Stock Code:4119



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

# SCI PHARMTECH, INC. AND SUBSIDIARIES

**Consolidated Financial Statements**

**With Independent Auditors' Review Report**
**for the Three Months Ended**
**March 31, 2018 and 2017**

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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## Independent Auditors' Review Report

To the Board of Directors SCI Pharmtech, Inc.:

### Introduction

We have reviewed the accompanying consolidated balance sheets of the SCI Pharmtech, Inc. and its subsidiaries of March 31, 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standards ("IASs") 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our review.

### Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards 65, "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the SCI Pharmtech, Inc. and its subsidiaries as at March 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

**Other Matter**

The consolidated financial statement of SCI Pharmtech, Inc. and its subsidiaries as of March 31, 2017 was reviewed by another auditor who expressed an unmodified opinion on this statement on May 9, 2017.

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

KPMG

Taipei, Taiwan (Republic of China)
May 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

**Reviewed only, not audited in accordance with generally accepted auditing standards as of March 31, 2018 and 2017**

## SCI Pharmtech, Inc. and subsidiaries

## Consolidated Balance Sheets

### March 31, 2018, December 31, 2017, and March 31, 2017

### (Expressed in Thousands of New Taiwan Dollars)



| | | March 31, 2018 | | December 31, 2017 | | March 31, 2017 | |
|---|---|---|---|---|---|---|---|
| | **Assets** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| | **Current assets:** | | | | | | |
| 1100 | Cash and cash equivalents (note (6)(a)) | $ 272,377 | 8 | 255,869 | 8 | 331,827 | 9 |
| 1110 | Financial assets at fair value through profit or loss (note (6)(b)) | 428,176 | 13 | 414,735 | 13 | 593,235 | 17 |
| 1170 | Notes and accounts receivable, net (note (6)(e)) | 258,867 | 8 | 173,627 | 5 | 182,116 | 5 |
| 1310 | Inventories, net (note (6)(f)) | 449,464 | 13 | 482,825 | 15 | 482,728 | 14 |
| 1470 | Other current assets | 12,240 | - | 11,728 | - | 7,766 | - |
| | | 1,421,124 | 42 | 1,338,784 | 41 | 1,597,672 | 45 |
| | **Non-current assets:** | | | | | | |
| 1523 | Non-current available-for-sale financial assets, net (note (6)(d)) | - | - | 42,366 | 1 | 42,366 | 1 |
| 1518 | Non-current financial assets at fair value through other comprehensive income (note (6)(c)) | 41,827 | 1 | - | - | - | - |
| 1600 | Property, plant and equipment (notes (6)(g) and (8)) | 1,775,941 | 52 | 1,785,971 | 54 | 1,734,972 | 49 |
| 1780 | Intangible assets | 33,594 | 1 | 1,047 | - | - | - |
| 1840 | Deferred tax assets | 55,392 | 2 | 53,904 | 2 | 42,936 | 1 |
| 1900 | Other non-current assets | 61,406 | 2 | 73,559 | 2 | 114,991 | 4 |
| | | 1,968,160 | 58 | 1,956,847 | 59 | 1,935,265 | 55 |
| | **Total assets** | **$ 3,389,284** | **100** | **3,295,631** | **100** | **3,532,937** | **100** |

| | | March 31, 2018 | | December 31, 2017 | | March 31, 2017 | |
|---|---|---|---|---|---|---|---|
| | **Liabilities and Equity** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| | **Current liabilities:** | | | | | | |
| 2170 | Notes and accounts payable | 74,054 | 2 | 35,180 | 1 | 49,433 | 1 |
| 2130 | Current contract liabilities (note (6)(p)) | 31,239 | 1 | - | - | - | - |
| 2200 | Other payables (note (6)(i)) | 145,177 | 4 | 178,169 | 5 | 154,695 | 4 |
| 2230 | Current tax liabilities | 49,153 | 2 | 36,841 | 1 | 57,173 | 2 |
| 2250 | Current provisions (note (6)(j)) | 71,735 | 2 | 67,501 | 2 | 65,001 | 2 |
| 2300 | Other current liabilities(note) | 3,330 | - | 25,282 | 1 | 60,288 | 2 |
| | | 374,688 | 11 | 342,973 | 10 | 386,590 | 11 |
| | **Non-Current liabilities:** | | | | | | |
| 2570 | Deferred tax liabilities | 856 | - | 856 | - | 1,027 | - |
| 2640 | Provisions for employee benefits, non-current (note (6)(k)) | 21,930 | 1 | 22,054 | 1 | 22,520 | 1 |
| | | 22,786 | 1 | 22,910 | 1 | 23,547 | 1 |
| | **Total liabilities** | 397,474 | 12 | 365,883 | 11 | 410,137 | 12 |
| | **Equity attributable to owners of parent (note (6)(m)):** | | | | | | |
| | **Share capital:** | | | | | | |
| 3100 | Ordinary Share | 794,853 | 23 | 794,853 | 24 | 794,853 | 22 |
| 3200 | Capital surplus | 1,348,339 | 40 | 1,348,339 | 41 | 1,348,339 | 38 |
| 3310 | Legal reserve | 269,150 | 8 | 269,150 | 8 | 227,455 | 7 |
| 3320 | Special reserve | 7,727 | - | 7,727 | - | 7,727 | - |
| 3350 | Unappropriated retained earnings | 580,007 | 17 | 517,566 | 16 | 753,032 | 21 |
| 3400 | Other components of equity | (8,266) | - | (7,887) | - | (8,606) | - |
| | **Total equity** | 2,991,810 | 88 | 2,929,748 | 89 | 3,122,800 | 88 |
| | **Total liabilities and equity** | **$ 3,389,284** | **100** | **3,295,631** | **100** | **3,532,937** | **100** |

