

Stock Code: 1720

# **Standard Chem. & Pharm. Co., Ltd.**

## **Handbook for the 2017 Annual Meeting of Shareholders**

MEETING TIME: June 16, 2017

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THIS IS A TRANSLATION OF THE AGENDA FOR THE 2017 ANNUAL SHAREHOLDERS' MEETING ("THE AGENDA") OF STANDARD CHEM. & PHARM. CO., LTD ("THE COMPANY"). THE TRANSLATION IS INTENDED FOR REFERENCE ONLY AND NOT FOR OTHER PURPOSE. THE COMPANY HEREBY DISCLAIMS ANY AND ALL LIABILITIES WHATSOEVER FOR THE TRANSLATION. THE CHINESE TEXT OF THE AGENDA SHALL GOVERN ANY AND ALL MATTERS RELATED TO THE INTERPRETATION OF THE SUBJECT MATTER STATED HEREIN.

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# **I. Meeting Procedure**

## **Standard Chem. & Pharm. Co., Ltd.**

### **Procedure for the 2017 Annual Meeting of Shareholders**

1. Calling of the Meeting to Order
2. Chairperson takes Chair
3. Introduction
4. Chairperson Remarks
5. Company Reports
6. Proposals
7. Discussions
8. Question and Motions
9. Adjournment

## **II. Meeting Agenda**

### **Agenda of Annual Meeting of Shareholders**

Time: 9:00 a.m. on Friday, June 16, 2017

Place: Standard Chem. & Pharm. Co., Ltd.'s Conference Hall, No. 154, Kaiyuan Rd.,  
Tuku Village, Sinying District, Tainan City.

1. Call the Meeting to Order
2. Chairperson Remarks
3. Company Reports
  - (1)2016 Business Report
  - (2)Supervisors' Review Report on the 2016 Financial Results
  - (3)2016 Annual Report on Remuneration of Employees , Directors and Supervisors
  - (4)The report of amending the Principles for Ethical Management
  - (5)The Status of Endorsement and Guarantee
  - (6)The Status of Implementation of Investment in Mainland China
  - (7)Other Reports
4. Proposals
  - (1)Adoption of the 2016 Business Report and Financial Statements
  - (2)Adoption of the Proposal for Distribution of 2016 Profits
5. Discussions
  - (1)Amendment of Procedure of Handling Acquisition and Disposal of Assets
  - (2)Proposal for Distribution of Additional Paid-in Capital
6. Questions and Motions
7. Adjournments

### III. Company Reports

#### (1) 2016 Business Reports

The result of overall operation for Standard Chem. & Pharm. Co., Ltd. and its subsidiaries' (the Group) were summarized as follows:

1. Net Sales

Due to the effort of the Group, Net Sales for 2016 increased 10.6% in comparison with 2015.

2. Gross Profit

Due to the revenue increase and portfolio adjustment, Gross Profit for 2016 rose by 5.4% in comparison with 2015.

3. Operating profit

Due to the increase of gross profit and cost control, the Operating profit for 2016 increased 9.0% in comparison with 2015.

4. Non-operating Income

Due to the increase of exchange loss and the decrease of research income, Non-operating Income in 2016 decreased by 45.6% when compared with 2015.

In summation of the above, Net Profit for 2016 was NT\$372 million; representing a 1.1% increase over Net Income of 2015.

(2) Supervisors' review report on the 2016 financial statements

## **Supervisor's Review Report**

To Shareholders:

The Board of Directors has prepared Standard Chem. & Pharm. Co., Ltd. (SCP)'s 2016 Business report, parent and consolidated Financial Statements, and proposal of the surplus earning distribution. The CPA firm of PricewaterhouseCoopers Taiwan was retained to audit SCP's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report and Financial Statements have been reviewed and determined to be correct and accurate by the Supervisor of SCP. According to Article 219 of the Company Act, I hereby submit this report.

Supervisor: Yuan-Feng, Kao

March 24, 2017

## **Supervisor's Review Report**

To Shareholders:

The Board of Directors has prepared Standard Chem. & Pharm. Co., Ltd. (SCP)'s 2016 Business report, parent and consolidated Financial Statements, and proposal of the surplus earning distribution. The CPA firm of PricewaterhouseCoopers Taiwan was retained to audit SCP's Financial Statements and has issued an audit report relating to the Financial Statements. The Business Report and Financial Statements have been reviewed and determined to be correct and accurate by the Supervisor of SCP. According to Article 219 of the Company Act, I hereby submit this report.

Supervisor: Tsui-Wen, Yeh

March 24, 2017

- (3) 2016 Annual Report on Remuneration of employees , directors and supervisors  
The resolution was approved by the Board on March 24th, 2017.
- i. 2016 annual employees' remuneration is NT\$ 4,078,168, the amount recognized is NT\$ 4,060,393. The difference NT\$ 17,775 is recognized as a gain in 2017.
  - ii. 2016 annual Board's remuneration is NT\$ 8,156,337, the amounts recognized is NT\$ 8,120,787. The difference NT\$ 35,550 is recognized as a gain in 2017.
  - iii. The above remuneration is distributed in cash.
- (4) The report of amending Principles for Ethical Management  
The amendment of Principles for Ethical Management has been approved by the Board and examined by the supervisors of the company on Nov. 4th, 2016.  
(Please refer to page 44-49 Attachment 3 for details.)
- (5) The Status of Endorsement and Guarantee
- i. Based on the resolution made by the Board of Directors on March 25<sup>th</sup>, 2016, the endorsements and guarantees provided by SCP to its subsidiary, Syngen Biotech Co., Ltd., have been canceled. By the end of December 2016, none of the amount was actually used.
  - ii. Based on the resolution made by the Board of Directors on April 18<sup>th</sup>, 2012, the endorsements and guarantees provided by SCP to its subsidiary, Standard Pharmaceutical Co., Ltd. (Samoa), have totaled US\$3,000,000. By the end of December 2016, none of the amount was actually used.
- (6) The Status of Implementation of Investment in Mainland China
- i. SCP invested through Standard Pharmaceutical Co., Ltd. (Samoa) to Jiangsu Standard Biopharm Co., Ltd., a 100% owned subsidiary, located in Taizhou City of Jiangsu province in Mainland China. The total amount to be invested is US\$9,000,000; the registered paid-in capital at the end of 2016 was US\$9,000,000.
  - ii. SCP joint ventured through Jiangsu Standard Biopharm Co., Ltd. with a Japanese company to Jiangsu Standard-Dia Biopharm Co., Ltd., a 55% owned subsidiary. The registered paid-in capital at the end of 2016 was US\$6,780,000.
- (7) Other Reports  
In accordance with Article 172-1 of the Company Act, the proposals submitted by shareholders shall be listed; no proposal is submitted in this shareholders' meeting.



## IV. Proposals

1.

**Proposed by the Board**

**Proposal:**

Adoption of the 2016 Business Report and Financial Statements.

**Explanation:**

The 2016 business report (please refer to page 16-18) and financial statements of SCP (please refer to page 19-43) have been approved by the Board and examined by the supervisors of SCP.

**Resolution:**

2.

**Proposed by the Board**

**Proposal:**

Adoption of the Proposal for Distribution of 2016 Profits.

**Explanation:**

- a. Please refer to the 2016 PROFIT DISTRIBUTION TABLE below.
- b. The distribution of cash dividends shall be based on the stock register record as shown on the distribution record date. It is proposed to distribute NT\$1.0 per share, and the total dividend shall be rounded down to nearest NT\$1.00, the remaining fraction will be adjusted by the Chairman of the Board, who is fully authorized by Board of Directors.
- c. Subject to approval of the proposed distribution plan by the Shareholders' Meeting, it is proposed that the Board of Directors be authorized to determine the dividend distribution date in order to make adjustment and distribution for each share based on the number of actual shares outstanding on the distribution date.

**Standard Chem. & Pharm. Co., Ltd.**  
**PROFIT DISTRIBUTION TABLE**  
**Year 2016**

(Unit: NT\$)

Item	Amount
After-tax net profit	340,216,856
Less: Legal reserve	(34,021,686)
Plus: Adjusted actuarial interest	26,658,116
Distributable profit from year 2016	332,853,286
Undistributed earnings from previous period	478,001,259
Accumulated undistributed earnings	810,854,545
Less: Dividend to shareholders (Cash dividend NT\$1.00 per share)	(178,696,089)
Undistributed earnings as of the end of the period	632,158,456

Note 1: Earning distribution for this year shall be based on the distributable profit from year 2016

Note 2: Actual cash dividend amount per share shall be calculated based on the stock register record shown on the distribution record date

**Resolution:**

## V. Discussions

1.

