Stock Code:4119

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

SCI PHARMTECH, INC.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the combined financial statements of SCI Pharmtech, Inc. as of and for the year ended December 31, 2017 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, SCI Pharmtech, Inc. and its subsidiaries do not prepare a separate set of combined financial statements.

Company name: SCI Pharmtech, Inc.
Chairman: Weichyun Wong
Date: March 9, 2018

Independent Auditors' Report

To the Board of Directors of SCI Pharmtech, Inc.:

Opinion

We have audited the consolidated financial statements of SCI Pharmtech, Inc.and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2017, the consolidated statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in 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 of 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, and we do not provide a separate opinion on these matters. The key audit matters we judged shall be presented in the financial report as follows:

1. **Inventory valuation**

   Please refer to Note (4)(g) and Note (5) of the consolidated financial statements for the accounting policy of inventory valuation, as well as the estimation of inventory valuation, respectively. Information regarding the inventory and related expenses are shown in Note (6)(d) of the consolidated financial statements.

Description of key audit matters:

Due to the characteristics of the pharmaceutical industry, products are manufactured for specific customers, providing batch-specific differentiation services according to their needs while the Group estimates the net realizable value of inventory. If there were no objective information regarding the current sales price available for reference, the Group has to make an evaluation of each product's various factors, such as the demands of the market, to determine the net realizable value of the product. As the reasonableness of estimation might have an impact on the inventory valuation, the test of inventory valuation is one of the key audit matters in our audit.

Our audit procedures include:

Aassessing the reasonableness of provision policies and procedures on allowance for inventory valuation losses, including the evaluation of obsolete inventories and the assessment on inventory turn-over in order to determine the accuracy of the Group’s aging reports, as well as the analysis on the changes of inventory aging which are in accordance with the accounting policies of the Group; sampling and inspecting the Group’s sales price; as well as verifying the calculation of the lower of cost or net realizable value; evaluating the adopted net realizable value as a basis for obsolete inventories.

2. **Revenue recognition**

Please refer to Note (4)(m) of the consolidated financial statements, for the accounting policy of Revenue recognition for operating revenue recognition.

Description of key audit matters:

The Group's main products are the manufacture of Active Pharmaceutical Ingredients, Intermediates, etc. The Group’s major customers are foreign pharmaceutical companies that have transaction terms different from each other, and the revenue recognition was booked by using manual adjustments, which may result in an inappropriate risk in revenue recognition. Therefore, the revenue recognition is one of the key matters in our audit.

Our audit procedures include:

Understanding and testing the related controls surrounding the aforementioned sales and collection cycle; testing of details; as well as verifying whether the revenue had been recognized in the proper period by testing the selected sales transactions before and after the balance sheet date in order to evaluate the accuracy of the timing of the Group's operating revenue recognition.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on March 29, 2017.

SCI Pharmtech Inc. has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as the related guidance endorsed by the Financial Supervisory Commission of the Republic of China, 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, the 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 the management either intends to liquidate the Group or to cease its operations, there is no realistic alternative but to do so.

Those charged with governance (including members of the Audit Committee) are responsible for overseeing the Group's financial reporting process.

Auditors' 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 auditors' 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 the auditing standards generally accepted in the Republic of China 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 the auditing standards generally accepted in the Republic of China, 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 auditors' 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 auditors' 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 and appropriate audit evidence regarding the financial information of the entities or business activities with the Group to express an opinion on the consolidated 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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.

The engagement partners on the audit resulting in this independent auditors' report are Kuan-Ying Kuo and Shu-Min Hsu.

KPMG

Taipei, Taiwan (Republic of China)
March 9, 2018

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

SCI PHARMTECH, INC. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2017 Amount	%	December 31, 2016 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note (6)(a))	$ 255,869	8	326,777	10
1110	Financial assets at fair value through profit or loss, current (notes (6)(b))	414,735	13	537,786	15
1170	Notes and accounts receivable, net (note (6)(c))	173,627	5	252,596	7
1310	Inventories, net (note (6)(d))	482,825	15	498,357	14
1470	Other current assets (note (6)(c))	11,728	-	7,447	-
		1,338,784	41	1,622,963	46
	Non-current assets:				
1523	Non-current available-for-sale financial assets, net (note (6)(e))	42,366	1	42,366	1
1600	Property, plant and equipment (note (6)(f) and (8))	1,785,971	54	1,762,038	50
1780	Intangible assets	1,047	-	-	-
1840	Deferred tax assets (note (6)(l))	53,904	2	41,626	1
1900	Other non-current assets	73,559	2	81,354	2
		1,956,847	59	1,927,384	54
	Total assets	**$ 3,295,631**	**100**	**3,550,347**	**100**

	Liabilities and Equity	December 31, 2017 Amount	%	December 31, 2016 Amount	%
	Current liabilities:				
2170	Notes and accounts payable	35,180	1	58,045	2
2200	Other payables (note (6)(h))	178,169	5	212,252	6
2230	Current tax liabilities (note (6)(l))	36,841	1	44,266	1
2250	Current provisions (note (6)(j))	67,501	2	63,001	2
2300	Other current liabilities	25,282	1	77,834	2
		342,973	10	455,398	13
	Non-Current liabilities:				
2570	Deferred tax liabilities (note (6)(l))	856	-	1,407	-
2640	Provisions for employee benefits, non-current (note (6)(k))	22,054	1	22,621	1
		22,910	1	24,028	1
	Total liabilities	365,883	11	479,426	14
	Equity attributable to owners of parent (note (6)(m)):				
	Share capital :				
3100	Ordinary shares	794,853	24	794,853	22
3200	Capital surplus	1,348,339	41	1,348,339	38
3310	Legal reserve	269,150	8	227,455	6
3320	Special reserve	7,727	-	7,727	-
3350	Unappropriated retained earnings	517,566	16	701,630	20
3400	Other components of equity	(7,887)	-	(9,083)	-
	Total equity	2,929,748	89	3,070,921	86
	Total liabilities and equity	**$ 3,295,631**	**100**	**3,550,347**	**100**

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

SCI PHARMTECH, INC. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2017		2016	
		Amount	**%**	**Amount**	**%**
4110	Sales revenue	1,301,050	100	1,903,100	100
5110	Cost of sales (note (6)(d) and (12))	905,368	70	1,112,574	58
5900	**Gross profit**	395,682	30	790,526	42
	Operating expenses (note (12)):				
6100	Selling expenses	86,169	7	166,580	9
6200	Administrative expenses	41,884	3	71,845	4
6300	Research and development expenses	33,089	2	35,644	2
		161,142	12	274,069	15
6900	**Net operating income**	234,540	18	516,457	27
	Non-operating income and expenses:				
7190	Other income	9,860	1	2,756	-
7101	Interest income from bank deposits	927	-	924	-
7235	Gains on financial assets (liabilities) at fair value through profit or loss (note (6)(b))	3,514	-	1,452	-
7510	Interest expense	-	-	(2,016)	-
7590	Miscellaneous disbursements	(172)	-	(1,726)	-
7610	Losses on disposals of property, plant and equipment	(658)	-	(607)	-
7630	Foreign exchange gains (losses), net	(13,237)	(1)	(11,541)	(1)
		234	-	(10,758)	(1)
7900	**Profit before tax**	234,774	18	505,699	26
7950	Less: Income tax expense (note (6)(l))	43,798	3	88,744	5
	Profit	190,976	15	416,955	21
8300	**Other comprehensive income:**				
8310	**Items that may not be reclassified subsequently to profit or loss:**				
8311	Other comprehensive income before tax, actuarial gains (losses) on defined benefit plans (note (6)(k))	129	-	(1,402)	-
8349	Income tax relating to components that will not be reclassified subsequently to profit or loss (note (6)(l))	(22)	-	238	-
	Items that will not be reclassified subsequently to profit or loss	107	-	(1,164)	-
8300	**Other comprehensive income, net**	107	-	(1,164)	-
	Comprehensive income	**$ 191,083**	**15**	**415,791**	**21**
	Earnings per share (note (6)(o)):				
9750	**Basic net income per share**	**$**	**2.41**		**5.34**
9850	**Diluted net income per share**	**$**	**2.39**		**5.22**

See accompanying notes to financial statements.