See accompanying notes to financial statements.

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

**Reviewed only, not audited in accordance with generally accepted auditing standards**

## SCI Pharmtech, Inc. and subsidiaries

## Consolidated Statements of Comprehensive Income

## For the three months ended March 31, 2018 and 2017

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

| | | For the three months ended March 31 | | | |
|---|---|---|---|---|---|
| | | 2018 | | 2017 | |
| | | Amount | % | Amount | % |
| 4110 | Sales revenue | 425,646 | 100 | 328,549 | 100 |
| 5110 | Cost of sales (notes 6(f) and (12)) | 293,909 | 69 | 227,728 | 69 |
| 5900 | **Gross profit** | 131,737 | 31 | 100,821 | 31 |
| | **Operating expenses (note (12)):** | | | | |
| 6100 | Selling expenses | 29,045 | 7 | 18,259 | 6 |
| 6200 | Administrative expenses | 13,051 | 3 | 8,406 | 3 |
| 6300 | Research and development expenses | 9,304 | 2 | 8,634 | 3 |
| | | 51,400 | 12 | 35,299 | 12 |
| 6900 | **Net operating income** | 80,337 | 19 | 65,522 | 19 |
| | **Non-operating income and expenses:** | | | | |
| 7190 | Other income | 627 | - | 6,571 | 2 |
| 7101 | Interest income from bank deposits | 127 | - | 154 | - |
| 7235 | Gains on financial assets (liabilities) at fair value through profit or loss (note (6) (b)) | 1,652 | - | 1,929 | 1 |
| 7590 | Miscellaneous disbursements | (89) | - | (275) | - |
| 7210 | Gains on disposals of property, plant and equipment | 81 | - | 280 | - |
| 7630 | Foreign exchange losses | (9,469) | (2) | (11,488) | (4) |
| | | (7,071) | (2) | (2,829) | (1) |
| 7900 | **Profit before tax** | 73,266 | 17 | 62,693 | 18 |
| | Income tax expense (note (6)(l)) | 12,313 | 3 | 11,291 | 3 |
| 7950 | | | | | |
| | **Profit** | 60,953 | 14 | 51,402 | 15 |
| 8300 | **Other comprehensive income:** | | | | |
| 8310 | **Components of other comprehensive income that will not be reclassified to profit or loss** | | | | |
| 8316 | Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note (6)(d)) | (539) | - | - | - |
| 8349 | Income tax related to components of other comprehensive income that will not be reclassified to profit or loss(note (6)(1)) | 1,488 | 1 | - | - |
| 8300 | **Other comprehensive income, net** | 949 | 1 | - | - |
| | **Comprehensive income** | **$ 61,902** | **15** | **51,402** | **15** |
| | **Earnings per share (note (6)(o)):** | | | | |
| 9750 | **Basic net income per share** | **$** | **0.77** | | **0.65** |
| 9850 | **Diluted net income per share** | **$** | **0.77** | | **0.64** |

See accompanying notes to financial statements.

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## SCI PHARMTECH, INC. AND SUBSIDIARIES