**Proposed by the Board**

**Proposal:**

Proposal for amendment of Procedure of Handling Acquisition and Disposal of Assets

**Explanation:**

In accordance with Financial Supervisory Corporate Document No1060001296 provided by Financial Supervisory Commission on February 9<sup>th</sup>, 2017, the company hereby proposes to amend the Procedure of Handling Acquisition and Disposal of Assets. Please refer to the Table below.

Amended clause	Current clause	Explanation
<p>Article 7 : Procedure for acquiring or disposing real estate property or equipment.1~3 (Omitted)</p> <p>4. Appraisal report for real estate property or other fixed assets</p> <p>Except for business deal with government agencies, construction on private or rent land, and business equipment, the transaction amount of our Company's acquisition or disposal of real estate property or equipment exceeding 20% of our Company's paid-up capital or TWD 300 million shall require a price appraisal report issued by a professional appraiser and compliance to the following: (Omitted below)</p>	<p>Article 7 : Procedure for acquiring or disposing real estate property or equipment.1~3 (Omitted)</p> <p>4. Appraisal report for real estate property or other fixed assets</p> <p>Except for business deal with government institutions, construction on private or rent land, and business equipment, the transaction amount of our Company's acquisition or disposal of real estate property or equipment exceeding 20% of our Company's paid-up capital or TWD 300 million shall require a price appraisal report issued by a professional appraiser and compliance to the following: (Omitted below)</p>	Amended with the decree
<p>Article 9: Procedure for transaction with stakeholder</p> <p>1. (Omitted)</p> <p>2. Assessment and operational procedure</p> <p>Our Company's acquisition or disposal of real estate property from or with a stakeholder, or</p>	<p>Article 9: Procedure for transaction with stakeholder</p> <p>1. (Omitted)</p> <p>2. Assessment and operational procedure</p> <p>Our Company's acquisition or disposal of real estate property from or with a stakeholder, or</p>	Amended with the decree

<p>acquisition or disposal of other non-real estate property, with transaction amount equals to or more than 20% of our Company's paid-up capital, 10% of total asset, or TWD 300 million, except for government bonds, re-purchase or re-sale of bonds, subscription or repurchase of domestic monetary funds, shall also require presenting the following information to the board of directors and audit committee for approval before the respective transaction agreement may be executed and payment be made: (Omitted below)</p>	<p>acquisition or disposal of other non-real estate property, with transaction amount equals to or more than 20% of our Company's paid-up capital, 10% of total asset, or TWD 300 million, except for government bonds, re-purchase or re-sale of bonds, subscription or redemption of domestic monetary funds, shall also require presenting the following information to the board of directors and audit committee for approval before the respective transaction agreement may be executed and payment be made: (Omitted below)</p>	
<p>Article 10: Procedure for Acquisition or Disposal of Membership Certificate or intangible Asset 1~3 (Omitted) 4. Appraisal and opinion report by expert on membership certificate or intangible asset Our Company acquiring or disposing membership certificate or intangible asset with transaction amount of 20% of our Company's paid-up capital or TWD 300 million or more, unless the said transaction is made with the government agencies, shall have the accountant to present opinion on the reasonability of the transaction price prior to the actual occurrence date. The said accountant shall comply with Audit Principle Gazette No. 20 issued by the ARDF.</p>	<p>Article 10: Procedure for Acquisition or Disposal of Membership Certificate or intangible Asset 1~3 (Omitted) 4. Appraisal and opinion report by expert on membership certificate or intangible asset Our Company acquiring or disposing membership certificate or intangible asset with transaction amount of 20% of our Company's paid-up capital or TWD 300 million or more, unless the said transaction is made with the government institutions, shall have the accountant to present opinion on the reasonability of the transaction price prior to the actual occurrence date. The said accountant shall comply with Audit Principle Gazette No. 20 issued by the ARDF.</p>	<p>Amended with the decree</p>

<p>Article 13: Procedure for merger, division, acquisition, or share receiving</p> <p>1. Assessment and operational procedure</p> <p>(1) Our Company handling merger, division, acquisition, or share receiving shall summon lawyers, accountants, and underwriters for meeting to determine the legal process and time schedule and organize a task force to execute in accordance with the legal process. Our Company shall also have the accountants, lawyers, and underwriters to share their opinions regarding to the reasonableness of share exchange ratio, purchase price, distribution of cash or other property among shareholders, followed by proposing the same to the board of directors for approval.</p> <p>However, the expert issued reasonable opinion would be exempted for consolidation of the Company's direct or indirect holding of 100% of the issued shares or the total amount of capital of the subsidiary, or the merger of the Company's direct or indirect holding of 100% of the issued shares or the total amount of capital between the subsidiaries.</p> <p>(Omitted below)</p>	<p>Article 13: Procedure for merger, division, acquisition, or share receiving</p> <p>1. Assessment and operational procedure</p> <p>(1) Our Company handling merger, division, acquisition, or share receiving shall summon lawyers, accountants, and underwriters for meeting to determine the legal process and time schedule and organize a task force to execute in accordance with the legal process. Our Company shall also have the accountants, lawyers, and underwriters to share their opinions regarding to the reasonableness of share exchange ratio, purchase price, distribution of cash or other property among shareholders, followed by proposing the same to the board of directors for approval.</p> <p>(Omitted below)</p>	<p>Amended with the decree</p>
<p>Article 14: Procedure for information disclosure</p> <p>1. Information to be reported and the report standard</p> <p>(1) Acquisition or disposal of real estate property from or with a stakeholder, or property other than real</p>	<p>Article 14: Procedure for information disclosure</p> <p>1. Information to be reported and the report standard</p> <p>(1) Acquisition or disposal of real estate property from or with a stakeholder, or property other than real</p>	<p>1. Amended by decree</p> <p>2. Paragraph 1, Sub-paragraph 4, Item 4 &amp; 5 have</p>

<p>estate property, of which transaction amount exceeds 20% of our Company's paid-up capital, 10% of total asset, or TWD 300 million. However, this rule does not apply to the government bonds, re-purchase or re-sale of bonds, subscription or repurchase of domestic monetary funds.</p> <p>(2)~(3)(Omitted)</p> <p>(4) Acquisition or disposal of real estate for the use of construction by our Company engaging in construction business, in which the transaction counterparty is not a stakeholder and the transaction amount is more than TWD 500 million.</p> <p>(5) Acquisition of property by way of commissioned project on own land, commissioned project on leased land, joint construction and split house, joint construction and allocation of ownership percentage, and joint construction and separate sale; of which the Company's planned committed transaction amount is more than TWD 500 million.</p> <p>(6) Asset transactions other than the ones stated in the previous 5 subparagraphs, a financial investor disposing of debt or investment in Mainland China area with a transaction amount exceeding 20% of paid-up capital or TWD 300 million. However, this rule does not apply to the following:</p> <ol style="list-style-type: none"> <li>1.Trade of public bond</li> <li>2.Trade of securities by</li> </ol>	<p>estate property, of which transaction amount exceeds 20% of our Company's paid-up capital, 10% of total asset, or TWD 300 million. However, this rule does not apply to the government bonds, re-purchase or re-sale of bonds, subscription or redemption of domestic monetary funds.</p> <p>(2)~(3)(Omitted)</p> <p>(4) Asset transactions other than the ones stated in the previous 3 subparagraphs, a financial institute disposing debt or investment in Mainland China area with transaction amount exceeding 20% of paid-up capital or TWD 300 million. However, this rule does not apply to the followings:</p> <ol style="list-style-type: none"> <li>1.Trade of public bond.</li> <li>2. Trades of securities by professional investors at onshore or offshore securities exchange markets or securities brokers' business sites or securities prescribed by securities brokers at primary market or in accordance with applicable regulations.</li> <li>3. Re-purchase or re-sale of bonds and subscription or redemption of onshore currency market fund.</li> <li>4. Acquisition or disposal of assets of which types are machine and equipment for business, the transaction counterparty is not a stakeholder, and the transaction amount is less than TWD 500 million.</li> </ol>	<p>been moved to Paragraph 1, Sub-paragraph 5.</p> <p>3. Paragraph 1, Sub-paragraph 4 and Sub-paragraph 5 have been renumbered as Sub-paragraph 6 and Sub-paragraph 7.</p>
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<p>professional investors at onshore or offshore securities exchange markets or securities brokers' business sites; ordinary corporate bonds and general financial bonds which are subscribed, raised, and issued at the domestic primary market; trade of securities subscribed by securities firms, in accordance with the provisions of the consortium of the Republic of China Securities counters trading center, due to underwriting business needs or serving as counseling recommended broker for listed company of the emerging stock market.</p> <p>3. Re-purchase or re-sale of bonds and subscription or re-purchase of onshore currency market fund issued by securities investment trust business.</p> <p>(7)(Omitted)</p> <p>2. Time limit for public disclosure and reporting</p> <p>Our Company shall disclose to the public and complete reporting within 2 days from the informed date of property acquisition or disposal to which transaction amount the disclosure and reporting standards apply as stimulated in Paragraph 1 of this Article.</p> <p>(Omitted below)</p>	<p>5. Acquisition of property by way of commissioned project on own land, commissioned project on leased land, joint construction and split house, joint construction and allocation of ownership percentage, and join construction and separate sale; the Company's planned committed transaction amount is less than TWD 500 million.</p> <p>(5)(Omitted)</p> <p>2. Time limit for public disclosure and reporting</p> <p>Our Company shall disclose to the public and complete reporting within 2 days from the occurrence date of property acquisition or disposal to which transaction amount the disclosure and reporting standards apply as stimulated in Paragraph 1 of this Article.</p> <p>(Omitted below)</p>	
<p>Article 19: These Procedures were promulgated on May 28<sup>th</sup>, 2003. The first amendment is effective as of June 13<sup>th</sup>, 2007.</p>	<p>Article 19: These Procedures were promulgated on May 28<sup>th</sup>, 2003. The first amendment is effective as of June 13<sup>th</sup>, 2007.</p>	<p>Date of added amendment</p>