(English Translation of Consolidated and Report Originally Issued in Chinese)

SCI PHARMTECH, INC. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent								
			Retained earnings			Total other equity interest			
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized gains (losses) on available-for-sale financial assets	Unrealized employee benefit	Total other equity interest	Total equity
Balance at January 1, 2016	$ 762,177	1,186,316	190,064	-	635,378	(7,727)	(4,139)	(11,866)	2,762,069
Profit for the year ended December 31, 2016	-	-	-	-	416,955	-	-	-	416,955
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(1,164)	-	-	-	(1,164)
Total comprehensive income	-	-	-	-	415,791	-	-	-	415,791
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	37,390	-	(37,390)	-	-	-	-
Special reserve appropriated	-	-	-	7,727	(7,727)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(304,422)	-	-	-	(304,422)
Conversion of convertible bonds	32,676	162,023	-	-	-	-	-	-	194,699
Share-based payments transactions	-	-	-	-	-	-	2,783	2,783	2,783
Thousand roungind difference	-	-	1	-	-	-	-	-	1
Balance at December 31, 2016	794,853	1,348,339	227,455	7,727	701,630	(7,727)	(1,356)	(9,083)	3,070,921
Profit for the year ended December 31, 2017	-	-	-	-	190,976	-	-	-	190,976
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	107	-	-	-	107
Total comprehensive income	-	-	-	-	191,083	-	-	-	191,083
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	41,695	-	(41,695)	-	-	-	-
Stock dividends of ordinary share	-	-	-	-	(333,452)	-	-	-	(333,452)
Share-based payments transactions	-	-	-	-	-	-	1,196	1,196	1,196
Balance at December 31, 2017	**$ 794,853**	**1,348,339**	**269,150**	**7,727**	**517,566**	**(7,727)**	**(160)**	**(7,887)**	**2,929,748**

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

SCI PHARMTECH, INC. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Profit before tax	$ 234,774	505,699
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation expense	126,653	132,228
Amortization expense	147	96
Compensation costs of share-based payment transaction	1,196	2,783
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(3,514)	(1,452)
Interest expense	-	2,016
Interest income	(851)	(924)
Loss (gain) on disposal of property, plan and equipment	658	607
Others	1,029	1,529
	125,318	136,883
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	78,969	(84,558)
Decrease (increase) in inventories	15,532	55,641
Decrease (increase) in other current assets	(4,281)	4,888
Increase (decrease) in notes and accounts payables	(22,865)	(9,371)
Increase (decrease) in other payable	(34,083)	15,169
Increase (decrease) in provisions	4,500	25,500
Increase (decrease) in other current liabilities	(52,552)	(27,106)
Increase (decrease) in provisions for employee benefits, non-current	(438)	(198)
	110,100	116,848
Cash flows from (used in) operations	344,874	622,547
Interest received	851	924
Interest paid	-	(1)
Income taxes paid	(64,074)	(121,364)
Net cash flows from (used in) operating activities	281,651	502,106
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through profit or loss	(160,030)	(104,673)
Proceeds from disposal of financial assets at fair value through profit or loss	286,595	-
Acquisition of property, plant and equipment	(106,904)	(112,088)
Proceeds from disposal of property, plant and equipment	400	830
Acquisition of intangible assets	(1,135)	-
Decrease (increase) in refundable deposits	1,319	(13,876)
Increase in prepayments of property, plant and equipment	(39,352)	(11,307)
Net cash flows from (used in) investing activities	(19,107)	(241,114)
Cash flows from (used in) financing activities:		
Increase in short-term loans	-	20,000
Decrease in short-term loans	-	(20,000)
Cash dividends paid	(333,452)	(304,423)
Net cash flows from (used in) financing activities	(333,452)	(304,423)
Net increase (decrease) in cash and cash equivalents	(70,908)	(43,431)
Cash and cash equivalents at beginning of period	326,777	370,208
Cash and cash equivalents at end of period	**$ 255,869**	**326,777**

See accompanying notes to financial statements.

(Expressed in Thousands of New Taiwan Dollars, Unless otherwise specified)

(1) Company history

SCI Pharmtech, Inc. (the "Company") was incorporated in September 18, 1987 as a company limited by shares and registered under the Ministry of Economic Affairs, R.O.C. The major business activities of the Company are the research and development, manufacture and sale of Active Pharmaceutical Ingredients (" API"), Intermediates, specialty chemicals. The consolidated financial statements of the Company as of and for the year ended December 31, 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as the "Group entities"). Please refer to note (4) (c) ii. for related information of the Group primarily business activities. Mercuries & Associates, Holding Ltd. is the parent company of the Company.

(2) Approval date and procedures of the consolidated financial statements

These consolidated financial statements were authorized for issuance by the board of directors on March 9, 2018.

(3) New standards, amendments and interpretations adopted:

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 " Presentation of Financial Statements-Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014

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SCI PHARMTECH, INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Group believes that the application of the above IFRSs would not have any material impact on the consolidated financial statements.

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

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SCI PHARMTECH, INC. AND ITS SUBSIDIARIES
Notes to the Consolidated Financial Statements

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Group had equity investments classified as available-for-sale with a fair value of 42,366 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group estimated the application of IFRS 9's classification requirements on January 1, 2018 would not have any material impact in retained earnings and non-controlling interests.

2) Impairment-Financial assets and contact assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believes that the adoption of the IFRS 9 would not have any material impact on its financial statements.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  – The determination of the business model within which a financial asset is held.

  – The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

  – The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

(Continued)

1) Sales of goods

For the sale of products, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

The Group assess that the timing that significant risks and rewards of the ownership transfer to the customers and the timing that the control of the goods transfer to the customers are similar, therefore, the Group expect that there is no significant impact for the transactions.

(iii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

(Continued)

Those which may be relevant to The Group are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

The accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language consolidated financial statements, the Chinese version shall prevail.

The significant accounting policies presented in the consolidated financial statements are summarized as follows. Except for those specifically indicated, the following accounting policies were applied consistently throughout the presented periods in the consolidated financial statements.

(a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter reffered to as the Regulations) and IFRSs endorsed by the FSC.

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the consolidated annual financial statements have been prepared on the historical cost basis:

1) Financial instruments measured at fair value through profit or loss;

2) Available-for-sale financial assets are measured at fair value;

3) The defined benefit asset (liability) is recognized as the fair value of plan assets less the present value of the defined benefit obligation. (Please refer to note (4)(n)).

(ii) Functional and presentation currency

The functional currency of the Group is determined based on the primary economic environment in which the Group operate. The consolidated financial statements are presented in New Taiwan Dollar, which is the Group's functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principle of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its control over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by the Group.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any differences between the Group's share of net assets before and after the change, and any considerations received or paid, are adjusted to or against the Group reserves.

(ii) List of subsidiaries in the consolidated financial statements.

Name of investor	Name of subsidiary	Principal activity	Shareholding December 31, 2017	Shareholding December 31, 2016
The Company	Yushan Hoiding Universal Ltd.	Investment	100%	100%
Yushan Hoiding Universal Ltd.	Yushan Pharmaceuticals Inc.	The research and development, manufacture and sale of API	100%	100%

(d) Foreign currencies

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

(Continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of translation.

Foreign currency differences arising from retranslation are recognized in profit or loss, except for the translation differences of the following, which are recognized in other comprehensive income:

(i) Available-for-sale financial instrument;

(ii) Hedge of a net investment in a foreign operation; and

(iii) Qualified cash flow hedge.

(e) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

(i) It expects to realize the asset, or intends to sell or consume it, in its normal operating cycle;

(ii) It holds the asset primarily for the purpose of trading;

(iii) It expects to realize the asset within twelve months after the reporting period; or

(iv) The asset is cash or cash equivalent (as defined in IAS7) unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

(i) It expects to settle the liability in its normal operating cycle;

(ii) It holds the liability primarily for the purpose of trading;

(iii) The liability is due to be settled within twelve months after the reporting period; or

(iv) It does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(f) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(Continued)

The time deposits which meet the above definition and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are reclassified as cash equivalents.