## Consolidated Statements of Changes in Equity

## For the three months ended March 31, 2018 and 2017

## (Expressed in Thousands of New Taiwan Dollars)



| | Equity attributable to owners of parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | | Retained earnings | | | Total other equity interest | | | | |
| | Ordinary shares | Capital surplus | Legal reserve | Special reserve | Unappropriated retained earnings | Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income | Unrealized gains (losses) on available-for-sale financial assets | Unrealized employee benefit | Total other equity interest | Total equity |
| **Balance at January 1, 2017** | $ 794,853 | 1,348,339 | 227,455 | 7,727 | 701,630 | - | (7,727) | (1,356) | (9,083) | 3,070,921 |
| Net income for the three months ended March 31, 2017 | - | - | - | - | 51,402 | - | - | - | - | 51,402 |
| Other comprehensive income for the three months ended March 31, 2017 | - | - | - | - | - | - | - | - | - | - |
| Total comprehensive income for the three months ended March 31, 2017 | - | - | - | - | 51,402 | - | - | - | - | 51,402 |
| Share-based payments transactions | - | - | - | - | - | - | - | 477 | 477 | 477 |
| **Balance at March 31, 2017** | **$ 794,853** | **1,348,339** | **227,455** | **7,727** | **753,032** | **-** | **(7,727)** | **(879)** | **(8,606)** | **3,122,800** |
| **Balance at January 1,2018** | $ 794,853 | 1,348,339 | 269,150 | 7,727 | 517,566 | - | (7,727) | (160) | (7,887) | 2,929,748 |
| Effects of retrospective application | - | - | - | - | - | (7,727) | 7,727 | - | - | - |
| Balance at January 1, 2018 after adjustments | 794,853 | 1,348,339 | 269,150 | 7,727 | 517,566 | (7,727) | - | (160) | (7,887) | 2,929,748 |
| Net income for the three months ended March 31, 2018 | - | - | - | - | 60,953 | - | - | - | - | 60,953 |
| Other comprehensive income for the three months ended March 31, 2018 | - | - | - | - | 1,488 | (539) | - | - | (539) | 949 |
| Total comprehensive income for the three months ended March 31, 2018 | - | - | - | - | 62,441 | (539) | - | - | (539) | 61,902 |
| Share-based payments transactions | - | - | - | - | - | - | - | 160 | 160 | 160 |
| **Balance at March 31, 2018** | **$ 794,853** | **1,348,339** | **269,150** | **7,727** | **580,007** | **(8,266)** | **-** | **-** | **(8,266)** | **2,991,810** |

See accompanying notes to financial statements.

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**Reviewed only, not audited in accordance with generally accepted auditing standards**

**SCI Pharmtech, Inc. and subsidiaries**

**Consolidated Statements of Cash Flows**

**For the three months ended March 31, 2018 and 2017**

**(Expressed in Thousands of New Taiwan Dollars)**



| | For the three months ended March 31 | |
|---|---|---|
| | 2018 | 2017 |
| **Cash flows from (used in) operating activities:** | | |
| **Profit before tax** | $ 73,266 | 62,693 |
| **Adjustments for:** | | |
| **Adjustments to reconcile profit (loss):** | | |
| Depreciation expense | 31,496 | 33,169 |
| Amortization expense | 887 | 15 |
| Net loss (gain) on financial assets or liabilities at fair value through profit or loss | (1,652) | (1,929) |
| Interest income | (127) | (154) |
| Compensation cost of share-based payments | 160 | 477 |
| Others | 2,534 | (280) |
| | 33,298 | 31,298 |
| **Changes in operating assets and liabilities:** | | |
| Decrease (increase) in notes and accounts receivable | (85,240) | 70,480 |
| Decrease (increase) in inventories | 33,361 | 15,628 |
| Decrease (increase) in other current assets | (512) | (319) |
| Increase (decrease) in notes and accounts payable | 38,874 | (8,612) |
| Increase (decrease) in contract liabilities | 6,660 | - |
| Increase (decrease) in other payable | (10,498) | (57,558) |
| Increase (decrease) in provisions | 4,234 | 2,000 |
| Increase (decrease) in other current liabilities | (14,412) | (17,544) |
| Increase (decrease) in provision for employee benefits , non-current | (124) | (101) |
| | 5,641 | 35,272 |
| Cash flow from (used in) operations | 78,907 | 97,965 |
| Interest received | 127 | 154 |
| Income taxes paid | - | (74) |
| **Net cash flows from (used in) operating activities** | 79,034 | 98,045 |
| **Cash flows from (used in) investing activities:** | | |
| Acquisition of financial assets at fair value through profit or loss | (11,789) | - |
| Acquisition of financial assets at fair value through profit or loss, designated as upon initial recognition | - | (53,520) |
| Acquisition of intangible assets | (2,620) | - |
| Acquisition of property, plant and equipment | (29,456) | (6,103) |
| Proceeds from disposal of property, plant and equipment | 81 | 280 |
| Increase in prepayments of property, plant and equipment | (19,067) | (33,652) |
| Decrease in refunded deposits | 325 | - |
| **Net cash flows from (used in) investing activities** | (62,526) | (92,995) |
| **Cash flows from (used in) financing activities:** | | |
| **Net cash flows from (used in) financing activities** | - | - |
| **Net increase (decrease) in cash and cash equivalents** | 16,508 | 5,050 |
| **Cash and cash equivalents at beginning of period** | 255,869 | 326,777 |
| **Cash and cash equivalents at end of period** | $ **272,377** | **331,827** |

See accompanying notes to financial statements.