<p>The second amendment is effective as of June 6<sup>th</sup>, 2012.</p> <p>The third amendment is effective as of June 18<sup>th</sup>, 2013.</p> <p>The fourth amendment is effective as of June 17<sup>th</sup>, 2014.</p> <p>The fifth amendment is effective as of June 16<sup>th</sup>, 2015.</p> <p>The sixth amendment is effective as of June 16<sup>th</sup>, 2017.</p>	<p>The second amendment is effective as of June 6<sup>th</sup>, 2012.</p> <p>The third amendment is effective as of June 18<sup>th</sup>, 2013.</p> <p>The fourth amendment is effective as of June 17<sup>th</sup>, 2014.</p> <p>The fifth amendment is effective as of June 16<sup>th</sup>, 2015.</p>	
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**Resolution:**

**2.**

**Proposed by the Board**

**Proposal:**

Proposal for Distribution of Additional Paid-in Capital.

**Explanation:**

- a. In accordance with Article 241 of the Company Act, it is proposed to distribute additional paid-in capital in excess of stock par value of NT\$89,348,045 to shareholders (approximately NT\$0.50 per share). The actual distribution rate of additional paid-in capital shall be calculated based on the stock register record as shown on the distribution record date. The calculation is rounded down to the nearest NT\$1.00, the remaining fraction will be adjusted by Chairman of the Board, who is fully authorized by the Board of Directors.
- b. Subject to approval of the proposed distribution plan by the shareholders' meeting, it is proposed that the Board of Directors be authorized to determine the distribution date in order to make adjustment and distribution for each share based on the number of actual shares outstanding on the distribution date.

**Resolution:**



**VI. Question and Motions**

**VII. Adjournments**

# Attachments

## Attachment 1:

### **Standard Chem. & Pharm. Co., Ltd. 2016 Business Report**

#### 1. Company Business Direction

Standard Chem. and Pharm. Co., Ltd. (SCP) has focused its operations on the development and manufacturing of pharmaceuticals. Through vertical integration of its corporate group and development of niche and brand differentiated specialty products, SCP seeks to build a global marketing network. To establish itself as a world-class pharmaceutical manufacturer, SCP strives to expand its presence in the United States, Japan, Europe, and other markets. SCP's principal objectives for the year 2016 were:

- a. Continue to expand R&D investments
- b. Develop core technologies
- c. Actively expand international operations
- d. Strengthen internal management

#### 2. Implementation Overview

Throughout 2016, SCP continued to invest in drug development, and the R&D expenses for the year was NT\$182,911 thousand, which was about 7% of total revenue. To expand international business, besides markets in Japan, China, and Southeast Asian countries, SCP has submitted ANDAs to the US-FDA, bringing our generic formulations to the next stage of the international pharmaceutical market. Strengthening of internal management and operations was evident in proposal improvement, cost reductions, and process improvements of various ongoing projects.

#### 3. Results of Business Plan Implementation

SCP's Net Sales for 2016 were NT\$2.4 billion a 6.9% increase over 2015. Sales from pharmaceuticals for human-use (NT\$2 billion) represented the largest contribution to overall Net Sales at 86.7%. Sales from Active Pharmaceutical Ingredients (NT\$159 million) contributed 6.8% overall. Sales of health food (NT\$82 million) contributed 3.5% overall. Other products, including veterinarian pharmaceuticals, had sales of NT\$71 million contributing 3.0% overall.

Due to increased revenue and portfolio adjustments, Gross Profit for 2016 increased by 4.3% in comparison with 2015. Operating profit was 3.5% lower for 2016 when compared with that of 2015 because of the increase of operating expenses.

For non-operating income and expense, the profit declined NT\$3.5 million because of the increase in exchange losses and the decrease in the share of subsidiaries, affiliates, and joint ventures.

In summation of the above, Net Income for 2016 was NT\$340 million; representing a 2.2% decrease over Net Income of 2015.

#### 4. Operation Summary

Unit: NTD thousand

Items	Amount
Net Sales	2,357,528
Gross Profit	1,049,453
Income from Operations	307,186
Non-operating Income/Expenses	88,622
Income Before Income Tax	395,808
Net Income	340,216
Basic Earnings per shares (NTD)	1.90

#### 5. Budget Implementation

Unit: NTD thousand

Items	2016 Budget	2016 Actual	Achievement%
Net sales	2,390,116	2,357,528	98.6
Costs	1,285,898	1,308,075	101.7
Gross Profit	1,104,218	1,049,453	95.0
Operating exp.	743,717	742,267	99.8
Income from Operations	360,501	307,186	85.2
Pre-tax income	470,300	395,808	84.2

#### 6. Profitability Analysis

Items	Ratio (%)
Return on Total Assets	6.82
Return on Shareholders' Equity	9.37
Operating income/paid-in capital ratio	17.19
Gain before tax/paid-in capital ratio	22.15
Net Margin	14.43
Basic Earnings per share (NTD)	1.90

#### 7. Research and Development

SCP's R&D expenses for 2016 were NT\$182 million, and SCP filed 9 pharmaceutical dossiers with the Taiwanese Food and Drug Administration, and received marketing approval for 13 previously submitted pharmaceutical formulations; for health food, 3 applications were submitted and no certificate was approved. Internationally, SCP submitted 14 items for review and received 5 approved items in Southeast Asia. Furthermore, in 2016 SCP launched 5 new products; initiated BA/BE studies on 4 products, and received passing results for 9 BA/BE studies. SCP continues its commitment to investment in R&D for new product development.

## **Attachment 2:**

### **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, 2016 and 2015, 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 parent company only financial position of the Company as of December 31, 2016 and 2015, and its parent company only financial performance and its parent company only 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 parent company only opinion on these matters.

## **Evaluation of inventories**

### Description

Please 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, 2016, the carrying amount of inventories and allowance for inventory valuation loss are \$467,138 thousand and \$18,505 thousand, respectively.

The Company is primarily engaged in the manufacture and sales of human medicine. Due to the influence of market demand, expiration date of medicine, 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 rate 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

Our audit procedures performed for the above matter are summarised below:

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 rate 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 medicine**

### Description

Please 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 medicine, which amounted to \$2,044,720 thousand for the year ended December 31, 2016. 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 need longer period to be verified, we consider the existence of domestic sales revenue in human medicine a key audit matter.

### How our audit addressed the matter

Our audit procedures performed for the above matter are summarised below:

1. Assessed the consistency and effectiveness of sales recognition, taking into consideration customer credit, sales supporting documentation, approval and 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 customer orders, delivery orders and subsequent cash collection.
4. Tested the supporting documentation and verified the nature of the manual journal entries of sales revenues.

