bank secured borrowings	\$ 270,000	0.99%~1.08%	Land and buildings
Unsecured bank borrowings	100,000	0.99%~1.02%	None
	<u>\$ 370,000</u>		

(12) Short-term notes and bills payable

	<u>December 31, 2017</u>	<u>Interest rate range</u>	<u>Collateral</u>
Commercial papers payable	<u>\$ 200,000</u>	0.50%~0.62%	None
	<u>December 31, 2016</u>	<u>Interest rate range</u>	<u>Collateral</u>
Commercial papers payable	<u>\$ 200,000</u>	0.50%~0.66%	None

The above commercial papers payable are issued and secured by China Bills Finance Corporation and other financial institutions.

(13) Long-term borrowings

<u>Type of borrowings</u>	<u>Maturity date</u>	<u>December 31, 2017</u>	<u>Interest rate</u>	<u>Collateral</u>
Unsecured bank borrowings	2019. 10. 17~ 2020. 3. 19	<u>\$ 100,000</u>	1.17%	None
<u>Type of borrowings</u>	<u>Maturity date</u>	<u>December 31, 2016</u>	<u>Interest rate</u>	<u>Collateral</u>
Unsecured bank borrowings	2019. 10. 17	<u>\$ 30,000</u>	1.17%	None

(14) Pensions

A. The Company has a defined benefit pension plan in accordance with the Labour Standards Law, covering all regular employees' service years prior to the enforcement of the Labour Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 5% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labour pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contributions for the deficit by next March. Related information of pension paid under aforementioned plan is as follows:

(a) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Present value of defined benefit obligations	(\$ 466,266)	(\$ 446,950)
Fair value of plan assets	<u>197,624</u>	<u>181,535</u>
Net defined benefit liability-non current	<u>(\$ 268,642)</u>	<u>(\$ 265,415)</u>

(b) Movements in defined benefit liability are as follows:



	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
2017			
At January 1	(\$ 446,950)	\$ 181,535	(\$ 265,415)
Current service cost	( 4,987)	-	( 4,987)
Interest (expense) income	( 5,536)	2,281	( 3,255)
	( 457,473)	183,816	( 273,657)
Remeasurements:			
Return on plan assets	-	( 734)	( 734)
Change in demographic assumptions	( 596)	-	( 596)
Change in financial assumptions	( 12,757)	-	( 12,757)
Experience adjustments	( 877)	-	( 877)
	( 14,230)	( 734)	( 14,964)
Pension fund contribution	-	17,799	17,799
Paid pension	5,437	( 3,257)	2,180
At December 31	(\$ 466,266)	\$ 197,624	(\$ 268,642)
	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
2016			
At January 1	(\$ 496,033)	\$ 49,219	(\$ 446,814)
Current service cost	( 5,752)	-	( 5,752)
Interest (expense) income	( 6,141)	620	( 5,521)
	( 507,926)	49,839	( 458,087)
Remeasurements:			
Return on plan assets	-	41	41
Change in demographic assumptions	( 32)	-	( 32)
Change in financial assumptions	26,969	-	26,969
Experience adjustments	5,505	-	5,505
	32,442	41	32,483
Pension fund contribution	-	156,201	156,201
Paid pension	28,534	( 24,546)	3,988
At December 31	(\$ 446,950)	\$ 181,535	(\$ 265,415)

- (c) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labour Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitisation products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The fair value of plan assets as of December 31, 2017 and 2016 is given in the Annual Labour Retirement Fund Utilisation Report announced by the government.
- (d) The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2017	2016
Discount rate	1.00%	1.25%
Future salary increases	2.00%	2.00%

Assumptions regarding future mortality rate are set based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
<u>December 31, 2017</u>				
Effect on present value of defined benefit obligation	(\$ 12,781)	\$ 13,290	\$ 13,125	(\$ 12,689)
<u>December 31, 2016</u>				
Effect on present value of defined benefit obligation	(\$ 12,848)	\$ 13,380	\$ 13,246	(\$ 12,786)

The sensitivity analysis above was arrived at based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(e) Expected contributions to the defined benefit pension plan of the Company for the year ended December 31, 2018 will be \$10,095.

(f) As of December 31, 2017, the weighted average duration of that retirement plan is 11 years. The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	9,752
2-5 years		76,978
Over 5 years		425,229
	\$	<u>511,959</u>

B. Effective July 1, 2005, the Company has established a defined contribution pension plan (the “New Plan”) under the Labour Pension Act (the “Act”), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labour Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2017 and 2016 were \$19,968 and \$19,280, respectively.

(15) Share capital – common stock

A. Movements in the number of the Company’s ordinary shares outstanding are as follows (in thousands of shares):

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Beginning and ending balance	<u>178,696</u>	<u>178,696</u>

B. As of December 31, 2017, the Company’s authorised capital was \$2,000,000, and the paid-in capital was \$1,786,961, consisting of 178,696 thousand shares of ordinary share, with a par value of \$10 (in dollars) per share. Shares can be issued several times. All proceeds from shares issued have been collected.

(16) Capital surplus

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

B. On June 16, 2017 and June 17, 2016, the shareholders have resolved to distribute cash of \$89,348 (\$ 0.5 (in dollars) per share) using capital surplus for both years.

(17) Retained earnings

- A. In accordance with the Company Act, the Company should use profit after tax to appropriate 10% as legal reserve until the legal reserve equals to the paid-in capital. Within the limit, except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- B. Under the Company's Articles of Incorporation, as the Company operates in a volatile business environment and is in the stable growth stage, the Board of Directors takes into consideration the Company's future capital needs, long-term financial planning and shareholders' needs for cash inflow. The Company's earnings, if any, are distributed in the following order:
- (a) Pay all taxes.
  - (b) Cover accumulated deficit.
  - (c) Appropriate 10% as legal reserve.
  - (d) Appropriate or reverse special reserve in accordance with regulations.
  - (e) At least 10% of the remainder and previous unappropriated retained earnings as stockholders' bonus and cash dividends shall account for at least 20% of total dividends distributed. If the cash dividend is below \$0.5 (in dollars) per share, the Company can distribute stock dividends instead of cash dividends upon resolution of the shareholders.
- C. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.
- D. As resolved by the shareholders on June 16, 2017 and June 17, 2016, the Company recognised cash dividends distributed to owners amounting to \$178,696 (\$1 (in dollars) per share) for the appropriation of 2016 and 2015 earnings for both years. On March 20, 2018, the Board of Directors proposed for the distribution of dividends from 2017 earnings of \$285,914 (\$1.6 (in dollars) per share).