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

**Reviewed only, not audited in accordance with generally accepted auditing standards**

# SCI PHARMTECH, INC. AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

## March 31, 2018 and 2017

**(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 three months ended March 31, 2018 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as the "Group entities"). Please refer to note (4) (b) 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 for the three months ended March 31, 2018 and 2017 were authorized for issuance by the board of directors on May 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, 2018.

| 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 |

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

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 15 "Revenue from Contracts with Customers"

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts". The Group applies this standard retrospectively with the cumulative effect, it need not restate those contracts, but instead, continues to apply IAS 11, IAS 18 and the related Interpretations for comparative reporting period. The Group recognizes the cumulative effect upon the initially application of this Standard as an adjustment to the opening balance of retained earnings on January 1, 2018.

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For the sale of products, revenue is currently recognized upon the terms of sale, 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.

2) Impacts on financial statements

The following tables summarize the impacts of adopting IFRS15 on the Group' s consolidated financial statements:

| | March 31, 2018 | | | January 1, 2018 | | |
|---|---|---|---|---|---|---|
| **Impacted line items on the consolidated balance sheet** | **Balances prior to the adoption of IFRS 15** | **Impact of changes in accounting policies** | **Balance upon adoption of IFRS 15** | **Balances prior to the adoption of IFRS 15** | **Impact of changes in accounting policies** | **Balance upon adoption of IFRS 15** |
| Other payables (note 1) | $ (147,736) | 2,559 | (145,177) | (178,169) | 17,039 | (161,130) |
| Other current liabilities (note1 and 2) | (32,010) | 28,680 | (3,330) | (25,282) | 7,540 | (17,742) |
| Current contract liabilities (note 2) | - | (31,239) | (31,239) | - | (24,579) | (24,579) |
| | | - | | | - | |

Note 1: The estimate of possible sales returns and allowances are currently recognized as other payables, which will be recognized as refund liabilities (under other current liabilities) after adopting IFRS 15.

Note 2: Sales revenue received in advance is currently recognized as other current liability, which will be recognized as contract liability after adopting IFRS 15.

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



| Impacted line items on the consolidated statement of cash flows | For the three months ended March 31, 2018<br>Before adjustments | Impact of changes in accounting polices | After adjustments |
|---|---|---|---|
| **Cash flows from (used in) operating activities:** | | | |
| **Profit before tax** | $ 73,266 | - | 73,266 |
| **Adjustments:** | | | |
| Increase (Decrease) of contract assets | - | 6,660 | 6,660 |
| Increase (Decrease) of other accounts payable | (24,978) | 14,480 | (10,498) |
| Increase (Decrease) of other current liabilities | 6,728 | (21,140) | (14,412) |
| **Impact on cash flows from operating activities** | | - | |
| **Impact on net cash flows from operating activities** | | - | |

(ii) 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.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 “Presentation of Financial Statements” which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group’ s approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

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

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous 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 asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note (4) (c).

The adoption of IFRS 9 did not have any a significant impact on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with the ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39 – please see note (4) (c).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

·Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

·The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

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

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

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



4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018. (The measurement categories of financial liabilities do not have any change.)

| | IAS39 | | IFRS9 | |
|---|---|---|---|---|
| **Financial Assets** | **Measurement categories** | **Carrying Amount** | **Measurement categories** | **Carrying Amount** |
| Cash and equivalents | Loans and receivables (note 3) | 255,869 | Amortized cost | 255,869 |
| Equity instruments | Designated as at FVTPL (note 1) | 414,735 | Mandatorily at FVTPL | 414,735 |
| | Available-for-sale (note 2) | 42,366 | FVOCI | 42,366 |
| Accounts receivables, net | Loans and receivables (note 3) | 173,627 | Amortized cost | 173,627 |
| Other financial assets (refunded deposits) | Loans and receivables (note 3) | 13,916 | Amortized cost | 13,916 |

Note1: Under IAS 39, these equity and debt instruments were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

Note2: These equity instruments (including financial assets measured at cost) represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI.

Note3:Cash and cash equivalents, notes receivable, accounts receivable, refunded deposits and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. The Group does not recognize any allowance for impairment in opening retained earnings upon transition to IFRS 9 on January 1, 2018.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

| | 2017.12.31 IAS 39 Carrying Amount | Reclassifications | Remeasurements | 2018.1.1 IFRS 9 Carrying Amount | 2018.1.1 Retained earnings | 2018.1.1 Other equity |
|---|---|---|---|---|---|---|
| Fair value through other comprehensive income | | | | | | |
| Beginning balance of available for sale (including measured at cost) (IAS 39) | $ 42,366 | - | - | | - | - |
| Total | $ 42,366 | - | - | 42,366 | - | - |

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

(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 present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(iv) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

There is no material impact upon the amendments to IAS 12.