## **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. Those investments amounted to \$149,226 thousand and \$180,586 thousand, constituting 2.90% and 3.69% of total assets as of December 31, 2016 and 2015, respectively, and the share of loss and other comprehensive income of associates accounted for under the equity method was (\$31,089) thousand and (\$34,096) thousand, constituting (7.73%) and (8.16%) 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-Yu

Independent Accountants

Liu, Tzu-Meng

PricewaterhouseCoopers, Taiwan

Republic of China

March 24, 2017

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

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

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

Assets		Notes	December 31, 2016		December 31, 2015			
			AMOUNT	%	AMOUNT	%		
Current assets								
1100	Cash and cash equivalents	6(1)	\$	438,306	8	\$	302,033	6
1125	Available-for-sale financial assets	6(2)						
	- current			2,469	-		10,200	-
1150	Notes receivable, net	6(3) and 7		133,416	3		146,359	3
1170	Accounts receivable, net	6(4) and 7		484,330	9		477,513	10
1200	Other receivables			6,883	-		5,252	-
1210	Other receivables - related parties	7		97,466	2		98,695	2
130X	Inventories	5(2) and 6(5)		448,633	9		410,466	9
1410	Prepayments			39,932	1		60,752	1
1476	Other financial assets - current	6(1)		64,500	1		-	-
11XX	Total current assets			1,715,935	33		1,511,270	31
Non-current assets								
1523	Available-for-sale financial assets	5(2) and 6(2)						
	- non-current			413,953	8		362,159	8
1543	Financial assets carried at cost -	5(2) and 6(6)						
	non-current			17,085	-		17,085	-
1550	Investments accounted for under	6(7), 7 and 8						
	the equity method			1,605,339	31		1,559,839	32
1600	Property, plant and equipment	6(8) and 8		1,170,949	23		1,235,025	25
1760	Investment property, net	6(9)		46,772	1		46,885	1
1780	Intangible assets	6(10)		18,863	1		21,246	1
1840	Deferred income tax assets	6(24)		73,014	2		94,283	2
1915	Prepayments for equipment	6(8)		68,041	1		13,868	-
1920	Guarantee deposits paid			12,477	-		16,642	-
1990	Other non-current assets			6,202	-		9,962	-
15XX	Total non-current assets			3,432,695	67		3,376,994	69
1XXX	TOTAL ASSETS		\$	5,148,630	100	\$	4,888,264	100

(Continued)

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

Liabilities and Equity		Notes	December 31, 2016		December 31, 2015			
			AMOUNT	%	AMOUNT	%		
Current liabilities								
2100	Short-term borrowings	6(11) and 8	\$	370,000	7	\$	80,000	2
2110	Short-term notes and bills payable	6(12)		200,000	4		100,000	2
2150	Notes payable			142,389	3		137,483	3
2160	Notes payable - related parties	7		30,021	1		32,683	1
2170	Accounts payable	7		72,101	1		62,635	1
2200	Other payables			189,601	4		202,405	4
2230	Current income tax liabilities	6(24)		12,966	-		50,610	1
2310	Receipts in advance			49,507	1		63,111	1
2320	Current portion of long-term borrowings	6(13) and 8		-	-		100,000	2
21XX	Total current liabilities			1,066,585	21		828,927	17
Non-current liabilities								
2540	Long-term borrowings	6(13) and 8		30,000	1		-	-
2570	Deferred income tax liabilities	6(24)		61,992	1		62,607	1
2640	Net defined benefit liability - non-current	5(2) and 6(14)		265,415	5		446,814	9
2645	Guarantee deposits received			5,286	-		5,293	-
25XX	Total non-current liabilities			362,693	7		514,714	10
2XXX	Total liabilities			1,429,278	28		1,343,641	27
Equity								
Share capital								
3110	Common stock	6(15)		1,786,961	35		1,786,961	37
3200	Capital surplus	6(16)		286,763	5		335,467	7
	Retained earnings	6(17)(18)(24)						
3310	Legal reserve			514,579	10		479,790	10
3350	Unappropriated retained earnings			844,876	16		691,487	14
3400	Other equity interest	6(2)(7)(14)(18)		286,173	6		250,918	5
	Significant contingent liabilities and unrecognised contract commitments	7 and 9						
3XXX	Total equity			3,719,352	72		3,544,623	73
3X2X	TOTAL LIABILITIES AND EQUITY		\$	5,148,630	100	\$	4,888,264	100

The accompanying notes are an integral part of these 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)

			Year ended December 31			
			2016		2015	
Items	Notes		AMOUNT	%	AMOUNT	%
4000 <b>Operating revenue</b>	7		\$ 2,357,528	100	\$ 2,205,463	100
5000 <b>Operating costs</b>	6(5)(10)(14)(22)(23), 7 and 9		( 1,308,075)	( 56)	( 1,199,627)	( 54)
5900 <b>Gross profit</b>			<u>1,049,453</u>	<u>44</u>	<u>1,005,836</u>	<u>46</u>
<b>Operating expenses</b>	6(10)(14)(22)(23), 7 and 9					
6100 Selling expenses		(	397,896)	( 17)	( 351,920)	( 16)
6200 General and administrative expenses		(	161,460)	( 7)	( 160,918)	( 7)
6300 Research and development expenses		(	182,911)	( 7)	( 174,730)	( 8)
6000 <b>Total operating expenses</b>		(	<u>742,267</u>	<u>( 31)</u>	<u>( 687,568)</u>	<u>( 31)</u>
6900 <b>Operating profit</b>			<u>307,186</u>	<u>13</u>	<u>318,268</u>	<u>15</u>
<b>Non-operating income and expenses</b>						
7010 Other income	6(9)(19) and 7		83,840	3	91,465	4
7020 Other gains and losses	6(20) and 12	(	7,729)	-	17,093	1
7050 Finance costs	6(8)(21)	(	2,688)	-	( 2,338)	-
7070 Share of profit (loss) of subsidiaries, associates and joint ventures accounted for under the equity method, net	6(7)		<u>15,199</u>	<u>1</u>	<u>( 14,075)</u>	<u>( 1)</u>
7000 <b>Total non-operating income and expenses</b>			<u>88,622</u>	<u>4</u>	<u>92,145</u>	<u>4</u>
7900 <b>Profit before income tax</b>			<u>395,808</u>	<u>17</u>	<u>410,413</u>	<u>19</u>
7950 Income tax expense	6(24)	(	<u>55,592</u>	<u>( 3)</u>	<u>( 62,519)</u>	<u>( 3)</u>
8200 <b>Net income for the year</b>			<u>\$ 340,216</u>	<u>14</u>	<u>\$ 347,894</u>	<u>16</u>
<b>Other comprehensive income</b>						
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>						
8311 Remeasurement of defined benefit plan	6(14)(18)	\$	32,483	2	\$ 40,407	2
8330 Share of other comprehensive loss of associates and joint ventures accounted for under the equity method	6(7)(18)	(	303)	-	( 317)	-
8349 Income tax related to components of other comprehensive income	6(24)	(	5,522)	-	( 6,869)	-
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>						
8361 Financial statements translation differences of foreign operations	6(7)(18)	(	16,190)	( 1)	( 19)	-
8362 Unrealised gain on valuation of available-for-sale financial assets	6(2)(7)(18)		44,063	2	29,661	1
8380 Share of other comprehensive income of associates and joint ventures accounted for under the equity method	6(7)(18)		<u>7,382</u>	<u>-</u>	<u>7,121</u>	<u>-</u>
8300 <b>Total other comprehensive income for the year</b>		\$	<u>61,913</u>	<u>3</u>	<u>\$ 69,984</u>	<u>3</u>
8500 <b>Total comprehensive income for the year</b>		\$	<u>402,129</u>	<u>17</u>	<u>\$ 417,878</u>	<u>19</u>
<b>Earnings per share (in dollars)</b>	6(25)					
9750 <b>Basic</b>		\$	<u>1.90</u>		<u>\$ 1.95</u>	
9850 <b>Diluted</b>		\$	<u>1.90</u>		<u>\$ 1.95</u>	