(18) Other equity

For the year ended December 31, 2017			
	Currency translation	Unrealised gain on valuation of available-for-sale financial assets	Total
At January 1	(\$ 562)	\$ 286,735	\$ 286,173
Currency translation differences			
- Company	( 8,584)	-	( 8,584)
Valuation adjustment			
- Company	-	( 105,608)	( 105,608)
- Subsidiaries	-	( 15,122)	( 15,122)
At December 31	(\$ 9,146)	\$ 166,005	\$ 156,859

  

For the year ended December 31, 2016			
	Currency translation	Unrealised gain on valuation of available-for-sale financial assets	Total
At January 1	\$ 15,628	\$ 235,290	\$ 250,918
Currency translation differences			
- Company	( 16,190)	-	( 16,190)
Valuation adjustment			
- Company	-	44,063	44,063
- Subsidiaries	-	7,382	7,382
At December 31	(\$ 562)	\$ 286,735	\$ 286,173

(19) Other income

For the years ended December 31,		
	2017	2016
Dividend income	\$ 14,377	\$ 14,853
Interest income	7,015	3,012
Rental income	4,706	4,727
Research income	2,553	28,746
Other income	41,075	32,502
	<u>\$ 69,726</u>	<u>\$ 83,840</u>

(20) Other gains and losses

	For the years ended December 31,	
	2017	2016
Net currency exchange loss	(\$ 51,931)	(\$ 6,140)
Net gain (loss) on disposal of property, plant and equipment	50	(460)
Impairment loss	(12,000)	-
Other losses	(353)	(1,129)
	<u>(\$ 64,234)</u>	<u>(\$ 7,729)</u>

(21) Finance costs

	For the years ended December 31,	
	2017	2016
Interest expense		
Bank borrowings	\$ 5,679	\$ 2,955
Less: Capitalisation of qualifying assets	(365)	(267)
	<u>\$ 5,314</u>	<u>\$ 2,688</u>

(22) Expenses by nature

	For the year ended December 31, 2017		
	Recognised in operating costs	Recognised in operating expenses	Total
Employee benefit expenses	\$ 264,645	\$ 350,254	\$ 614,899
Depreciation on property, plant and equipment	103,173	21,374	124,547
Amortisation on intangible assets	1,029	3,641	4,670
	<u>\$ 368,847</u>	<u>\$ 375,269</u>	<u>\$ 744,116</u>

	For the year ended December 31, 2016		
	Recognised in operating costs	Recognised in operating expenses	Total
Employee benefit expenses	\$ 257,775	\$ 336,318	\$ 594,093
Depreciation on property, plant and equipment	103,647	25,245	128,892
Amortisation on intangible assets	722	3,291	4,013
	<u>\$ 362,144</u>	<u>\$ 364,854</u>	<u>\$ 726,998</u>

(23) Employee benefit expenses

For the year ended December 31, 2017			
	Recognised in operating costs	Recognised in operating expenses	Total
Wages and salaries	\$ 218,064	\$ 301,093	\$ 519,157
Labour and health insurance expenses	21,118	24,104	45,222
Pension costs	13,523	14,687	28,210
Other personnel expenses	11,940	10,370	22,310
	<u>\$ 264,645</u>	<u>\$ 350,254</u>	<u>\$ 614,899</u>

  

For the year ended December 31, 2016			
	Recognised in operating costs	Recognised in operating expenses	Total
Wages and salaries	\$ 211,766	\$ 287,671	\$ 499,437
Labour and health insurance expenses	19,137	22,391	41,528
Pension costs	15,086	15,467	30,553
Other personnel expenses	11,786	10,789	22,575
	<u>\$ 257,775</u>	<u>\$ 336,318</u>	<u>\$ 594,093</u>

- A. As of December 31, 2017 and 2016, the Company had 783 and 780 employees, respectively.
- B. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year (pre-tax profit before deducting employees' compensation and directors' and supervisors' remuneration), after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall be 1%~10% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration. Employees' compensation will be distributed in the form of shares or cash. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, are entitled to receive aforementioned stock or cash. The Company may, by a resolution adopted by a majority vote at a meeting of board of directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders during their meeting.
- C. For the years ended December 31, 2017 and 2016, employees' compensation was accrued at \$4,597 and \$4,060, respectively; while directors' and supervisors' remuneration was accrued at \$9,194 and \$8,121, respectively. The aforementioned amounts were recognised in salary expenses that were estimated and accrued based on the distributable net profit of current year calculated by the percentage prescribed under the Company's Articles of Incorporation. As resolved by the Board of Directors on March 20, 2018, the employees' compensation and directors' and supervisors' remuneration were \$4,465 and \$8,930, respectively, and the

employees' compensation will be distributed in the form of cash. The employees' compensation and directors' and supervisors' remuneration for 2016 as resolved by the Board of Directors was \$12,234. The difference between the aforementioned amount and the amount of \$12,181 recognised in the 2016 financial statements by \$53, mainly caused by estimation differences, had been adjusted in the profit or loss for 2017. Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved by the Board of Directors and shareholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(24) Income tax

A. Income tax expense:

(a) Components of income tax expense:

	For the years ended December 31,	
	2017	2016
Current tax:		
Current tax on profits for the year	\$ 61,396	\$ 23,672
Additional 10% tax on undistributed earnings	15,416	16,763
(Over) under provision of prior year's income tax	(494)	25
Total current tax	<u>76,318</u>	<u>40,460</u>
Deferred tax:		
Origination and reversal of temporary differences	(6,946)	15,132
Total income tax expense	<u>\$ 69,372</u>	<u>\$ 55,592</u>

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

	For the years ended December 31,	
	2017	2016
Remeasurement of defined benefit obligation	<u>(\$ 2,544)</u>	<u>\$ 5,522</u>