(b) 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 |

**SCI PHARMTECH, INC. AND SUBSIDIARIES**
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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:<br>· 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.<br>·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:**

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 "Interim Financial Reporting" which are endorsed and issued into effect by FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for full annual consolidated financial statements.

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2017. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2017.

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



(b) Basis of Consolidation

List of subsidiaries in the consolidated financial statements.

| | | | Shareholding | | |
|---|---|---|---|---|---|
| **Name of investor** | **Nmae of subsidiary** | **Principal activity** | **March 31, 2018** | **December 31, 2017** | **March 31, 2017** |
| The Company | Yushan Holding Universal Ltd. | Investment | 100.00 % | 100.00 % | 100.00 % |
| Yushan Holding Universal Ltd. | Yushan Pharmaceuticals Inc. | The research and development, manufacture and sale of API | 100.00 % | 100.00 % | 100.00 % |

(c) Financial instruments (applicable from January 1, 2018)

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

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

·it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

·its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

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

2) Fair value through other comprehensive income (FVOCI )

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

· it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

·iits contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment' s fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of equity investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of debt investments are reclassified to retain earnings instead of profit or loss.

Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the exdividend date.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets and accounts receivable (except for those presented as accounts receivable but measured at FVTPL). On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, amortized costs, notes and accounts receivable, leases receivable, guarantee deposit paid and other financial assets), debt investments measured at FVOCI, accounts receivable and contract assets.

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

·debt securities that are determined to have low credit risk at the reporting date; and

· other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.



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

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

·significant financial difficulty of the borrower or issuer;

·a breach of contract such as a default or being more than 90 days past due;

·the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

·it is probable that the borrower will enter bankruptcy or other financial reorganization; or

·the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

**SCI PHARMTECH, INC. AND SUBSIDIARIES**
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(d) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group does not adjust any of the transaction prices for the time value of money.

(e) Income taxes

The income tax expenses have been prepared and disclosed in accordance with paragraph B12 of International Financial Reporting Standards 34, Interim Reporting.

Income tax expenses for the period are best estimated by multiplying pre-tax income for the interim reporting period by the effective annual tax rate as forecasted by the management. This should be recognized fully as tax expense for the current period.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time of the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(f) Employee benefits

The pension cost in the interim period was calculated and disclosed on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior fiscal year.

**SCI PHARMTECH, INC. AND SUBSIDIARIES**
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## (5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and 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 preparation of the consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2017.

## (6) Explanation of significant accounts:

Expect for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to note 6 of the 2017 annual consolidated financial statements.

(a) Cash and cash equivalents

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| Cash on hand | $ 540 | 416 | 390 |
| Checking accounts and demand deposits | 104,477 | 155,450 | 164,437 |
| Time deposits | 167,360 | 80,000 | 167,000 |
| Bills sold under repurchase agreements | - | 20,003 | - |
| | $ 272,377 | 255,869 | 331,827 |

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

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

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

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| Financial assets designated as at fair value through profit or loss | | | |
| Beneficiary certificate | $ - | 275,744 | 522,119 |
| Stocks listed on domestic markets | - | 138,991 | 71,116 |
| Mandatorily measured at fair value through profit or loss: | | | |
| Non-derivative financial assets | | | |
| Beneficiary certificate | 275,014 | - | - |

(Continued)

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

| | | | |
|---|---|---|---|
| Stocks listed on domestic markets | 153,162 | - | - |
| Total | $ **428,176** | **414,735** | **593,235** |

The Group did not provide any aforementioned financial assets as collateral for its loans as of March 31, 2018, December 31, 2017 and March 31, 2017, respectively.

(c) Financial asset at fair value through other comprehensive income, non current:

| | **March 31, 2018** |
|---|---|
| **Financial assets at fair value through other comprehensive income** | |
| Unlisted stocks on domestic markets | $ **41,827** |

On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as available-for-sale financial assets on December 31, 2017 and March 31, 2017. Please refer to note (6) (d) for more details.

No strategic investments were disposed as of March 31, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

Please refer to note (6) (r) for market risk of the Group.

As of March 31, 2018, the Group did not provide any aforementioned financial assets as collateral for its loans.

(d) Available-for-sale financial assets

| | **December 31, 2017** | **March 31, 2017** |
|---|---|---|
| Unlisted stocks on domestic markets | 50,093 | 50,093 |
| Adjustments to valuation of available-for-sale financial assets | (7,727) | (7,727) |
| Total | **42,366** | **42,366** |

On March 31, 2018, the aforementioned financial assets are recognized under financial assets at fair value through other comprehensive income. Please refer to note (6) (c).

Please refer to note (6) (r) for market risk of the Group.

As of March 31, 2017and December 31, 2017, the Group did not provide any available-for-sale financial assets as collateral for its loans.