(g) Financial Instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

(i) Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

1) Financial assets at fair value through profit or loss

A financial asset is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss, and are included in non-operating income and expenses. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

2) Available for sale financial assets

Available for sale financial assets are non derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available for sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available for sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and included in the non operating income and expenses. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

Dividend income is recognized in profit or loss on the date that the Company’s right to receive payment is established, which in the case of quoted securities is normally the ex dividend date. Such dividend income is included in the non operating income and expenses.

(Continued)

3) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables, other receivables, and investment in debt security with no active market. Such assets are recognized initially at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less, any impairment losses other than insignificant interest on short-term receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized as applicable using trade-date accounting.

Interest income is recognized in profit or loss, and it is included in non-operating income and expenses.

4) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

The objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics. In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries, and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversible in subsequent periods.

An impairment loss in respect of a financial asset is deducted from the carrying amount, except for trade receivables, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. Any subsequent recovery of receivable written off is recorded in the allowance account. Changes in the amount of the allowance account are recognized in profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

Impairment losses recognized on an available for sale equity security are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available for sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

Impairment losses and recoveries are recognized in profit or loss. Recovery and loss on doubtful debts of account receivables is included in operating expense, others are included in non-operating income and expense.

5) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in profit or loss and it is included in non-operating income and expenses.

The Group separates the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income shall be recognized in profit or loss.

(Continued)

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual agreement.

Equity instruments refer to surplus equities of the assets after the deduction of all the debts for any contracts. Equity instruments issued are recognized as the amount of consideration received, less, the direct cost of issuing. Interest related to the financial liability is recognized in profit or loss, and included in non-operating income and expenses.

On conversion, the financial liability is reclassified to equity, and no gain or loss is recognized.

2) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss, which comprise loans and borrowings, and trade and other payables, are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method other than insignificant interest on short-term loans and payables. Interest expense not capitalized as capital cost is recognized in profit or loss, and is included in non-operating income or expense.

3) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss, and is included in non-operating income or expenses.

4) Offsetting of financial assets and liabilities

The Group presents financial assets and liabilities on a net basis when the Group has the legally enforceable right to offset and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on weighted average costing principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(Continued)

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, less, accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately, unless the useful life and the depreciation method of a significant part of an item of property, plant and equipment are the same as the useful life and depreciation method of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized as non-operating income and expense.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

The depreciable amount of an asset is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

1) Buildings: 2 ~ 55 years

2) Machinery: 3 ~15 years

3) Other equipment: 3 ~ 15 years

Building and equipment constitutes mainly building, mechanical and electrical power equipment and its related facilities. Each such part depreciates based on its useful life.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the change is accounted for as a change in an accounting estimate.

(Continued)

(j) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Group are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Amortization

The amortizable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives of computer software is 6~11 years.

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates.

(k) Impairment – non-derivative financial assets

Non-financial assets except for inventories, deferred tax assets and assets arising from employee benefits are assessed at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group shall estimate the recoverable amount of the asset. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group will have to determine the recoverable amount for the asset's cash-generating unit.

The recoverable amount for an individual asset or a cash-generating unit is the higher of its fair value, less, costs to sell and its value in use. If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss shall be recognized immediately in profit or loss.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

(Continued)

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(l) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

The Group adopted the IFRIC 21 "Levies" for the first time, wherein the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

(m) Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

The timing of the transfers of risks and rewards varies depending on the individual terms of the sales agreement.

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of the defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

(Continued)

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of the present value of the economic benefits available in the form of any future refunds from the plan or reductions in the future contributions to the plan. In order to calculate the present value of the economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on the settlement of the plan liabilities.

When the benefits of a plan are improved, the expense of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

Remeasurements of the net defined benefit liability (asset), which comprise (1) actuarial gains and losses, (2) the return on plan assets (excluding interest) and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period.

Net interest expense and other expenses related to the defined benefit plans are recognized in retained earnings.

The Group recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets and the change in the present value of the defined benefit obligation.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(o) Share-based payment

The grant-date fair value of share-based payment awards granted to employees is recognized as employee expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards when grant-date is the day subscription price and share determined. The amount recognized as an expense is adjusted to reflect the number of awards which related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(Continued)

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions, and there is no true-up for differences between expected and actual outcomes.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense, with a corresponding increase in liabilities, over the period that the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and settlement date. Any changes in the fair value of the liability are recognized as personnel expenses in profit or loss.

(p) Income taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the following exceptions:

(i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.

(ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.

(iii) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) the taxing of deferred tax assets and liabilities fulfill one of the below scenarios:

1) levied by the same taxing authority; or

2) levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and they shall be adjusted based on the probability that future taxable profit that will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

(q) Earnings per share

The Group discloses the basic and diluted earnings per share attributable to ordinary equity holders of the Group. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Group divided by the weighted average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group divided by the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. Dilutive potential ordinary shares comprise convertibel bonds, employee stock options, remuneration to employees not yet approved by the board of directors, and restricted employee shares.

(r) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may incur revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group). Operating results of the operating segment are regularly reviewed by the Group’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Each operating segment consists of standalone financial information.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the next period.

There are no critical judgments in applying the accounting policies that have significant effects on the amounts recognized in the consolidated financial statements.

(Continued)

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Besides, for those uncertainties due to accounting assumptions and estimations, information about the significant risk of resulting in a material adjustment within the next financial year is stated below:

Inventory valuation

Inventories are measured at the lower of cost or net realizable value. The Group writes down the cost of inventories to net realizable value since the inventories at reporting date were estimated to be obsolescence and unmarketable items. The inventory valuation is based on the demand of the products within a specific period. Therefore, the value of inventories will vary significantly variable. Please refer to Note (6)(d) of the financial statement for inventory valuation.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	$ 416	327
Checking accounts and demand deposits	155,450	88,940
Time deposits	80,000	67,000
Bills sold under repurchase agreements	20,003	170,510
	$ 255,869	**326,777**

(i) The Group did not provid Cash and cash equivalents as collateral for its loans.

(ii) Please refer to note (6)(q) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Group.

(b) Financial assets at fair value through profit or loss, current:

	December 31, 2017	December 31, 2016
Financial assets as fair value through profit or loss, current:		
Beneficiary certificate	$ 275,744	490,983
Stocks listed in domestic markets	138,991	46,803
	$ 414,735	**537,786**

As of December 31, 2017 and 2016, the Group did not provide any aforementioned financial assets as collateral for its loans.

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(c) Notes and accounts receivable and other receivables

	December 31, 2017	December 31, 2016
Notes receivable	$ 794	3,836
Accounts receivable	190,975	266,902
Other receivables	75	87
Less: allowance for uncollectible accounts	(18,142)	(18,142)
	$ **173,702**	**252,683**

(i) The aging analysis of accounts receivable and other receivables which were past due but not impaired were as follows:

	December 31, 2017	December 31, 2016
Past due 0-30days	$ 28,663	52,666
Past due 30-60 days	-	52,933
Past due 60-120 days	166	1,143
	$ **28,829**	**106,742**

(ii) The changes of allowance for notes and accounts receivable for the ended December 31, 2017 and 2016, were as follow：

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2017 (as Balance of December 31, 2017)	$ **18,142**	**-**	**18,142**

	Individually assessed impairment	Collectively assessed impairment	Total
Balance at January 1, 2016	2,489	-	2,489
Impairment loss recognized	15,653	-	15,653
Balance at December 31, 2016	$ **18,142**	**-**	**18,142**

Allowance doubtful debts is based on the historical payment behavior and the analysis of customer's credit rating. The Group believes that part of the doubtful debts still receivable.

As of December 31, 2017 and 2016, the Group did not provide any aforementioned notes and accounts receivable and other receivables as collaterals for its loans.

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(d) Inventories

		December 31, 2017	December 31, 2016
Raw materials	$	92,708	88,002
Work in progress		53,237	241,835
Finished goods		336,880	168,520
	$	**482,825**	**498,357**

During the years ended December 31, 2017 and 2016, inventory cost recognized as cost of sales amounting to $905,368 and $1,112,574, respectively. In 2017 and 2016, the write-down of inventories to net realizable value amounted to $7,730 and $9,935, respectively, recognized in cost of sales goods.

As of December 31, 2017 and 2016 the Group did not provide any inventories as collaterals for its loans.