B. Reconciliation between income tax expense and accounting profit:

	For the years ended December 31,	
	2017	2016
Tax calculated based on profit before tax and statutory tax rate	\$ 73,552	\$ 67,287
Effect of amount not allowed to recognise under regulations	( 17,488)	( 27,479)
Effect from tax-exempt income	( 1,614)	( 1,004)
Additional 10% tax on undistributed earnings	15,416	16,763
(Over) under provision of prior year's income tax	( 494)	25
Income tax expense	<u>\$ 69,372</u>	<u>\$ 55,592</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	For the year ended December 31, 2017			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets				
Temporary differences:				
Bad debts	\$ 4,074	(\$ 1,056)	\$ -	\$ 3,018
Unrealised loss on inventories from market value decline	3,146	( 1,125)	-	2,021
Unrealised exchange loss	943	5,845	-	6,788
Investment loss	20,615	3,943	-	24,558
Unrealised sales discount	1,153	674	-	1,827
Unused compensated absences	3,905	( 138)	-	3,767
Pensions	39,178	( 1,995)	2,544	39,727
Unrealised loss on scrapped inventories	-	798	-	798
	<u>\$ 73,014</u>	<u>\$ 6,946</u>	<u>\$ 2,544</u>	<u>\$ 82,504</u>
Deferred tax liabilities				
Temporary differences:				
Provision for land value increment tax	(\$ 61,992)	\$ -	\$ -	(\$ 61,992)
	<u>\$ 11,022</u>	<u>\$ 6,946</u>	<u>\$ 2,544</u>	<u>\$ 20,512</u>

For the year ended December 31, 2016				
		Recognised in other comprehensive income		
	January 1	profit or loss		December 31
Deferred tax assets				
Temporary differences:				
Bad debts	\$ 3,137	\$ 937	\$ -	\$ 4,074
Unrealised loss on inventories from market value decline	3,604	( 458)	-	3,146
Unrealised exchange loss	-	943	-	943
Investment loss	12,235	8,380	-	20,615
Unrealised sales discount	1,589	( 436)	-	1,153
Unused compensated absences	3,702	203	-	3,905
Pensions	70,016	( 25,316)	( 5,522)	39,178
	<u>\$ 94,283</u>	<u>(\$ 15,747)</u>	<u>(\$ 5,522)</u>	<u>\$ 73,014</u>
Deferred tax liabilities				
Temporary differences:				
Provision for land value increment tax	( 61,992)	-	-	( 61,992)
Unrealised exchange gain	( 615)	615	-	-
	<u>(\$ 62,607)</u>	<u>\$ 615</u>	<u>\$ -</u>	<u>(\$ 61,992)</u>
	<u>\$ 31,676</u>	<u>(\$ 15,132)</u>	<u>(\$ 5,522)</u>	<u>\$ 11,022</u>

- D. The Company qualifies for “Regulations for Encouraging Manufacturing Enterprises and Technical Service Enterprises in the Newly Emerging, Important and Strategic Industries” and is entitled to income tax exemption for 5 consecutive years starting from 2015.
- E. The Company’s income tax returns through 2014 have been assessed and approved by the Tax Authority. The Company does not have any administrative remedy as of March 20, 2018.
- F. With the abolishment of the imputation tax system under the amendments to the Income Tax Act promulgated by the President of the Republic of China in February, 2018, the information on unappropriated retained earnings and the balance of the imputation credit account as of December 31, 2017, as well as the estimated creditable tax rate for the year ended December 31, 2017 is no longer disclosed. Unappropriated retained earnings on December 31, 2016:

	December 31, 2016
Earnings generated in and before 1997	\$ 5,177
Earnings generated in and after 1998	839,699
	<u>\$ 844,876</u>

- G. As of December 31, 2016, the balance of the imputation tax credit account was \$129,107. As the dividend distribution was approved at the shareholders’ meeting on June 16, 2017 and with the

dividend distribution date set on August 8, 2017 by the Board of Directors, the creditable tax rate for the unappropriated retained earnings of 2016 is 18.51%.

(25) Earnings per share

For the year ended December 31, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 363,286	178,696	\$ 2.03
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 363,286	178,696	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	—	186	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 363,286	178,882	\$ 2.03
For the year ended December 31, 2016			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 340,216	178,696	\$ 1.90
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders	\$ 340,216	178,696	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	—	209	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 340,216	178,905	\$ 1.90

(26) Supplemental cash flow information

A. Investing activities with partial cash payments:

	For the years ended December 31,	
	2017	2016
Purchases of property, plant and equipment	\$ 35,596	\$ 38,989
Add: Opening balance of notes payable	502	863
Opening balance of payable on equipment (shown as "Other payables")	3,312	15,414
Less: Ending balance of notes payable	( 6,810)	( 502)
Ending balance of payable on equipment (shown as "Other payables")	( 8,004)	( 3,312)
Capitalised interest	( 365)	( 267)
Cash paid for acquisition of property, plant and equipment	<u>\$ 24,231</u>	<u>\$ 51,185</u>

B. Operating and investing activities with no cash flow effects:

	For the years ended December 31,	
	2017	2016
(1) Elimination of allowance for bad debts	<u>\$ 2,924</u>	<u>\$ 1,040</u>
(2) Prepayments for equipment transferred to property, plant and equipment	<u>\$ 111,521</u>	<u>\$ 26,592</u>

## 7. RELATED PARTY TRANSACTIONS

### (1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Standard Pharmaceutical Co., Ltd. (Standard P)	Subsidiary
Chia Scheng Investment Co., Ltd. (Chia Scheng)	Subsidiary
STANDARD CHEM. & PHARM. PHILIPPINES, INC. (PHL)	Subsidiary
Inforight Technology Co., Ltd. (Inforight)	Subsidiary
Souriree Biotech & Pharm. Co., Ltd. (Souriree)	Subsidiary
Multipower Enterprise Corp. (Multipower)	Subsidiary
Advpharma Inc. (Adv)	Subsidiary
Syngen Biotech Co., Ltd. (Syngen)	Subsidiary
Jiangsu Standard Biotech Pharmaceutical Co., Ltd. (Jiangsu Standard)	Subsidiary
SANTOS BIOTECH INDUSTRIES.INC. (SANTOS)	Subsidiary
WE CAN MEDICINES CO., Ltd. (WE CAN)	Associate
Taiwan Biosim Co.,Ltd. (Biosim)	Associate
SUN YOU BIOTECH PHARM CO., LTD. (SUN YOU)	The manager of the Company is SUN YOU's corporate director
SYN-TECH CHEM & PHARM CO., LTD. (SYN-TECH)	The Company is SYN-TECH's corporate director

### (2) Significant related party transactions

#### A. Sales of goods

	<u>For the years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Subsidiaries	\$ 8,178	\$ 5,056
Associates	5,179	7,416
Other related parties	14,308	21,420
	<u>\$ 27,665</u>	<u>\$ 33,892</u>

Prices of goods sold to related parties are determined each time when delivering goods. The payment term of the subsidiaries is to obtain cheques due in 3~4 months. For other related parties, terms of transactions are similar with those to third parties, which is cash payment in 2 months after billing, or to obtain cheques with a maturity of 4~6 months upon billing.