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

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

			Capital Surplus		Retained earnings		Other 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			Financial statements translation differences of foreign operations	Unrealisd gain on valuation of available-for-sale financial assets	Total equity
	Notes	Common stock	Additional paid-in capital			Legal reserve	Unappropriated retained earnings			
For the year ended December 31, 2015										
Balance at January 1, 2015		\$ 1,786,961	\$ 411,397	\$ 9,045	\$ 3,460	\$ 442,366	\$ 437,144	\$ 15,647	\$ 198,508	\$ 3,304,528
Cash dividends from capital surplus	6(16)	-	( 89,348 )	-	-	-	-	-	-	( 89,348 )
Appropriations of 2014 earnings (Note):										
Legal reserve		-	-	-	-	37,424	( 37,424 )	-	-	-
Cash dividends	6(17)	-	-	-	-	-	( 89,348 )	-	-	( 89,348 )
Difference between proceeds from acquisition or disposal of subsidiaries and book value	6(7)	-	-	913	-	-	-	-	-	913
Net income for the year		-	-	-	-	-	347,894	-	-	347,894
Other comprehensive income for the year	6(18)	-	-	-	-	-	33,221	( 19 )	36,782	69,984
Balance at December 31, 2015		<u>\$ 1,786,961</u>	<u>\$ 322,049</u>	<u>\$ 9,958</u>	<u>\$ 3,460</u>	<u>\$ 479,790</u>	<u>\$ 691,487</u>	<u>\$ 15,628</u>	<u>\$ 235,290</u>	<u>\$ 3,544,623</u>
For the year ended December 31, 2016										
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
Cash dividends from capital surplus	6(16)	-	( 89,348 )	-	-	-	-	-	-	( 89,348 )
Appropriations of 2015 earnings (Note):										
Legal reserve		-	-	-	-	34,789	( 34,789 )	-	-	-
Cash dividends	6(17)	-	-	-	-	-	( 178,696 )	-	-	( 178,696 )
Difference between proceeds form acquisition or disposal of subsidiaries and book value	6(7)	-	-	40,644	-	-	-	-	-	40,644
Net income for the year		-	-	-	-	-	340,216	-	-	340,216
Other comprehensive income for the year	6(18)	-	-	-	-	-	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>\$ 3,719,352</u>

(Note) The employees' compensation were \$3,292 and \$4,233, and the directors' and supervisors' remuneration were \$9,877 and \$8,466 in 2014 and 2015, respectively, which had been deducted from net income for the years.

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

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

		For the years ended December 31,	
	Notes	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 395,808	\$ 410,413
Adjustments			
Adjustments to reconcile profit (loss)			
Provision for doubtful accounts	6(3)(4)	7,220	-
Reversal of allowance for doubtful accounts	6(4)	-	( 105 )
(Reversal of allowance) provision for loss on inventory	6(5)		
market price decline		( 2,696 )	6,918
Share of (profit) loss of subsidiaries, associates and joint ventures accounted for under the equity method	6(7)	( 15,199 )	14,075
Depreciation	6(8)(9)	129,005	115,008
Net loss on disposal of property, plant and equipment	6(20)	460	534
Amortisation	6(10)(22)	4,013	3,924
Dividend income	6(19)	( 14,853 )	( 10,539 )
Interest income	6(19)	( 3,012 )	( 2,861 )
Interest expense	6(21)	2,688	2,338
Changes in operating assets and liabilities			
Changes in operating assets			
Notes receivable		13,292	37,945
Accounts receivable		( 14,386 )	( 73,959 )
Other receivables		( 1,631 )	( 4,139 )
Other receivables - related parties		( 511 )	454
Inventories		( 35,471 )	43,542
Prepayments		20,820	( 11,230 )
Changes in operating liabilities			
Notes payable		5,267	( 31,010 )
Notes payable - related parties		( 2,662 )	( 3,797 )
Accounts payable		9,466	6,281
Other payables		( 764 )	14,837
Receipts in advance		( 13,604 )	6,101
Net defined benefit liability - non-current		( 148,916 )	20,977
Cash inflow generated from operations		334,334	545,707
Dividend received		59,495	28,576
Interest received		3,012	2,861
Interest paid		( 2,626 )	( 2,338 )
Income tax paid		( 78,104 )	( 61,605 )
Net cash flows from operating activities		316,111	513,201

(Continued)

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,	
		2016	2015
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>			
Decrease (increase) in other receivables - related parties		\$ 1,740	(\$ 3,540 )
Increase in other financial assets - current		( 64,500 )	-
Acquisition of available-for-sale financial assets - non-current		-	( 35,910 )
Acquisition of investments accounted for under the equity method	6(7) and 7	( 53,669 )	( 139,282 )
Proceeds from disposal of investments accounted for under the equity method	7	10,259	-
Cash paid for acquisition of property, plant and equipment	6(26)	( 51,185 )	( 49,225 )
Interest paid for acquisition of property, plant and equipment	6(8)(21)(26)	( 267 )	( 244 )
Proceeds from disposal of property, plant and equipment		305	35
Acquisition of intangible assets	6(10)	( 1,630 )	-
Increase in prepayments for equipment		( 80,765 )	( 26,833 )
Decrease (increase) in guarantee deposits paid		4,165	( 8,637 )
Decrease (increase) in other non-current assets		<u>3,760</u>	<u>( 3,214 )</u>
Net cash flows used in investing activities		<u>( 231,787 )</u>	<u>( 266,850 )</u>
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>			
Increase in short-term borrowings		290,000	30,000
Increase in short-term notes and bills payable		100,000	-
Increase in long-term borrowings		30,000	-
Redemption of long-term borrowings		( 100,000 )	-
(Decrease) increase in guarantee deposit received		( 7 )	4,236
Cash dividends from capital surplus	6(16)	( 89,348 )	( 89,348 )
Payment of cash dividends	6(17)	<u>( 178,696 )</u>	<u>( 89,348 )</u>
Net cash flows from (used in) financing activities		<u>51,949</u>	<u>( 144,460 )</u>
Net increase in cash and cash equivalents		136,273	101,891
Cash and cash equivalents at beginning of year	6(1)	<u>302,033</u>	<u>200,142</u>
Cash and cash equivalents at end of year	6(1)	\$ 438,306	\$ 302,033



## 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 consolidated balance sheets of STANDARD CHEM. & PHARM. CO., LTD. and its subsidiaries (collectively referred herein as “the Group”) as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### **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 Consolidated Financial Statements section of our report. We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

## **Evaluation of inventories**

### Description

Please refer to Note 4(10) 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(6) for the details of allowance for inventory valuation loss. As of December 31, 2016, the carrying amount of inventories and allowance for inventory valuation loss are \$788,296 thousand and \$50,571 thousand, respectively.

The Group is primarily engaged in the manufacture and sales of human medicine and dietary supplement. Due to the influence of market demand, expiration date of medicine, etc., there is a risk in market price decline and obsolescence of inventories. The Group 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 rate 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

Our audit procedures performed for the above matter are summarised below:

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 rate 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 Group'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 medicine and dietary supplement**

### Description

Please 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 Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity.

The Group is primarily engaged in the manufacturing and sales of human medicine and dietary supplement, which amounted to \$2,643,394 thousand for the year ended December 31, 2016. The Group's sales is mainly domestic-based and its customers are numerous, including hospitals, clinics, pharmacies, food and drug administrations all over the country. Since the sales transactions are numerous and need longer period to be verified, we consider the existence of domestic sales revenue in human medicine and dietary supplement a key audit matters.

### How our audit addressed the matter

Our audit procedures performed for the above matter are summarised below:

1. Assessed the consistency and effectiveness of sales recognition, taking into consideration customer credit, sales supporting documentation, approval and 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 customer orders, delivery orders and subsequent cash collection.
4. Tested the supporting documentation and verified the nature of the manual journal entries of sales revenues.

## **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. Those investments amounted to \$149,226 thousand and \$193,368 thousand, constituting 2.40% and 3.34% of consolidated total assets as of December 31, 2016 and 2015, respectively, and

the share of loss and other comprehensive income of associates accounted for under the equity method was (\$31,089) thousand and (\$33,384) thousand, constituting (7.16%) and (7.60%) of consolidated 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 consolidated financial statements and information disclosed relative to these investments, is based solely on the reports of other independent accountants.

### **Other matter – Parent company only financial reports**

We have audited and expressed an unmodified opinion on the parent company only financial statements of STANDARD CHEM. & PHARM. CO., LTD. as of and for the years ended December 31, 2016 and 2015.

### **Responsibilities of management and those charged with governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’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 Group or to cease operations, or has no realistic alternative but to do so.