(e) Available-for-sale financial assets-non-current

		December 31, 2017	December 31, 2016
Stocks unlisted in domestic markets	$	50,093	50,093
Evaluation adjustment of available-for-sale financial assets		(7,727)	(7,727)
	$	**42,366**	**42,366**

As of December 31, 2017 and 2016 the Group did not provide any available-for-sale financial assets-non-current for its loans.

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2017 and 2016 were as follows:

		Land	Buildings and construction	Machinery and equipment	Office equipment	Others equipment	Prepayments for equipment and construction in progress	Total
Cost or deemed cost:								
Balance on January 1, 2017	$	825,680	678,731	1,560,624	24,042	23,016	-	3,112,093
Additions		-	149	23,747	6,268	31,871	44,869	106,904
Transferred (out) in		-	7,144	53,147	-	(15,551)	-	44,740
Disposal and derecognitions		-	(4,348)	(57,033)	(687)	-	-	(62,068)
Balance on December 31, 2017	**$**	**825,680**	**681,676**	**1,580,485**	**29,623**	**39,336**	**44,869**	**3,201,669**
Balance on January 1, 2016	$	824,322	623,494	1,501,738	16,234	82,404	-	3,048,192
Additions		1,358	540	71,250	8,020	30,920	-	112,088
Disposal and derecognitions		-	(10,099)	(35,541)	(555)	(170)	-	(46,365)
Reclassifications		-	64,796	23,177	343	(90,138)	-	(1,822)
Balance on December 31, 2016	**$**	**825,680**	**678,731**	**1,560,624**	**24,042**	**23,016**	**-**	**3,112,093**

(Continued)

SCI PHARMTECH, INC. AND ITS SUBSIDIARIES
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	Land	Buildings and construction	Machinery and equipment	Office equipment	Others equipment	Prepayments for equipment and construction in progress	Total
Depreciation and impairments loss:							
Balance on January 1, 2017	$ -	267,030	1,066,664	13,540	2,821	-	1,350,055
Depreciation for the year	-	29,760	93,215	2,047	1,631	-	126,653
Disposals and derecognitions	-	(4,348)	(55,975)	(687)	-	-	(61,010)
Balance on December 31, 2017	$ -	292,442	1,103,904	14,900	4,452	-	1,415,698
Balance on January 1, 2016	$ -	246,169	1,002,235	12,924	1,427	-	1,262,755
Depreciation of the year	-	30,406	99,087	1,171	1,564	-	132,228
Disposal and derecognitions	-	(9,545)	(34,658)	(555)	(170)	-	(44,928)
Balance on December 31, 2016	$ -	267,030	1,066,664	13,540	2,821	-	1,350,055
Carrying amounts:							
Balance on December 31, 2017	$ 825,680	389,234	476,581	14,723	34,884	44,869	1,785,971
Balance on January 1, 2016	$ 824,322	377,325	499,503	3,310	80,977	-	1,785,437
Balance on December 31, 2016	$ 825,680	411,701	493,960	10,502	20,195	-	1,762,038

In May 2013, the Group purchased a piece of land for the construction of its factory in Taoyuan Luzhu that was auctioned by the court at a price of $211,184. The amount had been paid in full, and the transfer procedures have been completed. The title deed of a certain portion of the land, measuring 2,259 square meters, was given to Mr. Weichyun Wong due to certain legal requirements. However, both parties agreed that the Group is the actual owner of the land.

As of December 31, 2017 and 2016, patr of the property, plant and equipment the Group had provided at collateral for its loans. Please refer to note(8) for details.

(g) Short-term borrowings

The details of short-term borrowing were as following:

	December 31, 2017	December 31, 2016
Unsecured bank loans	$ -	-
Unused credit line for short-term borrowings	$ 430,000	453,240
Annual range of interest rates	-	-

Please refer to note (6)(q) for the interest risk, foreign currency risk, and liquidity risk information of the Group.

(h) Other payables

	December 31, 2017	December 31, 2016
Salaries payable	$ 75,261	117,483
Payables on equipment	18,503	10,421
Other payables	84,405	84,348
	$ 178,169	212,252

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(i) Bonds payable

The Company did not issue any unsecured convertible bonds in 2017. As of December 31, 2016, the information of unsecured convertible bonds were as follows:

	December 31, 2017
Total convertible bonds issued	$ 600,000
Cumulative converted amount	(600,000)
	$ -

(i) The convertible bonds issued by the Company amounting to $600,000, which had been converted into 9,857 thousand shares, resulting in a capital increase of $490,995, were due on August 9, 2016.

(ii) To repay its bank loans and improve its financial structure, the Company issued the 1st domestic unsecured convertible bonds in accordance with the Ruling No.10200259351 approved by the FSC on July 10, 2013. The issuing conditions were as follows:

Amount	$600,000,000 (dollars)
Issuance date	August 9, 2013
Coupon rate	0%
Period	August 9, 2013 to August 9, 2016
Redemption at the option of the bondholders	The Company redeems the convertible bonds at par value by cash at the time of the bond's maturity, except for the cases below: 1.The holders converted the bonds into common stock of the Company. 2.The Company calls back the convertible bonds in accordance with the Regulation No.17. 3.The Company repurchases the canceled bonds at the places of business of securities firms.
Redemption at the option of the Company	The Company may redeem the bonds under the following circumstances: Within the period between one month (September 10, 2013) after the issuance date and 40 days (June 30, 2016) before the last convertible date, if (i) the closing price of the Company's common shares on the TSE for a period of 30 consecutive trading days before redemption has been at least 30% of the conversion price in effect on each such trading day, or (ii) in the event that at least 90% of the principal amount of the bonds originally outstanding has been redeemed, repurchased or converted, the Company may redeem all bonds at face value.

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SCI PHARMTECH, INC. AND ITS SUBSIDIARIES
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Terms of converstion	Bondholders may opt to have the bonds converted into common stock of the Company within the period between one month after the issuance date (September 10, 2013) and 10 days (July 30, 2016) before the last convertible date, instead of the final cash redemption upon expiration of the bonds.
Conversion price	The exchange price was originally $78 per share, the exchange price will be subject to adjustments upon the occurrence of certain events set out in the indenture. After August 11, 2013, the exchange price was adjusted from $78 to $69.48. After September 5, 2013, the exchange price was adjusted from $69.48 to $67.08. After August 11, 2014, the exchange price was adjusted from $67.08 to $62.26. After August 3, 2015, the exchange price was adjusted from $62.26 to $59.83.

(j) Provisions

		Environmental protection costs
Balance at January 1, 2017	$	63,001
Provisions made during the period		30,714
Provisions used during the period		(26,214)
Balance at December 31,2017	**$**	**67,501**
Balance at January 1, 2016	$	37,501
Provisions made during the period		58,173
Provisions used during the period		(32,673)
Balance at December 31,2016	**$**	**63,001**

In 2017 and 2016, the provisions were recognized for the treatment of liquid waste in accordance with the Standards of Environmental Protection Administration; the amount of provisions were estimated at quantity and cost of the treatment of liquid waste. The Group considers to write off and recognize the said provisions in the following year.

(k) Employee benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and the fair value of the plan assets of the Company were as follows:

		December 31, 2017	December 31, 2016
Present value of defined benefit obligations	$	(81,748)	(79,643)
Fair value of plan assets		59,694	57,022
Recognized liabilities for defined benefit obligations	**$**	**(22,054)**	**(22,621)**

(Continued)

SCI PHARMTECH, INC. AND ITS SUBSIDIARIES
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The Company makes defined benefit plan contributions to the pension fund account at Bank of Taiwan that provides pensions for its employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive an annual payment based on the years of service and average salary for the six months prior to retirement.

1) Composition of plan assets

The Company allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by the local banks.