B. Purchases of goods

	For the years ended December 31,	
	2017	2016
Subsidiaries	\$ 94,707	\$ 93,903
Other related parties	51,300	56,757
	<u>\$ 146,007</u>	<u>\$ 150,660</u>

Goods are purchased based on the price lists in force and terms that would be available to regular suppliers. Payment terms are cheques with a maturity of 3~4 months after inspection has passed.

C. Other expenses

	For the years ended December 31,	
	2017	2016
Advertisement expenses:		
Subsidiaries	\$ 664	\$ 295
Associates	4	465
Other related parties	608	11,893
	<u>\$ 1,276</u>	<u>\$ 12,653</u>
Research and development expenses:		
Subsidiaries	\$ 1,738	\$ 2,539
Associates	48	92
Other related parties	390	1,368
	<u>\$ 2,176</u>	<u>\$ 3,999</u>
Miscellaneous expenses:		
Subsidiaries	\$ 527	\$ 285

D. Rental income

	For the years ended December 31,	
	2017	2016
	<u>Leased assets</u>	<u>Rent collection</u>
Subsidiaries	Land, Buildings	Monthly
	<u>\$ 4,515</u>	<u>\$ 4,515</u>

E. Other income

	For the years ended December 31,	
	2017	2016
Subsidiaries	\$ 3,448	\$ 4,474
Other related parties	701	661
	<u>\$ 4,149</u>	<u>\$ 5,135</u>

F. Equity transactions

- (a) The Company participated in the cash capital increase of the subsidiary, Standard P, by investing \$33,085 in January 2016.
- (b) The Company participated in the cash capital increase of the subsidiary, Syngen, by investing

\$10,584 in September 2016.

(c) In September 2016, the subsidiary, Syngen, filed for an initial public offering with the Taipei Exchange. As part of the public trading process, the Company partially disposed its shares through public market for a total cash consideration of \$10,259.

(d) The Company participated in cash capital increase of the subsidiary, Souriree, by investing \$10,000 in October 2016.

(e) The Company participated in cash capital increase of the associate, Biosim, by investing \$4,500 in July 2017.

G. Ending balance of goods sold

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Receivables from related parties:		
Subsidiaries	\$ 2,780	\$ 1,058
Associates	592	652
Other related parties	<u>6,272</u>	<u>18,370</u>
	<u>\$ 9,644</u>	<u>\$ 20,080</u>

The receivables from related parties arise mainly from sale transactions. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

H. Ending balance of payment on behalf of others (Shown as 'Other receivables—related parties')

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Receivables from related parties:		
Subsidiaries	<u>\$ 186</u>	<u>\$ 716</u>

I. Ending balance of goods purchased

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Payables to related parties:		
Subsidiaries	\$ 24,794	\$ 22,494
Other related parties	<u>14,841</u>	<u>18,682</u>
	<u>\$ 39,635</u>	<u>\$ 41,176</u>

The payables to related parties arise mainly from purchase transactions. The payables bear no interest.

J. Financing (Shown as 'Other receivables—related parties')

For the year ended December 31, 2017					
	<u>Date of maximum balance</u>	<u>Maximum balance</u>	<u>Ending balance</u>	<u>Annual rate</u>	<u>Interest income</u>
Standard P	2017. 12. 31	<u>\$ 89,280</u>	<u>\$ 89,280</u>	2.5%	<u>\$ 2,275</u>

For the year ended December 31, 2016					
	<u>Date of maximum balance</u>	<u>Maximum balance</u>	<u>Ending balance</u>	<u>Annual rate</u>	<u>Interest income</u>
Standard P	2016. 12. 31	<u>\$ 96,750</u>	<u>\$ 96,750</u>	2.5%	<u>\$ 2,417</u>

K. Endorsements and guarantees provided to related parties

<u>Endorser/ guarantor</u>	<u>Endorsee/guarantee</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>	<u>Purpose</u>
The Company	Standard P	<u>\$ 89,280</u>	<u>\$ 96,750</u>	Secured borrowings

As of December 31, 2017 and 2016, the actual endorsement/guarantee amount provided by the Company for its subsidiary, Standard P, amounted to \$89,280 and \$ –, respectively.

(3) Key management compensation

	For the years ended December 31,	
	<u>2017</u>	<u>2016</u>
Salaries and other short-term employee benefits	<u>\$ 20,862</u>	<u>\$ 22,586</u>

8. PLEDGED ASSETS

The Company's assets pledged as collateral are as follows:

<u>Pledged asset</u>	<u>Book value</u>		<u>Purposes</u>
	<u>December 31, 2017</u>	<u>December 31, 2016</u>	
Investment accounted for under the equity method (Note 1)	\$ 125,129	\$ 133,416	Short-term borrowings
Land (Note 2)	288,489	288,489	Short-term and long-term borrowings
Buildings – net (Note 2)	116,478	120,726	Short-term and long-term borrowings
	<u>\$ 530,096</u>	<u>\$ 542,631</u>	

(Note 1) As of December 31, 2017 and 2016, the Company provided 22,980 thousand shares in its subsidiary, Advpharma Inc., as collateral for short-term borrowings for both years with the carrying value of \$125,129 and \$133,416, respectively.

(Note 2) Shown as 'Property, plant and equipment'.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

As of December 31, 2017 and 2016, except for the information provided in Note 7 for the related party transactions, the Company's significant contingent liabilities and unrecognised contract commitments are as follows:

(1) The balances for contracts that the Company entered into for the purchase of property, plant and equipment, but not yet due were \$10,366 and \$33,184, respectively.



(2) The Company has signed a transfer of technical skill contract ‘Antiviral drug acyclovir and New transdermal absorption external gel preparation’ for 7 years with National Science Council of R.O.C. and professor You-Pu Hu in June 1998. The Company should complete production of all products using the technical skill and consulting provided by professor You-Pu Hu within 4 years after the effectiveness of the contract. Except for paying a fixed royalty to National Science Council of R.O.C. and professor You-Pu Hu, the Company should pay 5% of the total sales from the product using the technical skill as royalty for technical skill transfer. The Company started to sell the product from April 2000. As of December 31, 2017 and 2016, the royalty for technical skill transfer paid were \$ — and \$1,300, respectively.