(e) Notes and accounts receivable

| | **March 31, 2018** | **December 31, 2017** | **March 31, 2017** |
|---|---|---|---|

**SCI PHARMTECH, INC. AND SUBSIDIARIES**
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| | | | |
|---|---|---|---|
| Notes receivable from operating activities | $ 247 | 794 | 247 |
| Accounts receivable-measured as amortized cost | 276,762 | 190,975 | 200,011 |
| Less: Loss allowance | (18,142) | (18,142) | (18,142) |
| | $ 258,867 | 173,627 | 182,116 |

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on March 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision as of March 31, 2018 was determined as follows:

| | Gross carrying amount | Rate of loss allowance provision | Loss allowance provision |
|---|---|---|---|
| Current | $ 222,644 | - | - |
| 1 to 30 days past due | 33,840 | - | - |
| 31 to 60 days past due | 9 | - | - |
| 61 to 90 days past due | 2,127 | - | - |
| 91 to 180 days past due | 247 | - | - |
| More than 360 days past due | 18,142 | 100 % | 18,142 |
| | $ 277,009 | | 18,142 |

As of December 31, 2017 and March 31, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and trade receivable, and the aging analysis of notes and trade receivable, which were past due but not impaired, was as follows:

| | December 31, 2017 | March 31, 2017 |
|---|---|---|
| Past due 1 to 30 days | $ 28,663 | 61,281 |
| Past due 31 to 60 days | - | 8,602 |
| Past due 60 to 120 days | 166 | 1,179 |
| | $ 28,829 | 71,062 |

The movement in the allowance for notes and trade receivable was as follows:

| | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 | |
|---|---|---|---|
| | | Individually assessed impairment | Collectively assessed impairment |
| Balance on January 1, 2018 and 2017 per IAS 39 | $ 18,142 | 18,142 | - |

(Continued)

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

| | |
|---|---|
| Adjustment on initial application of IFRS 9 | - |
| Balance on January 1, 2018 per IFRS 9 (Balance on March 31, 2018) | $ **18,142** |

Note: The beginning and ending balance of both period are the same.

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group did not provide any aforementioned notes and accounts receivable as collaterals for its loans.

(f) Inventories

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| Raw materials | $ 104,381 | 92,708 | 102,963 |
| Work in progress | 72,945 | 53,237 | 198,285 |
| Finished goods | 272,138 | 336,880 | 181,480 |
| | $ **449,464** | **482,825** | **482,728** |

For the three months ended March 31, 2018 and 2017, inventory cost recognized as cost of sales amounting to $293,909 and $227,728, respectively. During the same period, the write-down of inventories to net realizable value amounted to $2,966 and $3,067, respectively, recognized in cost of goods sale.

As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group did not provide any inventories as collaterals for its loans.

(g) Property, plant and equipment

| | Land | Buildings and construction | Machinery and equipment | Office equipment | Others equipment | Prepayment for equipment and construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| Balance on January 1, 2018 | $ 825,680 | 681,676 | 1,580,485 | 29,623 | 39,336 | 44,869 | 3,201,669 |
| Additions | - | - | 2,400 | 6,900 | 9,085 | 7,206 | 25,591 |
| Transferred (out) in | - | - | 81 | 103 | (2,231) | (2,078) | (4,125) |
| Disposal and derecognitions | - | - | (1,490) | - | - | - | (1,490) |
| Balance on March 31, 2018 | $ **825,680** | **681,676** | **1,581,476** | **36,626** | **46,190** | **49,997** | **3,221,645** |
| Balance on January 1, 2017 | $ 825,680 | 678,731 | 1,560,624 | 24,042 | 23,016 | - | 3,112,093 |
| Additions | - | 2 | 2,334 | 523 | 3,244 | - | 6,103 |
| Transferred (out) in | - | - | - | - | - | - | - |
| Balance on March 31, 2017 | $ **825,680** | **678,733** | **1,562,958** | **24,565** | **26,260** | **-** | **3,118,196** |

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

| | Land | Buildings and construction | Machinery and equipment | Office equipment | Others equipment | Prepayment for equipment and construction in progress | Total |
|---|---|---|---|---|---|---|---|
| **Depreciation and impairments loss:** | | | | | | | |
| Balance on January 1, 2018 | $ - | 292,442 | 1,103,904 | 14,900 | 4,452 | - | 1,415,698 |
| Depreciation for the year | - | 7,448 | 22,762 | 880 | 406 | - | 31,496 |
| Disposals and derecognitions | - | - | (1,490) | - | - | - | (1,490) |
| Balance on March 31, 2018 | $ - | 299,890 | 1,125,176 | 15,780 | 4,858 | - | 1,445,704 |
| Balance on January 1, 2017 | $ - | 267,030 | 1,066,664 | 13,540 | 2,821 | - | 1,350,055 |
| Depreciation for the year | - | 7,536 | 24,763 | 462 | 408 | - | 33,169 |
| Balance on March 31, 2017 | $ - | 274,566 | 1,091,427 | 14,002 | 3,229 | - | 1,383,224 |
| **Carrying amounts:** | | | | | | | |
| Balance on January 1, 2018 | $ 825,680 | 389,234 | 476,581 | 14,723 | 34,884 | 44,869 | 1,785,971 |
| Balance on March 31, 2018 | $ 825,680 | 381,786 | 456,300 | 20,846 | 41,332 | 49,997 | 1,775,941 |
| Balance on January 1, 2017 | $ 825,680 | 411,701 | 493,960 | 10,502 | 20,195 | - | 1,762,038 |
| Balance on March 31, 2017 | $ 825,680 | 404,167 | 471,531 | 10,563 | 23,031 | - | 1,734,972 |