The Company's Bank of Taiwan labor pension reserve account balance amounted to $59,694 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Company were as follows:

	2017	2016
Defined benefit obligation at January 1	$ (79,643)	(79,468)
Benefits paid by the plan	-	3,333
Current service costs and interest	(2,384)	(2,408)
Remeasurement in net defined benefit liability (assets)	279	(1,100)
Defined benefit obligation at December 31	**$ (81,748)**	**(79,643)**

3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company were as follows:

	2017	2016
Fair value of plan assets at January 1	$ 57,022	57,812
Contributions made	2,105	2,134
Benefits paid from the plan assets	-	(3,333)
Interest income	717	711
Remeasurement in net defined benefit liability (assets)	(150)	(302)
Fair value of plan assets at December 31	**$ 59,694**	**57,022**

(Continued)

SCI PHARMTECH, INC. AND ITS SUBSIDIARIES
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4) Expenses recognized in profit or loss

The expenses recognized in profit or loss for the Company were as follows:

	2017	2016
Service cost	$ 1,399	1,442
Net interest of net defined benefit liabilities for defined benefit obligations	268	256
	$ 1,667	**1,698**
Operating cost	1,540	1,537
Operating expenses	127	161
	$ 1,667	**1,698**

5) Remeasurement of net defined benefit liability (asset) recognized in other comprehensive income

The Company's remeasurement of the net defined benefit liability (assets) recognized in other comprehensive income for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Cumulative amount at January 1	$ 7,567	6,165
Recognized during the period	(129)	1,402
Cumulative amount at December 31	**$ 7,438**	**7,567**

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follows:

	December 31, 2017	December 31, 2016
Discount rate as of December 31	1.00 %	1.25 %
Future salary increasing rate	1.50 %	1.50 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one year period after the reporting date was $2,310.

The weighted-average duration of the defined benefit obligation is 8 years.

(Continued)

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on the present value of the defined benefit obligation shall be as follows:

	The impact on the present value of the defined benefit obligation	
	Increased 0.25%	**Decreased 0.25%**
As of December 31, 2017		
Discount rate	(1,795)	1,859
Future salary increasing rate	1,845	(1,791)

	The impact on the present value of the defined benefit obligation	
	Increased 0.25%	**Decreased 0.25%**
As of December 31, 2016		
Discount rate	(1,879)	1,948
Future salary increasing rate	1,938	(1,879)

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of the pension liabilities in the balance sheets.

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2017 and 2016.

(ii) Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

The Group recognized the pension costs under the defined contribution method amounting to \$6,175 and \$5,821 for the years ended December 31, 2017 and 2016, respectively. Payment was made to the Bureau of Labor Insurance.

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(l) Income taxes

(i) Income tax expenses

The amount of income tax for the years ended December 31, 2017 and 2016 was as follows:

		2017	2016
Current income tax expense			
Recognized during the period	$	52,477	89,045
10% surtax on unappropriated earnings		4,064	2,317
Income tax estimate under (over)		108	741
		56,649	92,103
Deferred income tax expense			
Recognition and reversal of temporary differences		(12,851)	(3,359)
Income tax expense	$	43,798	88,744

The amount of income tax recognized in other comprehensive income for 2017 and 2016 was as follows:

		2017	2016
Items that may not be reclassified subsequently to profit or loss:			
Remeasurement in defined benefit plan	$	(22)	238

Reconciliation of income tax and profit before tax for 2017 and 2016 is as follows:

		2017	2016
Profit excluding income tax	$	234,774	505,699
Income tax using the Company's domestic tax rate		39,912	85,969
Under (over) provision in prior periods		108	741
10% surtax on unappropriated earnings		4,064	2,317
Other		(286)	(283)
	$	43,798	88,744

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets and liabilities: None.

2) Unrecognized deferred tax assets

Details of unrecognized under deferred tax assets are as follows:

		December 31, 2017	December 31, 2016
Tax effect of loss carryforward	$	3,102	2,908

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SCI PHARMTECH, INC. AND ITS SUBSIDIARIES
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The ROC Income tax Act allows losses for tax purposes, as assessed by the tax authorities, to be offset against taxable income in the following ten years. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom.

3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2017 and 2016 were as follows:

	Loss for market price decline and obsolete inventories	Provision	Investment income recognized under the equity method (overseas)	Deferred revenue	Others	Total
Deferred tax assets:						
Balance on January 1, 2017	$ 21,461	10,234	2,991	2,793	4,147	41,626
Recognized in (profit) or loss	1,314	765	264	7,850	2,107	12,300
Recognized in other comprehensive income	-	-	-	-	(22)	(22)
Balance on December 31, 2017	$ 22,775	10,999	3,255	10,643	6,232	53,904
Balance on January 1, 2016	19,772	5,899	2,790	7,019	1,595	37,075
Recognized in profit or loss	1,689	4,335	201	(4,226)	2,314	4,313
Recognized in other comprehensive income	-	-	-	-	238	238
Balance on December 31, 2016	$ 21,461	10,234	2,991	2,793	4,147	41,626

	Gain on valuation of financial asset	Foreign exchange gain	Total
Deferred tax liabilities:			
Balance on January 1, 2017	$ 699	708	1,407
Recognized in profit or loss	81	(632)	(551)
Recognized in other comprehensive income	-	-	-
Balance on December 31, 2017	$ 780	76	856
Balance on January 1, 2016	453	-	453
Recognized in profit or loss	246	708	954
Recognized in other comprehensive income	-	-	-
Balance on December 31, 2016	$ 699	708	1,407

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(iii) Examination and approval

The ROC tax authorities have examined the Company' s and Yushan Pharmactuticals Inc.'s income tax returns through 2015.

(iv) The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to offset taxable income over a period of ten years. Yushan Pharmactuticals Inc. estimated tax losses which can be used to offset future taxable income as of December 31, 2017, were as follows:

Year of loss	Unused amount	Expiry year
2013(Assessed)	$ 4,627	2023
2014(Assessed)	10,633	2024
2015(Assessed)	885	2025
2016(Filed)	959	2026
2017(Estimated)	1,144	2027
	$ 18,248	

(v) Information related to the unappropriated earnings and tax deduction ratio was summarized below:

	December 31, 2017	December 31, 2016
Unappropriated earnings of 1997 and before	(Note)	$ 86,063
Unappropriated earnings of 1998 and after	(Note)	615,567
		$ 701,630
Balance of imputation credit account	(Note)	**$ 94,273**

	2017 (Estimated)	2016 (Actual)
Creditable ratio for earnings distribution to R.O.C. residents	(Note)	**22.53** %

The above stated information was prepared in accordance with the information letter No.10204562810 announced by the Ministry of Finance of R.O.C. on October 17, 2013.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

(m) Capital and other equities

As of December 31, 2017 and 2016, the authorized common stocks were $900,000 with a par value of 10 New Taiwan dollars per share, of which 8,000 thousand shares were reserved for the issuance of employee stock options, and of which 79,485 thousand shares, were issued. All issued shares were paid up upon issuance.

Reconciliation of shares outstanding for 2017 and 2016 were as follows:

(in thousands of shares)	Ordinary shares 2017	Ordinary shares 2016
Balance on January 1	$ 79,485	76,218
Conversion of convertible bonds	-	3,267
Balance on December 31	**$ 79,485**	**79,485**

The Company converted unsecured convertible bonds to ordinary share amounting to $194,699 in 2016 which resulted in a capital surplus of $162,023.

(i) Capital surplus

The balances of capital surplus as of December 31, 2017 and 2016, were as follows:

	December 31, 2017	December 31, 2016
Additional paid-in capital	$ 1,270,247	1,270,247
Gain on disposal of assets	980	980
Stock options	71,530	71,530
Employee stock options	5,582	5,582
	$ 1,348,339	**1,348,339**

(ii) Retained Earning

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and special reserves are supposed to set aside in accordance with the relevant regulations or as required by the government. And then any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

According to the Company's dividend policy, the type of dividends should be determined after considering the Company's capital and financial structure, operating conditions, operating surplus, industrial characteristics and cycle. The distribution of net earnings should not be lower than 50% of the current profit before tax. Cash dividends to stockholders should not be lower than 10% of the total dividends.

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1) Legal reserve

In accordance with the Company Act, 10 percent of net income after tax should be set aside as legal reserve, until it is equal to share capital. If the Company experienced profit for the year, the distribution of the statutory earnings reserve, either by new shares or by cash, shall be decided at the shareholders meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25 percent of the paid-in capital.

2) Special reserve

A portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should equal to the current-period total net reduction of other shareholders' equity. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (and is not qualified for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions.