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company’s applicable income tax rate will be raised from 17% to 20% effective from January 1, 2018. This will increase the Company’s deferred income tax assets by \$14,559, which will be adjusted in the first quarter of 2018.

12. OTHERS

(1) Capital management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(2) Financial instruments

A. For the financial instruments fair value information

The carrying amounts of the Company’s financial instruments not measured at fair value (including cash and cash equivalents, notes receivable, accounts receivable, other receivables (including related parties), other financial assets-current, guarantee deposits paid, short-term borrowings, short-term notes and bills payable, notes payable (including related parties), accounts payable, other payables, long-term borrowings and guarantee deposits received) are approximate to their fair values. The fair value information of financial instruments measured at fair value is provided in Note 12(3) for the fair value estimation for the financial instruments fair value information.

B. Financial risk management policies

(a) The Company’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The Company’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company’s financial position

and financial performance.

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

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD, JPY and PHP. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.
- ii. The Company has certain sales and purchases denominated in USD and other foreign currencies. Changes in market exchange rates would affect the fair value. However, the payment and collection periods of asset and liability positions in foreign currencies are close, market risk can be offset. The Company does not expect significant interest rate risk.
- iii. The Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. However, the net investments of foreign operations are strategic investments, thus the Company does not hedge the investments.
- iv. The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2017			
Foreign currency			
amount			
	(In thousands)	Exchange rate	Book value
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 28,946	29.76	\$ 848,031
JPY: NTD	35,854	0.2642	9,437
RMB: NTD	1,457	4.565	6,642
<u>Investments accounted for under the equity method</u>			
USD: NTD	5,333	29.76	158,725
PHP: NTD	6,526	0.5892	3,845
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	68	29.76	2,034

December 31, 2016			
Foreign currency			
amount			
	(In thousands)	Exchange rate	Book value
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD: NTD	\$ 19,609	32.25	\$ 632,399
JPY: NTD	84,997	0.2756	23,425
<u>Investments accounted for under the equity method</u>			
USD: NTD	5,810	32.25	187,384
PHP: NTD	7,527	0.6648	5,031
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD: NTD	198	32.25	6,397

With regard to sensitivity analysis of foreign currency exchange rate risk, if the exchange rates of NTD to all foreign currencies had appreciated/depreciated by 1%, with all other factors remaining constant, the Company's net income for the years ended December 31,

- 2017 and 2016 would have increased/decreased by \$8,508 and \$6,926, respectively.
- v. Total exchange loss, including realised and unrealised, arising from significant foreign exchange variation on the monetary items held by the Company for the years ended December 31, 2017 and 2016 amounted to \$51,931 and \$6,140, respectively.

Price risk

- i. The Company is exposed to equity securities price risk because of investments held by the Company and classified on the parent company only balance sheet as available-for-sale. To manage its price risk arising from investments in equity securities, the Company has set various stop-loss points to ensure not to be exposed to significant risks. Accordingly, no material market risk was expected.
- ii. The Company's investments in equity securities comprise domestic listed and unlisted stocks. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities had increased/decreased by 1% with all other variables held constant, other components of equity, as of December 31, 2017 and 2016, would have increased/decreased by \$1,501 for both years, as a result of gains/losses on equity securities classified as available-for-sale.

Interest rate risk

- i. The Company's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk which is partially offset by cash and cash equivalents held at variable rates. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. During the years ended December 31, 2017 and 2016, the Company's borrowings at variable rate were denominated in the NTD.
- ii. With regard to sensitivity analysis of interest rate risk, if interest rates on borrowings at that date had been 1% higher/lower with all other variables held constant, post-tax profit for the years ended December 31, 2017 and 2016 would have been \$44 and \$22 lower/higher, respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents and outstanding receivables.
- ii. For the years ended December 31, 2017 and 2016, no credit limits were exceeded during

the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

- iii. The Company provides endorsements and guarantees based on the Company's policies and procedures on endorsements and guarantees. The Company only provides endorsement or guarantee for subsidiaries that the Company directly holds more than 50% ownership, or for entities that the Company holds more than 50% ownership, either directly or indirectly, as well as the power to govern the policies. No collateral is requested for the endorsements and guarantees as the Company can control the credit risk of the subsidiary. The maximum credit risk is the guaranteed amount.
- iv. The credit quality information of financial assets that are neither past due nor impaired is provided in the statement for each type of financial assets in Note 6.
- v. The ageing analysis of financial assets that were past due but not impaired is provided in the statement for each type of financial assets in Note 6.
- vi. The individual analysis of financial assets that had been impaired is provided in the statement for each type of financial assets in Note 6.

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities.
- ii. Surplus cash held by the Company over and above balance required for working capital management are transferred to the Company treasury. Company treasury invests surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.
- iii. The Company has the following undrawn borrowing facilities:

	December 31, 2017	December 31, 2016
Floating rate:		
Expiring within one year	\$ 264,160	\$ 310,000
Expiring beyond one year	-	70,000
	<u>\$ 264,160</u>	<u>\$ 380,000</u>

- iv. The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

December 31, 2017	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 470,382	\$ -	\$ -	\$ -
Short-term notes and bills payable	200,000	-	-	-
Notes payable	119,631	-	-	-
Notes payable-related parties	26,704	-	-	-
Accounts payable	55,441	-	-	-
Other payables	223,326	-	-	-
Long-term borrowings	1,207	1,099	100,147	-
Guarantee deposits received	-	5,371	-	-
December 31, 2016	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term borrowings	\$ 370,321	\$ -	\$ -	\$ -
Short-term notes and bills payable	200,000	-	-	-
Notes payable	142,389	-	-	-
Notes payable-related parties	30,021	-	-	-
Accounts payable	72,101	-	-	-
Other payables	189,601	-	-	-
Long-term borrowings	351	351	30,279	-
Guarantee deposits received	-	5,286	-	-

- v. For non-derivative financial liabilities, the Company's non-derivative financial liabilities do not expect the timing of occurrence of the cash flows estimated through the maturity date analysis will be significantly earlier, nor expect the actual cash flow amount will be significantly different.

(3) Fair value estimation of the financial instruments

- A. Details of the fair value of the Company's financial assets and financial liabilities not measured at fair value are provided in Note 12(2) for the financial instruments.
- B. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Company's investment in listed stocks and emerging stocks with active

market is included.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly.