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 March 31, 2018, December 31, 2017 and March 31, 2017, part of the property, plant and equipment the Group had provided at collateral for its loans. Please refer to note (8) for details.

(h) Short-term borrowings

The details of short-term borrowings are as following:

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| Unsecured bank loans | $ - | - | - |
| Unused credit line for short-term borrowings | $ 426,460 | 430,000 | 427,881 |
| Range of interest rates | - | - | - |

Please refer to note (8) for the details of property, plant and equipment as collateral for its loans.

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

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



risk.

(i) Other payables

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| Salaries payable | $ 65,321 | 75,261 | 78,287 |
| Payables on equipment | 13,048 | 18,503 | 5,540 |
| Others | 66,808 | 84,405 | 70,868 |
| | $ **145,177** | **178,169** | **154,695** |

(j) Provisions

There were no significant changes in provisions for the three months ended March 31, 2018 and 2017. Please refer to Note (6) (j) of the consolidated financial statements for the year ended December 31, 2017 for other related information.

(k) Employee benefits

(i) Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2017 and 2016.

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

| | For the three months ended March 31, 2018 | 2017 |
|---|---|---|
| Operating cost | $ 389 | 369 |
| Operating expenses | 18 | 48 |
| | $ **407** | **417** |

(ii) Defined contribution plans

The Group’s expenses under the pension plan cost to the Bureau of Labor Insurance for the three months ended March 31, 2018 and 2017 were as follows:

| | For the three months ended March 31, 2018 | 2017 |
|---|---|---|
| Operating cost | $ 1,189 | 1,141 |
| Selling expenses | 61 | 59 |
| Administration expenses | 144 | 131 |

(Continued)

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

| | | |
|---|---|---|
| Research expenses | 174 | 187 |
| | $ 1,568 | 1,518 |

(l) Income taxes

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 corporate income tax return commencing FY 2018. The group spreads the effect of the change in the tax rate by an adjustment, which is $9,361, to the estimated annual effective income tax rate.

(i) The components of income tax for the three months ended March 31, 2018 and 2017 were as follows:

| | For the three months ended March 31, 2018 | 2017 |
|---|---|---|
| Current tax expense | $ 12,313 | 12,981 |
| Deferred tax expense | - | (1,690) |
| Tax expense | $ 12,313 | 11,291 |

(ii) The amount of income tax recognized in other comprehensive income for the three months ended March 31, 2018 and 2017 was as follows:

| | For the three months ended March 31, 2018 | 2017 |
|---|---|---|
| Items that will not be reclassified subsequently to profit or loss: | | |
| Re-measurement from defined benefit plans | $ 1,488 | - |

(iii) Examination and approval

The ROC tax authorities have examined the Company's and Yushan Pharmaceuticals Inc.'s income tax returns throught 2016.

(m) Capital and other equities

Except for the following disclosure, there was no significant change for capital and other equity for the periods from January 1 to March 31, 2018 and 2017. For the related information, please refer to note (6) (m) of the consolidated financial statements for the year ended December 31, 2017.

(i) Capital surplus

The balances of capital surplus as of March 31, 2018 and 2017 were as follows:

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| Additional paid-in capital | $ 1,270,247 | 1,270,247 | 1,270,247 |

(Continued)

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

| | | | |
|---|---|---|---|
| Gain on disposal of assets | 980 | 980 | 980 |
| Stock options | 71,530 | 71,530 | 71,530 |
| Employee stock options | 5,582 | 5,582 | 5,582 |
| | $ 1,348,339 | 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.