3) Earnings distribution

Based on the resolutions of the annual stockholders' meetings held on June 20, 2017 and June 21, 2016, the appropriations of dividends from the distributable retained earnings of 2016 and 2015 were as follows:

	2016		2015	
	Amount per share	Total amount	Amount per share	Total amount
Dividends distributed to commons shareholders：				
Cash	$ 4.20	333,452	3.83	304,422

(iii) Other equity (net taxes)

	Available-for-sale financial assets	Unearned employee benefit	Total
Balance on January 1, 2017	$ 7,727	1,356	9,083
Amortization cost of employee restricted stock	-	(1,196)	(1,196)
Balance on December 31, 2017	$ 7,727	160	7,887
Balance on January 1, 2016	$ 7,727	4,139	11,866
Amortization cost of employee restricted stock	-	(2,783)	(2,783)
Issuance of employee restricted stock	-	-	-
Balance on December 31, 2016	$ 7,727	1,356	9,083

(Continued)

(n) Share-based payment

(i) New restricted employee shares

1) At the meeting held on June 18, 2013, the shareholders adopted a resolution to issue 1,000 thousand new shares of employee restricted stock to those full time employees who meet certain requirements. The Board of Directors resolved to issue 500 thousand shares restricted shares on December 16, 2013, which was also the effective date of the share issuance.

500 thousand shares of the aforementioned restricted stock were issued without consideration. 25%, 25%, 25% and 25% of the 500,000 restricted shares will be vested when the employees continue to provide services for at least 1 year, 2 years, 3 years, and 4 years, respectively, from the grant date, as well as meet the performance requirement.

Before the vesting conditions are fully satisfied, the shareholder rights are executed by the custodian and restricted by the Regulations Securities Issuance. If the shares remain unvested after the vesting period, the Company will redeem the shares without consideration and cancel the shares thereafter.

Details of the new restricted employee shares of the Company were as follows:

	2017	**2016**
Outstanding shares on January 1	184	276
Vested during the period	(92)	(92)
Outstanding shares on December 31	**92**	**184**

The compensation cost related to the restricted stock amounted to $1,196 and $2,783 for the years ended December 31, 2017 and 2016.

(o) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share as of December 31, 2017 and 2016, which were based on the profit attributable to ordinary shareholders of the Group, and amounted to $190,976 and $416,955, respectively; and the weighted average number of ordinary shares outstanding were 79,378 thousand shares and 77,661 thousand shares, respectively, which were calculated as follows:

1) Profit attributable to ordinary shareholders of the Company

	2017	**2016**
Profit attributable to ordinary shareholders of the Company	$ **190,976**	**416,955**

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2) Weighted-average number of ordinary shares

		2017	2016
Issued ordinary shares at January 1	$	79,301	75,942
Effect of conversion of the convertible bonds		-	1,642
Effect of restricted employee shares vested		77	77
Weighted-average number of ordinary shares at December 31	$	**79,378**	**77,661**
Basic earnings per share (dollars)	$	**2.41**	**5.34**

(ii) Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2017 and 2016 were based on profit attributable to ordinary shareholders of the Company, and amounted to $190,976 and $416,955, respectively. And the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares were 80,042 thousand shares and 80,040 thousand shares, respectively, calculated as follows:

1) Profit attributable to ordinary shareholders of the Company (diluted)

		2017	2016
Profit attributable to ordinary shareholder of the company	$	190,976	416,955
Convertible Bonds		-	1,673
Profit attributable to ordinary shareholder of the Company (diluted)	$	**190,976**	**418,628**

2) Weighted-average number of ordinary shares (diluted)

		2017	2016
Weighted-average number of ordinary shares (basic)	$	79,378	77,661
Effect of employee compensation		559	786
Effect of conversion of the convertible bonds		-	1,413
Effect of restricted employee shares unvested		105	180
Weighted-average number of ordinary shares (diluted) at December 31	$	**80,042**	**80,040**
Diluted earnings per share (dollars)	$	**2.39**	**5.22**

(Continued)

(p) Remuneration to employees and directors

In accordance with the Articles of incorporation, the Company should contribute no less than 3% of the profit as employee remuneration and less than 2% as directors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The aforementioned employees’ compensation will be distributed in shares or cash. The recipients may include the employees of the subordinate of the Company who meet certain specific requirements.

For the year ended December 31, 2017 and 2016, the Company estimated its employee remuneration amounting to $22,989 and $49,159, and directors' remuneration amounting to $3,135 and $6,960, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Company's articles. These remunerations were expensed under operating costs or operating expenses during 2017 and 2016. If remuneration to employees is resolved to be distributed in stock, the number of shares is determined by dividing the amount of remuneration by the closing price of the shares (ignoring ex dividend effect) on the day preceding the board of directors’ meeting. There were no differences between the amounts approved in the board of directors’ meeting and those recognized in the 2016 and 2015 financial statements.

The amounts, as stated in the financial statements, are identical to those of the actual distributions in 2016. Related information can be accessed through the Market Observation Post System website.

(q) Financial Instruments

(i) Credit risk

1) Exposure to credit risk

The carrying amount of financial assets represents the maximum amount exposed to credit risk.

2) Concentration to credit risk

The Group's customers are mainly from the high-tech industry; therefore, the Group does not concentrate on a specific customer and the sales regions are widely spread, thus, there should be no concern on the significant concentrations of accounts receivable credit risk. And in order to mitigate accounts receivable credit risk, the Group constantly assesses the financial status of its customers, wherein it does not require its customers to provide any collateral.

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(ii) Liquidity Risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments:

	Carrying Amount	Contractual cash flows	Within a year	1 ~ 2 years	Over 2 years
December 31, 2017					
Non-derivative financial liabilities:					
Note and accounts payable	$ 35,180	(35,180)	(35,180)	-	-
Other payables	94,814	(94,814)	(94,814)	-	-
	$ 129,994	**(129,994)**	**(129,994)**	**-**	**-**
December 31, 2016					
Non-derivative financial liabilities:					
Note and accounts payable	$ 58,045	(58,045)	(58,045)	-	-
Other payables	87,934	(87,934)	(87,934)	-	-
	$ 145,979	**(145,979)**	**(145,979)**	**-**	**-**

The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amount.

(iii) Currency risk

1) Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk was as follow:

	December 31, 2017			December 31, 2016		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD to TWD	$ 8,475	29.71	251,792	6,882	32.25	221,880
Financial liabilities					-	
Monetary items					-	
USD to TWD	518	29.71	15,390	1,495	32.25	48,214

2) Sensitivity analysis

The Group's exposure to foreign currency risk arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivables, loans and borrowings, accounts payable, accrued expenses and other payables that are denominated in foreign currency.

The analysis assumes that all other variables remain constant. A strengthening (weakening) 1% of the functional currency against each foreign currency on December 31, 2017 and 2016 would have affected the net profit before tax increased or decreased $2,364 and $1,737, respectively. The analysis is performed on the same basis for both periods.

3) Exchange gains and losses of monetary items

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2017 and 2016, the foreign exchange gains (losses), including both realized and unrealized, amounted to $(13,237) and $(11,541), respectively.

(iv) Interest Rate analysis

The details of financial assets and liabilities exposed to interest rate risk were as follows:

	Carrying amount	
	December 31, 2017	**December 31, 2016**
Financial assets	$ 155,233	88,805
Financial liabilities	-	-

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. Regarding the liabilities with variable interest rates, the analysis is on the basis of the assumption that the amount of liabilities outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents management of the Group's assessment on the reasonably possible interval of interest rate change.

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decrease by $388 and $222 for the years ended December 31, 2017 and 2016, respectively, which would be mainly resulted from the bank savings with variable interest rates.