Level 3: Unobservable inputs for the asset or liability. The Company's investment in partial equity instruments without active market is included.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities at December 31, 2017 and 2016 is as follows:

<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$210,491</u>	<u>\$ -</u>	<u>\$ 88,323</u>	<u>\$298,814</u>
<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Recurring fair value measurements</u>				
Available-for-sale financial assets				
Equity securities	<u>\$286,632</u>	<u>\$ -</u>	<u>\$129,790</u>	<u>\$416,422</u>

D. The methods and assumptions the Company used to measure fair value are as follows:

(a) The instruments that the Company used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed stocks</u>	<u>Unlisted stocks</u>
Market quoted price	Closing price	Latest closing price on the balance sheet date

(b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the parent company only balance sheet date.

(c) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial and non-financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs, for example, model risk or liquidity risk and etc. In accordance with the Company's management policies and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial and non-financial instruments at the parent company only balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.

E. The trading of the shares of Original BioMedicals Co., Ltd. was suspended trading by the Emerging

Stock Market since June 6, 2017, therefore, the Company transferred the fair value from Level 1 to Level 2 and recognised impairment loss in the fourth quarter of 2017. There was no transfer between Level 1 and Level 2 in 2016.

F. The following table presents the changes in Level 3 instruments in 2017 and 2016:

	For the years ended December 31,	
	2017	2016
At January 1	\$ 129,790	\$ 108,108
Recognised in other comprehensive (loss) income (Note)	(41,467)	21,682
At December 31	<u>\$ 88,323</u>	<u>\$ 129,790</u>

(Note) Shown as “Unrealised gain or loss of available-for-sale financial assets”.

G. For the years ended December 31, 2017 and 2016, there was no transfer from or to Level 3.

H. Financial segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.

I. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2017	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted stocks	\$ 21,521	Market comparable companies	Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value
	66,802	Discounted cash flow	Discount rate	1.59%	The higher the discount rate, the lower the fair value
	Fair value at December 31, 2016	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted stocks	\$ 52,077	Market comparable companies	Discount for lack of marketability	20%	The higher the discount for lack of marketability, the lower the fair value
	77,713	Discounted cash flow	Discount rate	1.97%	The higher the discount rate, the lower the fair value

J. The Company has carefully assessed the valuation models and assumptions used to measure fair value;



therefore, the fair value measurement is reasonable. However, use of different valuation models or assumptions may result in different measurement. The following is the effect of profit or loss or of other comprehensive income from financial assets categorised within Level 3 if the inputs used to valuation models have changed:

			December 31, 2017			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Discount for lack of marketability	± 10%	\$ -	\$ -	\$ 538	(\$ 538)
	Discount rate	± 10%	-	-	125	( 125)
			\$ -	\$ -	\$ 663	(\$ 663)
			December 31, 2016			
			Recognised in profit or loss		Recognised in other comprehensive income	
	Input	Change	Favourable change	Unfavourable change	Favourable change	Unfavourable change
Financial assets						
Equity instrument	Discount for lack of marketability	± 10%	\$ -	\$ -	\$ 1,302	(\$ 1,302)
	Discount rate	± 10%	-	-	244	( 244)
			\$ -	\$ -	\$ 1,546	(\$ 1,546)

### 13. SUPPLEMENTARY DISCLOSURES

(Only 2017 information is disclosed in accordance with the current regulatory requirements.)

#### (1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the year (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: None.
- J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 5.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: None.

14. SEGMENT INFORMATION

Not applicable.

**STANDARD CHEM & PHARM CO., LTD.**

Loans to others

For the year ended December 31, 2017

Expressed in thousands of NTD

Table 1

Number	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance	Ending balance (Note 2)	Actual amount drawn down	Interest rate	Nature of loan (Note 1)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted	Note (Notes 3)
													Item	Value			
0	Standard Chem & Pharm Co., Ltd.	Standard Pharmaceutical Co., Ltd.	Other receivables	Yes	\$ 89,280	\$ 89,280	\$ 89,280	2.5%	2	\$ -	- Operating capital	-	-	\$ -	183,621	\$ 367,242	(Notes 3)
1	Standard Pharmaceutical Co., Ltd.	Jiangsu Standard Biotech Pharmaceutical	Other receivables	Yes	89,280	89,280	89,280	2.5%	2	-	Operating capital	-	-	-	317,450	317,450	(Notes 3)

Note 1: The code represents the nature of financing activities as follows:

(1) Trading partner.

(2) Short-term financing.

Note 2: The ending balance is the credit limit approved by the Board of Directors.

Note 3: Calculation of limit on loans granted to a single party and ceiling on total loans granted:

(1) Limit on loans granted to a single party:

(a) For the companies having business relationship with the Company, limit on loans granted to a single party is the higher value of purchasing and selling during current or latest year on the year of financing.

(b) For short-term financing, limit on loans granted to a single party is 5% of the Company's net assets based on the latest audited consolidated financial statements.

(c) Limit on loans granted by Standard Pharmaceutical Co., Ltd. to a single party is 200% of the creditor's net assets based on the latest audited or reviewed consolidated financial statements.

(2) Ceiling on total loans granted to a single party:

(a) Ceiling on total loans granted by the Company to single party is 10% of the Company's net assets.

(b) Ceiling on total loans granted by Standard Pharmaceutical Co., Ltd. to single party is 200% of the creditor's net assets.

(3) For short-term financing, ceiling on total loans granted to all direct or indirect wholly-owned domestic and foreign subsidiaries of the Company is not limited to 40% of the creditors' net assets.

Note 4: Foreign currencies were translated into New Taiwan Dollars with exchange rate as of December 31, 2017 as follows: USD: NTD 1:29.76.

STANDARD CHEM & PHARM. CO., LTD.

Provision of endorsements and guarantees to others

For the year ended December 31, 2017

Expressed in thousands of NTD

Table 2

Number	Endorser/ guarantor	Party being endorsed/guaranteed		Limit on endorsements/ guarantees provided for a single party (Note 1)	Maximum outstanding endorsement/ guarantee amount	Outstanding endorsement/ guarantee amount	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of accumulated endorsement/ guarantee amount to net asset value of the endorser/guarantor company	Ceiling on total amount of endorsements/ guarantees provided (Note 1)	Provision of			Note
		Company name	Relationship with the endorser/guarantor								endorsements/ guarantees by parent company to subsidiary	endorsements/ guarantees by subsidiary to parent company	endorsements/ guarantees to the party in Mainland China	
0	Standard Chem & Pharm. Co., Ltd.	Standard Pharmaceutical Co., Ltd.	Subsidiary	\$ 734,485	\$ 89,280	\$ 89,280	\$ 89,280	\$ -	2%	\$ 1,836,212	Y	N	N	-

Note 1: Under "Procedures for Provision of Endorsements and Guarantees", the total endorsement and guarantee provided shall not exceed 50% of the Company's net assets; the amount provided for each counterparty shall not exceed 20% of the Company's net assets.