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

## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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 consolidated 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-Yu

Independent Accountants

Liu, Tzu-Meng

PricewaterhouseCoopers, Taiwan

Republic of China

March 24, 2017

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

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

**STANDARD CHEM. & PHARM. CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Assets		Notes	December 31, 2016		December 31, 2015	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 876,820	14	\$ 766,379	13
1110	Financial assets at fair value	6(2)				
	through profit or loss - current		215,854	4	159,920	3
1125	Available-for-sale financial assets	6(3)				
	- current		6,572	-	10,200	-
1150	Notes receivable, net	6(4) and 7	319,535	5	290,651	5
1170	Accounts receivable, net	6(5) and 7	645,379	11	598,699	11
1200	Other receivables	7	10,455	-	7,406	-
130X	Inventories	5(2), 6(6)(9)	737,725	12	649,536	11
1410	Prepayments		81,035	1	120,813	2
1476	Other financial assets - current	6(1)	64,500	1	-	-
11XX	Total current assets		2,957,875	48	2,603,604	45
Non-current assets						
1523	Available-for-sale financial assets	5(2) and 6(3)				
	- non-current		474,137	8	414,039	7
1543	Financial assets carried at cost -	5(2) and 6(7)				
	non-current		162,072	3	30,651	1
1550	Investments accounted for under	6(8)				
	the equity method		162,562	3	193,490	3
1600	Property, plant and equipment	6(9) and 8	2,090,208	33	2,186,890	38
1780	Intangible assets	6(10)(11)	119,776	2	134,512	2
1840	Deferred income tax assets	6(27)	82,870	1	102,654	2
1915	Prepayments for equipment	6(9)	92,576	1	31,388	1
1920	Guarantee deposits paid		15,193	-	19,162	-
1980	Other financial assets -	8				
	non-current		-	-	5,383	-
1985	Long-term prepaid rent	6(12)	53,176	1	59,019	1
1990	Other non-current assets	6(9)(16)	15,395	-	14,495	-
15XX	Total non-current assets		3,267,965	52	3,191,683	55
1XXX	TOTAL ASSETS		\$ 6,225,840	100	\$ 5,795,287	100

(Continued)

**STANDARD CHEM. & PHARM. CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

Liabilities and Equity			December 31, 2016		December 31, 2015	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2100	Short-term borrowings	6(13) and 8	\$ 370,486	6	\$ 86,123	1
2110	Short-term notes and bills payable	6(14)	200,000	3	100,000	2
2150	Notes payable	6(9) and 7	218,558	4	219,075	4
2170	Accounts payable	7	197,944	3	132,023	2
2200	Other payables	6(9)	529,589	9	345,945	6
2230	Current income tax liabilities	6(27)	33,786	1	66,622	1
2310	Receipts in advance		91,652	1	104,797	2
2320	Current portion of long-term borrowings	6(15) and 8	4,871	-	123,257	2
21XX	Total current liabilities		1,646,886	27	1,177,842	20
Non-current liabilities						
2540	Long-term borrowings	6(15) and 8	47,317	1	21,111	1
2570	Deferred income tax liabilities	6(27)	61,992	1	62,792	1
2610	Long-term notes and accounts payable	6(9)	-	-	192,057	3
2640	Net defined benefit liability - non-current	5(2) and 6(16)	267,695	4	449,068	8
2645	Guarantee deposits received		5,286	-	5,496	-
25XX	Total non-current liabilities		382,290	6	730,524	13
2XXX	Total liabilities		2,029,176	33	1,908,366	33
Equity attributable to owners of the parent						
Share capital						
3110	Common stock	6(17)	1,786,961	29	1,786,961	31
3200	Capital surplus	6(18)(29)	286,763	5	335,467	6
	Retained earnings	6(19)(27)				
3310	Legal reserve		514,579	8	479,790	8
3350	Unappropriated retained earnings		844,876	13	691,487	12
3400	Other equity interest	6(3)(8)(20)	286,173	5	250,918	4
31XX	Equity attributable to owners of the parent		3,719,352	60	3,544,623	61
36XX	Non-controlling interest	4(3) and 6(29)	477,312	7	342,298	6
3XXX	Total equity		4,196,664	67	3,886,921	67
Significant contingent liabilities and unrecognised contract commitments						
3X2X	TOTAL LIABILITIES AND EQUITY		\$ 6,225,840	100	\$ 5,795,287	100

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



STANDARD CHEM. & PHARM. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE DATA)

				Year ended December 31			
				2016		2015	
Items	Notes			AMOUNT	%	AMOUNT	%
4000 <b>Operating revenue</b>	6(21) and 7	\$		3,673,801	100	\$	3,321,366
5000 <b>Operating costs</b>	6(6)(10)(16)(25)( 26), 7 and 9	(		2,097,542)	( 57)	(	1,826,285)
5900 <b>Gross profit</b>				1,576,259	43		1,495,081
<b>Operating expenses</b>	6(9)(10)(11)(12)( 16)(25)(26), 7 and 9						
6100 Selling expenses		(		641,179)	( 17)	(	619,271)
6200 General and administrative expenses		(		275,828)	( 7)	(	253,343)
6300 Research and development expenses		(		241,116)	( 7)	(	238,982)
6000 <b>Total operating expenses</b>		(		1,158,123)	( 31)	(	1,111,596)
6900 <b>Operating profit</b>				418,136	12		383,485
<b>Non-operating income and expenses</b>							
7010 Other income	6(22) and 7			100,550	3		112,987
7020 Other gains and losses	6(2)(10)(11)(23) and 12	(		22,278)	( 1)		4,761
7050 Finance costs	6(9)(24)	(		3,593)	-	(	4,059)
7060 Share of loss of associates and joint ventures accounted for under the equity method	6(8)	(		31,060)	( 1)	(	33,472)
7000 <b>Total non-operating income and expenses</b>				43,619	1		80,217
7900 <b>Profit before income tax</b>				461,755	13		463,702
7950 Income tax expense	6(27)	(		89,947)	( 3)	(	95,803)
8200 <b>Net income for the year</b>		\$		371,808	10	\$	367,899

(Continued)

STANDARD CHEM. & PHARM. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE DATA)

		Year ended December 31				
		2016		2015		
Items	Notes	AMOUNT	%	AMOUNT	%	
<b>Other comprehensive income</b>						
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>						
8311	Remeasurements of defined benefit plan	6(16)				
		\$	32,284	1	\$ 40,089	1
8320	Share of other comprehensive loss of associates and joint ventures accounted for under the equity method	6(8)				
		(	271)	-	( 113)	-
8349	Income tax related to components of other comprehensive income	6(27)				
		(	5,488)	-	( 6,815)	-
<b>Components of other comprehensive income that will be reclassified to profit or loss</b>						
8361	Financial statements translation differences of foreign operations	6(20)				
		(	16,715)	-	( 367)	-
8362	Unrealised gain on valuation of available-for-sale financial assets	6(3)				
			52,360	1	38,242	1
8370	Share of other comprehensive income of associates and joint ventures accounted for under the equity method	6(8)(20)				
			525	-	461	-
8300	<b>Other comprehensive income for the year</b>		<u>\$ 62,695</u>	<u>2</u>	<u>\$ 71,497</u>	<u>2</u>
8500	<b>Total comprehensive income for the year</b>		<u>\$ 434,503</u>	<u>12</u>	<u>\$ 439,396</u>	<u>13</u>
<b>Profit (loss) attributable to:</b>						
8610	Owners of the parent		\$ 340,216	9	\$ 347,894	10
8620	Non-controlling interest		31,592	1	20,005	1
			<u>\$ 371,808</u>	<u>10</u>	<u>\$ 367,899</u>	<u>11</u>
<b>Total comprehensive income attributable to:</b>						
8710	Owners of the parent		\$ 402,129	11	\$ 417,878	12
8720	Non-controlling interest		32,374	1	21,518	1
			<u>\$ 434,503</u>	<u>12</u>	<u>\$ 439,396</u>	<u>13</u>
<b>Earnings per share (in dollars)</b>						
9750	<b>Basic</b>	6(28)				
			\$ 1.90		\$ 1.95	
9850	<b>Diluted</b>		\$ 1.90		\$ 1.95	