(v) Fair value

1) Fair value hierarchy

The fair value of the Group's financial assets and liabilities at fair value through profit or loss, and available for sale financial assets, are measured on a recurring basis. The carrying amount and fair value of financial assets and liabilities, including the information on fair value hierarchy are stated below; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and for equity investments that has no quoted prices in the active markets and whose fair value cannot be reliably measured, disclosure of fair value information is not required :

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	December 31, 2017				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Beneficiary certification	$ 275,744	275,744	-	-	275,744
Stocks	138,991	138,991	-	-	138,991
	414,735	414,735	-	-	414,735
Available-for-sale financial assets:					
Equity certification	42,366	-	-	42,366	42,366
Loans and receivables					
Cash and cash equivalents	255,869	-	-	-	-
Notes and accounts, and other receivable	173,702	-	-	-	-
Refundable deposits (recognized as other non-current assets)	13,916	-	-	-	-
	443,487				
Total	$ 900,588				
Financial liabilities at amortized cost through profit or loss					
Notes and accounts payable	$ 35,180	-	-	-	-
Accrued expenses and other payables	94,814	-	-	-	-
Total	$ 129,994				

	December 31, 2016				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Beneficiary Certification	$ 490,983	490,983	-	-	490,983
Stocks	46,803	46,803	-	-	46,803
	537,786	537,786	-	-	537,786
Available-for-sale financial assets:					
Equity certification	42,366	-	-	42,366	42,366
Loans and receivables					
Cash and cash equivalents	326,777	-	-	-	-
Notes and account, and other receivable	252,683	-	-	-	-
Refundable deposits (recognized as other non-current assets)	15,236	-	-	-	-
	594,696				
Total	$ 1,174,848				
Financial liabilities at amortized cost through profit or loss					
Notes and accounts payable	$ 58,045	-	-	-	-
Accrued expense and other payables	87,934	-	-	-	-
Total	$ 145,979				

2) Fair value valuation technique of financial instruments not measured at fair value

The Group estimates financial instruments that not measured at fair value by methods and assumptions as follows:

a) Debt instrument investment without on active market and financial liabilities measured at amortized cost

Fair value measurement is based on the latest quoted price and agreed-upon price if these prices are available in an active market. When market value is unavailable, fair value of financial assets and liabilities are evaluated based on the discounted cash flow of the financial assets and liabilities.

3) Fair value valuation technique of financial instruments measured at fair value

a) Non-derivative financial instruments

Financial instruments trade in active markets is based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a base to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

If a quoted price of a financial instrument can be obtained in time and often from exchanges, brokers, underwriters, industrial union, pricing institute, or authorities and such price can reflect those actual trading and frequently happen in the market, then the financial instrument is considered to have a quoted price in an active market. If a financial instrument is not in accord with the definition mentioned above, then it is considered to be without a quoted price in an active market. In general, market with low trading volume or high bid-ask spreads is an indication of a non-active market.

The fair value of the listed company is determined by reference to the market quotation.

The measurements on fair value of the financial instruments without an active market are determined using the valuation technique or the quoted market price of its competitors. Fair value measured using the valuation technique can be extrapolated from similar financial instruments, discounted cash flow method, or other valuation techniques which include the model used in calculating the observable market data at reporting date.

The measurement of fair value of a non-active market financial instruments held by the Group which do not have quoted market prices are based on the comparable market approach, with the use of key assumptions of price-book ratio multiple or earnings multiple of comparable listed companies as its basic measurement. These assumptions have been adjusted for the effect of discount without the marketability of the equity securities.

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4) Transfer from one level to another

There was no transfer from one level to another in 2017 and 2016.

5) Changes in level of 3

		Unquoted equity instruments
January 1, 2017 (as of December 31, 2017)	$	42,366
January 1, 2016 (as of December 31, 2016)	$	42,366

6) The quantified information for significant unobservable inputs (level 3) used in fair value measurement

The Group's financial instruments that use level 3 input to measure fair values include available-for-sale financial assets – equity investments.

Most of fair value measurements of the Group which are categorized as equity investment into level 3 have several significant unobservable inputs. Significant unobservable inputs of equity investments without quoted price are independent of each other.

The quantified information for significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationships between significant unobservable inputs and fair value
Available-for-sale financial assets-equity investment without quoted price	Price-Book ratio method	Price-Book ratio multiples. (1.64 and 1.88 on December 31, 2017 and 2016, respectively) Lack-of-Marketability discount rate (50% on December 31, 2017 and 2016)	The higher the multiple is, the higher the fair value will be. The higher the Lack-of-Marketability discount rate is, the lower the fair value will be.

7) Sensitivity analysis for fair value of financial instruments using level 3 inputs

The Group's fair value measurement on financial instruments is reasonable. However, the measurement would be different if different valuation models or valuation parameters are used. For financial instruments using level 3 inputs, if the valuation parameters changed, the impact on other comprehensive income or loss are as follows:

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	Input	Move up or down	Other comprehensive income Favorable change	Unfavorable change
December 31, 2017				
Available-for-sale financial assets	Price-Book ratio multiples.	5%	$ 2,247	2,079
	Lack-of-Marketability discount rate	5%	2,247	2,079
December 31, 2016				
Available-for-sale financial assets	Price-Book ratio multiples.	5%	$ 2,074	2,116
	Lack-of-Marketability discount rate	5%	$ 2,074	2,116

The favorable and unfavorable impacts reflect the movement of the fair value, in which the fair value is calculated by using the different unobservable inputs in the valuation technique. The table above shows the effects of one unobservable input, without considering the inter-relationships with another unobservable input for financial instrument, if there are one or more unobservable inputs.

(r) Financial risk management

(i) Briefings

The Group is exposed to the following risks arising from financial instruments：

1) Credit risk

2) Liquidity risk

3) Market risk

In this note expressed the information on risk exposure and objectives, policies and process of risk measurement and management. For detailed information, please refer to the related notes of each risk.

(ii) Structure of risk management

The Group operations are affected by a variety of financial risks, the risks including market risk(inciuding currency risk、interest rate risk and price risk), credit risk and liquidity risk. The Group's financial risk management focus on uncertainty in the financial market to avoid hidden difficulty at the financial statement and financial performance of the Group. The Group's finance department carried out risk management according to the dealer's authority approved by board of directors. The Group's financial department maintain close communication with operation department in charge of identifying、evaluating、avoiding financial risk.

(iii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

1) Accounting receivable and other receivables

The Group's finance department has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's credit limits are offered. Credit limits are established for each customer, which represent the maximum open amount without requiring approval from the finance department, and are reviewed periodically. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. The Group's customers are mainly from the pharmaceutical industry. In order to mitigate account receivable credit risk, the Group constantly assesses the financial status of the customers, and requests the customers to provide guarantee or security if necessary. The Company regularly accesses the collectability of accounts receivable and recognizes allowance for accounts receivable. The impairment losses are always within management’ s expectation.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including customer profile, operating and financial status, payment records and the degree of cooperation. Customers that are graded as “high risk” are placed on a restricted customer list and monitored by the finance department more strictly, and the transactions are made on a more cautious way.

The Group set the allowance for bad debt account to reflect the estimated losses for trade, other receivables, and investment. The allowance for bad debt account consists of specific losses relating to individually significant exposure and the unrecognized losses arising from similar assets groups. The allowance for bad debt account is based on historical collection record of similar financial assets.

2) Investment

The credit risk exposure in the bank deposits, fixed income investments and other financial instruments are measured and monitored by the Group's finance department. Since the Group's transaction counterparties and contractually obligated counterparties are banks, financial institutes and corporate organizations with good credits, there are no compliance issues, and therefore no significant credit risk.

3) Guarantees

Pursuant to the Group's policies, it is only permissible to provide financial guarantees to subsidiaries. As of December 31, 2017 and 2016, the Group do not offer any endorsement and guarantees.

(iv) Liquidity risk

The Group manages sufficient cash and cash equivalents so as to cope with its operations and mitigate the effects of fluctuations in cash flows. The Group's management supervises the banking facilities and ensures in compliance with the terms of the loan agreements.

Please refer to note (6)(h) for unused short-term bank facilities as of December 31, 2017 and 2016.

(v) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company' s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's entities, primarily the New Taiwan Dollars (TWD). The currencies used in these transactions are denominated in TWD and USD.

The Group pays attention to changes in exchange rates and uses forward exchange contracts to hedge its currency risk. The Group' s risk management policy avoids currency risk by fair value hedge.

As for other monetary assets and liabilities denominated in other foreign currencies, when short-term imbalance takes place, the Group buys or sells foreign currencies at spot rate to ensure that the net exposure is kept on an acceptable level.

2) Interest rate risk

The Group did not borrow funds with variable interest rates, therefore there is no risk of cash flows.