Note 2: Foreign currencies were translated into New Taiwan Dollars with exchange rate as of December 31, 2017 as follows: USD: NTD 1:29.76.

**STANDARD CHEM & PHARM CO., LTD.**  
Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)  
December 31, 2017

Expressed in thousands of NTD

Table 3

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	As of December 31, 2017		
					Book value	Ownership (%)	Fair value
Standard Chem & Pharm. Co., Ltd	Bonds with repurchase agreement:						
	Mega Bills Finance Co., Ltd	—	1	-	\$ 15,029	-	\$ 15,029
	Stocks (investment certificate):						
	Original BioMedicals Co., Ltd.	—	3	200,000	-	0.81%	-
	SYN-TECH CHEM & PHARM CO., LTD.	The Company is SYN-TECH CHEM & PHARM Co., Ltd.'s corporate director	4	2,923,484	210,491	9.73%	210,491
HER-SING CO., LTD.							
		The Company is HER-SING Co., Ltd.'s corporate director	4	3,055,000	66,802	17.71%	66,802
		The manager of the Company is SUN YOU BIOTECH PHARM CO., LTD.	4	2,862,717	21,521	18.43%	21,521
NCKU Venture Capital Co., Ltd.							
		The Company is NCKU Venture Capital Co., Ltd.'s corporate director.	5	1,000,000	10,000	4.17%	-
NTU Innovation & Incubation Co., Ltd.							
			5	480,000	4,800	3.76%	-
			5	198,080	1,485	4.16%	-
			5	70,000	800	5.14%	-
JENKEN BIOSCIENCES, INC.							
			2	368,142	5,199	-	5,199
			2	50,000	672	-	672
Green Management International Co., Ltd.							
			4	204,107	1,530	1.30%	1,530
Taishin Ta-Chong Money Market Fund							
Taishin 1699 Money Market Fund							
SUN YOU BIOTECH PHARM CO., LTD.							
Stason Pharmaceuticals, Inc.							
			5	4,000,000	119,240	13.02%	-
Beneficiary certificates:							
			2	121,952	1,956	-	1,956
Capital Money Market Fund							
			2	4,000,000	40,406	-	40,406
Beneficiary certificates:							
			2	3,166,588	39,474	-	39,474
			2	1,782,508	27,107	-	27,107
			2	1,232,506	16,669	-	16,669
			2	484,871	4,757	-	4,757
Taiwan Cooperative Bank Money Market Fund							
			2	300,000	3,282	-	3,282
Mega Diamond Money Market Fund							
			2	293,229	2,809	-	2,809
FSITC Taiwan Money Market Fund							
Eastspring Inv Well Pool Money Market Fund							
Shin Kong Global ETF Fund of Funds							
Eastspring Investments Asian Income							
Balanced Fund A TWD							
Mega USD Money Market Fund							

As of December 31, 2017

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	Number of shares	Book value	Ownership (%)	Fair value	Note
Advvpharma Inc.	Stocks:							
	YungShin Global Holding Corporation	—	3	108,000	\$ 4,309	0.04%	\$ 4,309	-
	China Chemical & Pharmaceutical Co., Ltd.	—	3	80,000	1,492	0.03%	1,492	-
	SYN-TECH CHEM & PHARM CO., Ltd.	The Company is SYN-TECH CHEM & PHARM Co., Ltd.'s corporate director	4	577,000	41,544	1.92%	41,544	-
Syngen Biotech Co., Ltd.	Der Yang Biotechnology Venture Capital Co., Ltd.	—	5	279,680	2,797	3.70%	-	-
	JENKEN BIOSCIENCES, INC.	—	5	19,340	70	0.43%	-	-
	Stocks:							
	NCKU Venture Capital Co., Ltd.	The Company is NCKU Venture Capital Co., Ltd.'s corporate director.	5	1,000,000	10,000	4.17%	-	-

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities.

Note 2: The general ledger account is classified into the following five categories:

1. Cash and cash equivalents
2. Financial assets at fair value through profit or loss - current
3. Available-for-sale financial assets - current
4. Available-for-sale financial assets - non-current
5. Financial assets measured at cost - non-current

Note 3: Foreign currencies were translated into New Taiwan Dollars with exchange rate as of December 31, 2017 as follows: USD: NTD 1:29.76 .

STANDARD CHEM & PHARM. CO., LTD.

Significant inter-company transactions during the reporting period

For the year ended December 31, 2017

Expressed in thousands of NTD

Table 4

Number (Note 2)	Company name	Counterparty	Relationship (Note 3)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 4)
				General ledger account	Amount	Transaction terms	
0	Standard Chem & Pharm. Co., Ltd.	Standard Pharmaceutical Co., Ltd.	1	Other receivables	\$ 89,466	—	1%
			1	Endorsements and guarantee	89,280	—	1%
			1	Purchases	30,362	Pay cheques with a maturity of 3~4 months after inspection had passed	1%
			1	Purchases	64,345	Pay cheques with a maturity of 3~4 months after inspection had passed	2%
1	Standard Pharmaceutical Co., Ltd.	Jiangsu Standard Biotech Pharmaceutical Co., Ltd.	1	Notes payable	( 16,178)	—	—
			3	Other receivables	89,740	—	1%

Note 1: As the amounts and counterparties of significant inter-company transactions are the same from the opposite transaction sides, no disclosure is required. Only transactions amounting to more than \$10,000 are disclosed.

Note 2: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 3: Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 4: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on ending balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the year to consolidated total operating revenues for statement of comprehensive income accounts.

Note 5: Foreign currencies were translated into New Taiwan Dollars with exchange rate as of December 31, 2017 as follows: USD: NTD 1:29.76.