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

STANDARD CHEM. & PHARM. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		Equity attributable to owners of the parent										
		Capital Surplus			Retained Earnings		Other Equity					
				Difference between proceeds from acquisition or disposal of subsidiaries and book value	Change in net equity of associates and joint ventures accounted for under the equity method			Financial statements translation differences of foreign operations	Unrealised gain on valuation of available-for-sale financial assets			
Notes		Common stock	Additional paid-in capital			Legal reserve	Unappropriated retained earnings			Total	Non-controlling interest	Total equity
<u>For the year ended December 31, 2015</u>												
		\$ 1,786,961	\$ 411,397	\$ 9,045	\$ 3,460	\$ 442,366	\$ 437,144	\$ 15,647	\$ 198,508	\$ 3,304,528	\$ 301,224	\$ 3,605,752
	6(18)	-	( 89,348 )	-	-	-	-	-	-	( 89,348 )	-	( 89,348 )
Appropriations of 2014 earnings:												
		-	-	-	-	37,424	( 37,424 )	-	-	-	-	-
		-	-	-	-	-	( 89,348 )	-	-	( 89,348 )	-	( 89,348 )
	6(29)											
		-	-	913	-	-	-	-	-	913	-	913
		-	-	-	-	-	347,894	-	-	347,894	20,005	367,899
	6(20)	-	-	-	-	-	33,221	( 19 )	36,782	69,984	1,513	71,497
		-	-	-	-	-	-	-	-	-	19,556	19,556
		<u>\$ 1,786,961</u>	<u>\$ 322,049</u>	<u>\$ 9,958</u>	<u>\$ 3,460</u>	<u>\$ 479,790</u>	<u>\$ 691,487</u>	<u>\$ 15,628</u>	<u>\$ 235,290</u>	<u>\$ 3,544,623</u>	<u>\$ 342,298</u>	<u>\$ 3,886,921</u>
<u>For the year ended December 31, 2016</u>												
		\$ 1,786,961	\$ 322,049	\$ 9,958	\$ 3,460	\$ 479,790	\$ 691,487	\$ 15,628	\$ 235,290	\$ 3,544,623	\$ 342,298	\$ 3,886,921
	6(18)	-	( 89,348 )	-	-	-	-	-	-	( 89,348 )	-	( 89,348 )
Appropriations of 2015 earnings:												
		-	-	-	-	34,789	( 34,789 )	-	-	-	-	-
	6(19)	-	-	-	-	-	( 178,696 )	-	-	( 178,696 )	-	( 178,696 )
	6(29)											
		-	-	40,644	-	-	-	-	-	40,644	( 34,337 )	6,307
		-	-	-	-	-	340,216	-	-	340,216	31,592	371,808
	6(20)	-	-	-	-	-	26,658	( 16,190 )	51,445	61,913	782	62,695
		-	-	-	-	-	-	-	-	-	136,977	136,977
		<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>\$ 3,719,352</u>	<u>\$ 477,312</u>	<u>\$ 4,196,664</u>

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

STANDARD CHEM. & PHARM. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

		For the years ended December 31,	
	Notes	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		\$ 461,755	\$ 463,702
Adjustments			
Adjustments to reconcile profit (loss)			
Net (gain) loss on financial assets at fair value through profit and loss		( 275 )	449
Provision for doubtful accounts	6(4)(5)	8,568	-
Reversal of allowance for doubtful accounts	6(4)(5)	-	( 3,180 )
(Reversal of allowance) provision for loss on inventory market price decline	6(6)	( 6,317 )	20,084
Share of profit of associates and joint ventures accounted for under the equity method	6(8)	31,060	33,472
Gain on disposal of investments	6(23)	( 564 )	-
Depreciation	6(9)(25)	183,252	156,877
Net (gain) loss on disposal of property, plant and equipment	6(23)	( 1,121 )	178
Property, plant and equipment transferred to expenses	6(9)	43	1,722
Amortisaion	6(10)(25)	8,380	8,187
Impairment loss	6(10)(11)(23)	8,263	4,493
Amortisation of long-term prepaid rent	6(12)	1,263	1,316
Dividend income	6(22)	( 17,247 )	( 12,631 )
Interest income	6(22)	( 2,009 )	( 2,619 )
Interest expense	6(24)	3,953	4,059
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss - current		( 55,659 )	4,168
Notes receivable		( 29,040 )	1,728
Accounts receivable		( 55,092 )	2,908
Other receivables		( 3,119 )	( 3,918 )
Inventories		( 90,010 )	71,271
Prepayments		39,778	( 36,356 )
Other non-current assets		( 1,730 )	( 1,696 )
Changes in operating liabilities			
Notes payable		( 3,215 )	( 45,902 )
Accounts payable		65,921	30,574
Other payables		14,679	( 4,214 )
Receipts in advance		( 13,145 )	1,150
Net defined benefit liability - non-current		( 154,848 )	13,664
Cash inflow generated from operations		393,524	709,486
Dividends received		17,247	12,631
Interest received		2,079	2,671
Interest paid		( 3,675 )	( 3,044 )
Income tax paid		( 103,799 )	( 77,808 )
Net cash flows from operating activities		305,376	643,936

(Continued)

STANDARD CHEM. & PHARM. CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Notes	For the years ended December 31,	
		2016	2015
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in other finanail assets - current		( \$ 64,500 )	\$ -
Acquisition of available-for-sale financial assets - current		( 4,110 )	-
Acquisition of available-for-sale financial assets - non-current		-	( 35,910 )
Acquisition of financial assets carried at cost - non-current		( 131,421 )	-
Proceeds from capital reduction of financial assets carried at cost	6(7)	-	3,496
Proceeds from disposal of investments accounted for under the equity method		686	-
Cash paid for acquisition of property, plant and equipment	6(30)	( 74,856 )	( 125,050 )
Interest paid for acquisition of property, plant and equipment	6(9)(24)(30)	( 267 )	( 244 )
Proceeds from disposal of property, plant and equipment		2,419	2,103
Acquisition of intangible assets	6(10)	( 2,112 )	( 859 )
Increase in prepayments for equipment		( 100,955 )	( 53,072 )
Decrease (increase) in guarantee deposits paid		3,969	( 8,005 )
Decrease (increase) in other financial assets - non-current		5,383	( 2,034 )
Increase in other non-current assets		936	361
Net cash flows used in investing activities		( 364,828 )	( 219,214 )
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Increase in short-term borrowings		284,363	25,155
Increase (decrease) in short-term notes and bills payable		100,000	( 10,000 )
Increase in long-term borrowings		81,486	90,923
Redemption of long-term borrowings		( 173,666 )	( 155,305 )
(Decrease) increase in guarantee deposit received		( 210 )	3,061
Cash dividends from capital surplus	6(18)	( 89,348 )	( 89,348 )
Payment of cash dividends	6(19)	( 178,696 )	( 89,348 )
Increase in non-controlling interests		136,977	19,556
Net cash flows from (used in) financing activities		160,906	( 205,306 )
Effects due to changes in exchange rate		8,987	3,730
Net increase in cash and cash equivalents		110,441	223,146
Cash and cash equivalents at beginning of year	6(1)	766,379	543,233
Cash and cash equivalents at end of year	6(1)	\$ 876,820	\$ 766,379

### Attachment 3:

Standard Chem. and Pharm. Co., Ltd.  
‘Principles for Ethical Management’ Side-by-side comparison

Amended Clause	Current Clause	Explanation
<p>Article 1 (Purpose, applicable object, and scope)</p> <p>These Principles are adopted to assist Standard Chemical and Pharmaceutical Corporation (SCP) to foster a corporate culture of ethical management and for sustainable development and growth.</p> <p>Ethical Corporate Management Best Practice Principles apply to directors, supervisors, managers, employees, mandataries of SCP, or persons having substantial control over SCP ("substantial controllers"). The aforementioned subjects to whom the principles apply shall hereafter be referred to as "the Company staff".</p> <p>Each SCP company is advised to, in accordance with these Principles, adopt its own ethical corporate management best practice principles applicable to its business operation and organization. A SCP company is a company which that is a subsidiary foundation of which SCP's direct or indirect contribution of funds exceeds 50 percent of the total funds received, and other institutions or juridical persons which are substantially controlled by such company.</p>	<p>Article 1 (Purpose, applicable object, and scope)</p> <p>These Principles are adopted to assist Standard Chemical and Pharmaceutical Corporation (SCP) to foster a corporate culture of ethical management and for sustainable development and growth.</p> <p>Ethical Corporate Management Best Practice Principles apply to directors, supervisors, managers, employees, or persons having substantial control over SCP ("substantial controllers"). The aforementioned subjects to whom the principles apply shall hereafter be referred to as "the Company staff".</p> <p>Each SCP company is advised to, in accordance with these Principles, adopt its own ethical corporate management best practice principles applicable to its business operation and organization. A SCP company is a company which that is a subsidiary foundation of which SCP's direct or indirect contribution of funds exceeds 50 percent of the total funds received, and other institutions or juridical persons which are substantially controlled by such company.</p>	<p>Amended by decree</p>
<p>Article 6 (Prevention programs)</p> <p>According to the previous Article, SCP shall in its own ethical management policy clearly and thoroughly prescribe the specific ethical management practices and the programs to prevent unethical conduct ("prevention programs"), as follows:</p>	<p>Article 6 (Prevention programs)</p> <p>According to the previous Article, SCP shall in its own ethical management policy clearly and thoroughly prescribe the specific ethical management practices and the programs to prevent unethical conduct ("prevention programs"), as follows:</p>	<p>Amended by decree</p>