(s) Capital management

The Group's objectives for managing capital to safeguard the capacity to continue to operate, to continue to provide a return on shareholders, to maintain the interest of other related parties, and to maintain an optimal capital structure to reduce the cost of capital.

(Continued)

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholders, reduce the capital for redistribution to shareholders, issue new shares, or sell assets to settle any liabiltiies.

The Group use the debt-to-equity ratio to manage capital. This ratio is the total net debt divided by the total capital. The net debt from the balance sheet is derived from the total liabilities less cash and cash equivalents. The total capital and equity include share capital, capital surplus, retained earnings, and other equity plus net debt.

The Group's capital management strategy is to maintain a debt-to-equity ratio of less than 30% in December 31,2017 and December 31,2016. The ratio of debt to capital in December 2017 and December 31, 2016 is as follows:

	December 31, 2017	December 31, 2016
Total loan	$ -	-
less: cash and cash equivalent	255,869	326,777
Net debt	$ -	-
Total equity	2,929,748	3,070,921
Debt-to-equity ratio	- %	- %

(7) Related-party transactions:

(a) Parent company and ultimate controlling party

Mercuries & Associates Holding Ltd. (Mercuries) is both the parent company of the consolidated entity and the ultimate controlling party of the Group, holding 33.11% of the Group's outstanding shares. It has issued the Consolidated Financial Statements Available for Public Use.

(b) Relationship between parent company and its subsidiaries: None.

(c) Related-party transations: None.

(d) Key management personnel compensation

	2017	2016
Salary and Short-term employee benefits	$ 23,593	36,416

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(8) Pledged assets:

The carrying values of pledged assets were as follows:

Assets	Subject	December 31, 2017	December 31, 2016
Land	Short-term loans (note)	$ 42,736	42,736
Building	Short-term loans (note)	7,113	8,556
		$ 49,849	**51,292**

Note: Short-term loans had been settled in 2016, but the assets still were pledeged as collaterals.

(9) Commitments and contingencies:

As of December 31, 2017 and 2016, the unused balance of the Group's outstanding standby letters of credit amounted to $0 and $27,551, respectively.

(10) Losses Due to Major Disasters: none

(11) Subsequent Events:

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the FY 2018 corporate income tax return commencing. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, it will increase the Group's current tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and tax losses recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by $9,512 and $151, respectively.

(12) Other:

(a) The followings are the summary statement of current period employee benefits, depreciation and amortization expenses by function:

By function / By item	2017 Cost of sales	2017 Operating expenses	2017 Total	2016 Cost of sales	2016 Operating expenses	2016 Total
Employee benefits						
Salary	146,003	64,470	210,473	169,131	93,752	262,883
Labor and health insurance	12,446	4,266	16,712	11,720	3,821	15,541
Pension	6,219	1,623	7,842	5,974	1,545	7,519
Others	3,081	6,237	9,318	855	6,585	7,440
Depreciation	109,350	17,303	126,653	114,156	18,072	132,228
Amortization	96	51	147	96	-	96

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(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for 2017:

(i) Loans to other parties: None

(ii) Guarantees and endorsements for other parties:None

(iii) Securities held as of December 31, 2017 (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand dollars

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Highest balance during the year Shares/Units (thousands)	Percentage of ownership (%)	Note
The Company	Beneficiary Certificate (UPAMC James Bond Money Market Fund)	-	Current Financial Asset at Fair Value through Profit or Loss	2,760	45,855	- %	45,855	2,760	- %	
〃	Beneficiary Certificate (Cathay Taiwan Money Market Fund)	-	〃	4,093	50,690	- %	50,690	4,093	- %	
〃	Beneficiary Certificate (Nomura Taiwan Money Market)	-	〃	1,273	20,658	- %	20,658	1,273	- %	
〃	Beneficiary Certificate (Yuanta USD Money Market Fund-USD)	-	〃	99	29,986	- %	29,986	99	- %	
〃	Beneficiary Certificate (Nomura Global Short Duration Bond Fund)	-	〃	2,840	30,009	- %	30,009	2,840	- %	
〃	Beneficiary Certificate (CTBC Hua Win Money Market Fund)	-	〃	913	10,002	- %	10,002	913	- %	
〃	Beneficiary Certificate (Taishin 1699 Money Market Fund)	-	〃	3,592	48,304	- %	48,304	3,592	- %	
〃	Beneficiary Certificate (FSITC Taiwan Money Market Fund)	-	〃	2,646	40,240	- %	40,240	2,646	- %	
〃	Stock (Fubon S&P Preferred Stock)	-	〃	793	50,514	- %	50,514	793	- %	
〃	Stock (TAISHIN FINANCIAL HOLDING CO., LTD.Preferred Stock E)	-	〃	400	21,160	- %	21,160	400	- %	
〃	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A)	-	〃	790	49,533	- %	49,533	790	- %	
〃	Stock (Fubon S&P US Preferred Stock)	-	〃	900	17,784	- %	17,784	900	- %	
〃	Stock (Sunny Pharmtech Inc.)	-	Available for Sale Financial Asset-Non Current	4,497	42,366	4.02 %	42,366	4,497	6.09	

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(iv) Individual securities acquired or disposed of with accumulated amount in excess of $300 million or 20% of SCI Pharmtech Inc.'s issued share capital :None

(v) Acquisition of individual real estate with amount in excess of $300 million or 20% of SCI Pharmtech Inc.'s issued share capital: None

(vi) Disposal of individual real estate with amount in excess of $300 million or 20% of SCI Pharmtech Inc.'s issued share capital: None

(vii) Purchases from and sales to related parties in excess of $100 million or 20% of SCI Pharmtech Inc.'s issued share capital :None

(viii) Receivables from related parties with amounts exceeding the lower of NT$100 million or 20% of the capital stock: None

(ix) Trading in derivative instruments :None

(b) Information on investees:

The following is the information on investees for the year 2017 (excluding information on investees in Mainland China):

Unit: thousand dollars

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2017			Highest		Net income (losses) of investee	Investment income (losses)	Note
				December 31, 2017	December 31, 2016	Shares (thousands)	Percentage of ownership	Carrying value	Shares (thousands)	Percentage of ownership			
SCI PHARMTECH,INC	Yushan Hoiding Universal Ltd.	Grand Cayman Islands	Investment activities	374,750	374,750	12,485	100.00 %	355,604	12,485	100 %	(1,554)	(1,554)	Equity investment of equity method
Yushan Hoiding Universal Ltd.	Yushan Pharmaceuticals Inc.	ROC	The research and development, manufacture and sale of API	371,000	371,000	37,100	100.00 %	352,722	37,100	100 %	(1,144)	(1,144)	Equity investment of equity method

(c) Information on investment in Mainland China: None

(14) Information of Department:

(a) General Information

The major business activities of the Group are the manufacture and sale of API, Intermediates, specialty chemicals by a single department. The Group's financial information of operating department is the same as the consolidated financial statement. Please refer to the consolidated balance sheets and the consolidated statements of comprehensive income for related information.

(b) Product information

Products and Services		2017	2016
API	$	766,831	1,215,234
Intermediates		385,582	560,874
Specialty chemicals		148,637	126,992
	$	**1,301,050**	**1,903,100**

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(c) Geographic information

Stated below are the geographic information on the Group's sales presented by destination of sales and non-current assets presented by location.

(i) Revenue from external customers:

Country	2017	2016
United States	$ 264,913	767,545
Taiwan	184,888	214,745
Italy	180,953	163,996
Japan	157,550	102,075
Spain	137,529	61,586
Switzerland	86,144	270,792
Others	289,073	322,361
	$ 1,301,050	**1,903,100**

(i) Non-current Assets:

Country	2017	2016
Non-current asset:		
Taiwan	**$ 1,860,577**	**1,843,392**

Non-current assets include plant, property, and equipment, intangible assets, and other assets, excluding deferred tax assets.

(d) Major customers information

The sales revenue from clients with account for more than 10% revenue in Income Statement as follow:

	2017	2016
A Company	$ 136,920	61,586
F Company	134,630	124,192
B Company	89,014	273,337
C Company	-	220,324
D Company	40,136	207,987
E Company	69,631	193,437
	$ 470,331	**1,080,863**