**STANDARD CHEM & PHARM. CO., LTD.**

**Information on investees**

**For the year ended December 31, 2017**

Expressed in thousands of NTD

Table 5

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017	Investment income (loss) recognised for the year ended December 31, 2017	Note
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value			
Standard Chem & Pharm. Co., Ltd.	Standard Pharmaceutical Co., Ltd.	Samoa	Research and development, trading, investment and other business of medical products	\$ 310,283	\$ 310,283	10,000,000	100.00	\$ 158,725	\$ 23,199	\$ 23,199	Subsidiary
Standard Chem & Pharm. Co., Ltd.	Chia Scheng Investment Co., Ltd.	Taiwan	General investment	160,856	160,856	16,103,000	100.00	142,175	( 13,855)	( 13,855)	Subsidiary
Standard Chem & Pharm. Co., Ltd.	STANDARD CHEM. & PHARM. PHILIPPINES, INC.	Philippines	Import and export of various medical products, medicine, supplements	6,762	6,762	192,195	100.00	3,845	( 620)	( 620)	Subsidiary
Standard Chem & Pharm. Co., Ltd.	Inforght Technology Co., Ltd.	Taiwan	Wholesale of multi-function printers and information software	5,000	5,000	500,000	100.00	4,277	( 11)	( 11)	Subsidiary
Standard Chem & Pharm. Co., Ltd.	Souiree Biotech & Pharm. Co., Ltd	Taiwan	Manufacturing of western medicine and retail and wholesale of various medicines	41,549	41,549	5,649,126	93.17	26,233	1,001	( 1,086)	Subsidiary
Standard Chem & Pharm. Co., Ltd.	Multipower Enterprise Corp.	Taiwan	Import and export of western medicine, nourishment and function food, processing, manufacturing and sale of food	291,803	293,060	19,780,600	90.45	502,682	55,412	51,147	Subsidiary
Standard Chem & Pharm. Co., Ltd.	Advpharma Inc.	Taiwan	Research and development, manufacturing and sale of various medicine	507,332	507,332	50,746,706	84.58	276,322	( 5,141)	( 4,285)	Subsidiary (Note 1)
Standard Chem & Pharm. Co., Ltd.	Syngen Biotech Co., Ltd	Taiwan	Research and development, manufacturing and sale of APIs, biopesticide, fertiliser and biochemical nutrition, sale of preventive medicine	122,458	122,458	9,927,146	47.27	344,284	148,618	69,582	Subsidiary (Note 2)



Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2017			Net profit (loss) of the investee for the year ended December 31, 2017		Investment income (loss) recognised for the year ended December 31, 2017	Note
				Balance as at December 31, 2017	Balance as at December 31, 2016	Number of shares	Ownership (%)	Book value	December 31, 2017 (\$)	December 31, 2017 (\$)		
Standard Chem & Pharm. Co., Ltd. Standard Chem & Pharm. Co., Ltd.	WE CAN MEDICINES CO., LTD	Taiwan	Wholesale of various medicine	\$ 213,136	\$ 213,136	10,273,272	33.10	\$ 143,705	\$ -	\$ 5,756	-	
	Taiwan Biosim, Co., Ltd.	Taiwan	Research and development of various medicine	4,500	-	450,000	45.00	4,488	( 26)	( 12)	-	
Chia Scheng Investment Co., Ltd.	SANTOS BIOTECH INDUSTRIES, INC.	America	Research and development, trading, investment and other business of medical products	96,040	96,040	3,111,500	100.00	13,039	( 1,475)	-	-	Subsidiary (Note 3)
Syngen Biotech Co., Ltd	SYNGEN BIOTECH INTERNATIONAL SDN. BHD.	Malaysia	Research and development, manufacturing and sale of APIs and biochemical nutrition, sale of preventive medicine	3,515	-	500,000	100.00	3,109	( 546)	-	-	Subsidiary (Note 3)
Advpharma Inc.	CHN TECHNOLOGIES INC.	America	Inspection of medicine, retail and wholesale of various chemistry	12,208	12,208	400,000	35.60	10,898	( 2,055)	-	-	Subsidiary (Note 3)

Note 1: Including 22,980 thousand shares with amount of \$125,129 are pledged as collateral for short-term borrowings.

Note 2: In September 2016, the subsidiary, Syngen Biotech Co., Ltd. ("Syngen"), filed for an initial public offering with Taipei Exchange. As part of the public trading process, the Company allowed its underwriter to exercise the overallotment option, which decreased the Company's ownership percentage in Syngen to below 50%. However the Company did not lose control over Syngen.

Note 3: Not required to disclose income (loss) recognised.

Note 4: Foreign currencies were translated into New Taiwan Dollars with exchange rate as of December 31, 2017 as follows: USD: NTD 1:29.76.

STANDARD CHEM & PHARM. CO., LTD.  
Information on investments in Mainland China  
For the year ended December 31, 2017

Expressed in thousands of NTD

Table 6

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Amount remitted from Taiwan to Mainland China/Amount remitted back to Taiwan for the year ended December 31, 2017				Not income (loss) of investee for the year ended December 31, 2017	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised for the year ended December 31, 2017	Book value of investments in Mainland China as of December 31, 2017	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2017
				Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2017	Remitted to Mainland China	Remitted back to Taiwan	from Taiwan to Mainland China as of December 31, 2017					
Jiangsu Standard Biotech Pharmaceutical Co., Ltd.	Main business activities: Research and development, technical consulting and technical services of medicine	\$ 267,840	(Note 1)	\$ 267,544	\$ -	\$ -	\$ 267,544	(\$ 23,802)	100.00	(\$ 23,802)	\$ 124,634	\$ -
Jiangsu Standard-Dia Biopharma Co., Ltd.	Research and development, manufacturing and sale of various medicine	189,811	(Note 2)	-	-	-	-	( 28,590)	55.00	( 15,724)	31,111	-

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2017	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments imposed by the Commission of MOEA
Standard Chem & Pharm. Co., Ltd.	\$ 267,544	\$ 267,840	\$ 2,521,311

Note 1: Indirect investment in Mainland China through an existing company (Standard Pharmaceutical Co., Ltd.) located in the third area.

Note 2: Indirect investment in Mainland China through an existing company (Jiangsu Standard Biotech Pharmaceutical Co., Ltd.) located in Mainland China.

Note 3: Recognition is based on investees' financial statements audited and attested by independent accountants.

Note 4: Ceiling is the higher of net assets or 60% of consolidated equity.

Note 5: Foreign currencies were translated into New Taiwan Dollars with exchange rate as of December 31, 2017 as follows: USD: NTD 1:29.76 and RMB: NTD 1:4.565.