Amended Clause	Current Clause	Explanation
1. Prohibit offering and/or acceptance of bribes. 2. Prohibit of illegal political donations. 3. Prohibit improper charitable donations or sponsorship. 4. Prohibit offering or acceptance of unreasonable presents or hospitality, or other improper benefits. 5. Prohibit leaking of business secrets 6. Prohibit insider trading 7. Prohibit improper disclosure of business secrets, trademarks, patents, copyrights and other intellectual property rights 8. Prohibit engagement in unfair competition 9. Prevent products and services that directly or indirectly harm the rights, interests, health, and safety of consumers or other stakeholders.	1. Prohibit offering and/or acceptance of bribes. 2. Prohibit of illegal political donations. 3. Prohibit improper charitable donations or sponsorship. 4. Prohibit offering or acceptance of unreasonable presents or hospitality, or other improper benefits. 5. Prohibit leaking of business secrets 6. Prohibit insider trading	
Article 7 (Commitment and execution) SCP shall operate in accordance with the ethical corporate management policies via commitment by the board of directors, rigorous management, and through implementation of related policies. This principles are to be carried out in the policies of internal management and in commercial activities.	Article 7 (Commitment and execution) SCP shall operate in accordance with the ethical corporate management policies via commitment by the board of directors and rigorous management. This principles are to be carried out in the policies of internal management and in commercial activities.	Amended by decree
Article 8 (Integrity of business activities) SCP shall engage in commercial activities in a fair and transparent manner. Prior to any commercial transaction, SCP shall take into consideration the legality of their agents, suppliers, clients, or other trading counterparts and whether any of them are involved in unethical conduct, and shall avoid any dealings with persons so involved. When entering into contracts with the agents,	Article 8 (Integrity of business activities) SCP shall engage in commercial activities in a fair and transparent manner. Prior to any commercial transaction, SCP shall take into consideration the legality of their agents, suppliers, clients, or other trading counterparts and whether any of them has a record of unethical conduct, and shall avoid any dealings with these persons. When entering into contracts with other people,	Amended by decree

Amended Clause	Current Clause	Explanation
suppliers, clients, or other trading counterparts, SCP shall include in such contracts terms requiring compliance with ethical corporate management policy and that in the event the counterpart is involved in unethical conduct, SCP may at any time terminate or rescind the contract.	SCP shall include in such contracts terms requiring compliance with ethical corporate management policy and that in the event the counterpart is involved in unethical conduct, SCP may at any time terminate or rescind the contract.	
Article 9 (Prohibit offering and acceptance of bribes) The Company staff may not directly or indirectly offer, promise to offer, request, or accept any improper benefit in any form to or from clients, agents, contractors, suppliers, public servants, or other stakeholders.	Article 9 (Prohibit offering and acceptance of bribes) The Company staff may not directly or indirectly offer, promise to offer, request, or accept any improper benefit in any form, including rebate, commission, or dredge fee, to or from clients, agents, contractors, suppliers, public servants, or other stakeholders. However, this prohibition is not applicable if the offering and acceptance of bribes are in line with the law of the place of operation.	Amended by decree
Article 15 (Prohibition of infringement of intellectual property rights) The Company staff shall observe applicable laws and regulations, the company's internal operational procedures, and contractual provisions concerning intellectual property, and may not use, disclose, dispose, or damage intellectual property or otherwise infringe intellectual property rights without the prior consent of the intellectual property rights holder.		Added by decree
Article 16 (Prohibit of engagement in unfair competition) The Company staff shall engage in business activities in accordance with applicable competition laws and regulations, and may not fix prices, make rigged bids, establish output		Added by decree



Amended Clause	Current Clause	Explanation
restrictions or quotas, or share or divide markets by allocating customers, suppliers, territories, or lines of commerce.		
<p>Article 17 (Prevent products and services that harm the rights, interests, health, and safety of stakeholders)</p> <p>In the course of research and development, procurement, manufacture, provision, or sale of products and services, the Company staff shall observe applicable laws and regulations and international standards to ensure the transparency of information about, and safety of, their products and services. They shall also adopt and publish a policy on the protection of the rights and interests of consumers or other stakeholders, and carry out the policy in their operations, with a view to preventing their products and services from directly or indirectly damaging the rights and interests, health, and safety of consumers or other stakeholders.</p> <p>Where there are sufficient facts to determine that the company's products or services are likely to pose any hazard to the safety and health of consumers or other stakeholders, the company shall, in principle, recall those products or suspend the services immediately.</p>		Added by decree
<p>Article 18 (Organization and responsibility)</p> <p>The Company staff shall exercise the due care of good administrators to urge the company to prevent unethical conduct, always review the results of the preventive measures, and continually make adjustments so as to ensure thorough implementation of its ethical corporate</p>	<p>Article 15 (Organization and responsibility)</p> <p>The Board of Directors of SCP shall exercise the due care of good administrators to urge the company to prevent unethical conduct, always review the results of the preventive measures, and continually make adjustments so as to ensure thorough implementation of its ethical</p>	<p>1. Amended by decree</p> <p>2. Adjust order</p>

Amended Clause	Current Clause	Explanation
<p>management policies.</p> <p>To achieve sound ethical corporate management the General Manager Office shall establish a dedicated unit that is under the board of directors and responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The dedicated unit shall be in charge of the following matters, and shall report to the board of directors on a regular basis.</p>	<p>corporate management policies.</p> <p>To achieve sound ethical corporate management, the Auditing Office shall establish a dedicated unit that is under the board of directors and responsible for establishing and supervising the implementation of the ethical corporate management policies and prevention programs. The dedicated unit shall be in charge of the following matters, and shall report to the board of directors on a regular basis.</p>	
<p>Article 19 (The Company staff's interest avoided)</p> <p>The directors, supervisors, and managers shall take the initiative to explain its potential conflicts of interest with the company.</p> <p>When a proposal at a given board of directors meeting concerns the personal interest of, or the interest of the juristic person represented by, any of the directors, supervisors, managers, and other stakeholders attending or present at board meetings of SCP, the concerned person shall state the important aspects of the relationship of interest at the given board meeting. If his or her participation is likely to prejudice the interest of the company, the concerned person may not participate in discussion of or voting on the proposal and shall recuse himself or herself from the discussion or the voting, and may not exercise voting rights as proxy for another director. The directors shall practice self-discipline and must not support one another in improper dealings.</p> <p>The Company staff shall not take advantage of their positions or influence in the company to obtain improper benefits for themselves, their</p>	<p>Article 16 (The Company staff's interest avoided)</p> <p>The directors, supervisors, and managers shall take the initiative to explain its potential conflicts of interest with the company.</p> <p>When a proposal at a given board of directors meeting concerns the personal interest of, or the interest of the juristic person represented by SCP, the concerned person may not participate in discussion of or voting on the proposal and shall recuse himself or herself from the discussion or the voting, and may not exercise voting rights as proxy for another director if his or her participation is likely to prejudice the interest of the company. The directors shall practice self-discipline and must not support one another in improper dealings.</p> <p>The Company staff shall not take advantage of their positions in the company to obtain improper benefits for themselves, their spouses, parents, children or any other person.</p>	<p>1. Amended by decree</p> <p>2. Adjusted order</p>

Amended Clause	Current Clause	Explanation
spouses, parents, children or any other person.		
<p>Article 27 (Set date)</p> <p>These Principles are established as of November 7<sup>th</sup>, 2014.</p> <p>The first amendment is effective as of November 4<sup>th</sup>, 2016.</p>	<p>Article 24 (Set date)</p> <p>These Principles are established as of November 7<sup>th</sup>, 2014.</p>	<p>1. Added amendment date</p> <p>2. Adjusted order</p>

## Appendices

### Standard Chem. & Pharm. Co., Ltd. Shareholding of Directors and Supervisors

1. SCP's total shares (issued and outstanding): 178,696,089 shares
2. Minimum shareholding required and record of shareholding by Directors and Supervisors according to SCP's share register:

Title	Minimum share required	Shares record per register
Directors	10,721,766	26,270,694
Supervisors	1,072,177	9,110,851

Book closure date: 2017/4/18~2017/6/16

3. Directors and Supervisors shareholding record table:

Position	Name	Shares per register	Shareholding ratio (%)
Chairman	Chin-Tsai, Fan	20,786,813	11.63
Director	Fan Dao Nan Foundation Representative: Tzu-Ting, Fan	5,483,881	3.07
Director	Yuan-Te, Li	-	-
Independent Director	Chin-Lin, Chou	-	-
Independent Director	Lin-Yu, Li	-	-
Supervisor	Yuan-Feng, Kao	16,182	0.01
Supervisor	Tsui-Wen, Yeh	9,094,669	5.09
Total		35,381,545	19.80

4. The total shareholding of SCP Directors and Supervisor is in accordance with the minimum shareholding requirement.