(iii) Earnings distribution

On March 9, 2018, the Company's board of directors resolved to appropriate the 2017 earnings. On June 20, 2017, the shareholder's meetings resolved to distribute the 2016 earnings. These earnings were appropriated as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Amount per share** | **Total amount** | **Amount per share** | **Total amount** |
| Dividends distributed to commons shareholders： | | | | |
| Cash | $ 2.15 | 170,893 | 4.20 | 333,452 |

(iv) Other equity (net taxes)

| | **financial assets measured at fair value through other comprehensive income** | **Unrealized gains (losses) on available-for-sale financial assets** | **Unearned employee benefit** | **Total** |
|---|---|---|---|---|
| Balance at January 1, 2018 | $ - | (7,727) | (160) | (7,887) |
| Effects of retrospective application | (7,727) | 7,727 | - | - |
| Balance at January 1, 2018 after adjustments | (7,727) | - | (160) | (7,887) |

(Continued)

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

| | | | | |
|---|---|---|---|---|
| Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income | (539) | - | - | (539) |
| Amortization cost of employee restricted stock | - | - | 160 | 160 |
| Balance at March 31, 2018 | $ (8,266) | - | - | (8,266) |
| Balance at January 1, 2017 | - | (7,727) | (1,356) | (9,083) |
| Amortization cost of employee restricted stock | - | - | 477 | 477 |
| Balance at March 31, 2017 | $ - | (7,727) | (879) | (8,606) |

(n) Share-based payment

There were no significant changes for share-based payment during the periods from January 1 to March 31, 2018 and 2017. For the related information, please refer to note (6) (n) of the consolidated financial statements for the year ended December 31, 2017.

(o) Earnings per share

For the three months ended March 31, 2018 and 2017, the Company's earnings per share were calculated as follows:

| | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 |
|---|---|---|
| Basic earnings per share | | |
| Profit attributable to ordinary shareholders of the Company | $ 60,953 | 51,402 |
| Weighted-average number of ordinary shares at March 31 | 79,424 | 79,332 |
| | $ 0.77 | 0.65 |
| Diluted earnings per share | | |
| Profit attributable to ordinary shareholders of the Company | $ 60,953 | 51,402 |
| Weighted-average number of ordinary shares (basic) | 79,424 | 79,332 |
| Effect of employee compensation | 199 | 239 |
| Effect of restricted employee shares unvested | - | 139 |
| Weighted-average number of ordinary shares (diluted) at March 31 | 79,623 | 79,710 |
| | $ 0.77 | 0.64 |

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

**For the three months ended March 31, 2018**

(Continued)

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

| | | |
|---|---|---|
| Primary geographical markets | | |
| United States | $ | 121,231 |
| Taiwan | | 64,989 |
| Spain | | 58,269 |
| Switzerland | | 43,320 |
| Netherland | | 33,188 |
| Italy | | 33,037 |
| India | | 21,830 |
| Other | | 49,782 |
| | $ | **425,646** |
| Major products | | |
| Active Pharmaceutical Ingredients | $ | 276,406 |
| Intermediates | | 103,832 |
| Specialty Chemical | | 45,408 |
| | $ | **425,646** |

(ii) Contract balances

| | March 31, 2018 | January 1, 2018 |
|---|---|---|
| Notes and accounts receivable | $ 277,009 | 191,769 |
| Less: allowance for impairment | (18,142) | (18,142) |
| Total | $ **258,867** | **173,627** |
| Contract liabilities (sales received in advance) | $ **31,239** | **24,579** |

Please refer to note (6) (e) for the information of accounts receivable and the impairment.

On January 1, 2018, the balance of contract liabilities was $495, which was recognized to revenue during the period ended March 31, 2018.

The changes of contract assets and contract liabilities are arising from the difference of time point, which the Group transfers the ownership of goods and which customers do the payment.

(q) 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 three-month period ended March 31, 2018 and 2017, the remunerations to employees amounted to $8,605 and $5,991, respectively, and the remunerations to directors amounted to $1,173 and $817, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. Shares distributed to employees as employees' remuneration are calculated based on the closing price of the Company's shares on the day before the approval by the Board of Directors.

For the year ended December 31, 2018 and 2017, the remunerations to employees amounted to $22,989 and $49,159, respectively, and the remunerations to directors amounted to $3,135 and $6,960, respectively. The remunerations above are identical to those of the actual distributions. The information is available on the Market Observation Post System website.

(r) Financial Instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note (6) (q) of the consolidated financial statements for the year ended December 31, 2017.

(i) Credit risk

Please refer to note(6) (e) for the information of credit risk of notes and accounts receivable.

(ii) Liquidity Risk

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

| | Carrying Amount | Contractual cash flows | Within a year | 1 ~ 2 years | Over 2 years |
|---|---|---|---|---|---|
| **March 31, 2018** | | | | | |
| Non-derivative financial liabilities: | | | | | |
| Notes and accounts payable | $ 74,054 | (74,054) | (74,054) | - | - |
| Other payables | 71,619 | (71,619) | (71,619) | - | - |
| | **$ 145,673** | **(145,673)** | **(145,673)** | **-** | **-** |
| **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)** | **-** | **-** |
| **March 31, 2017** | | | | | |
| Non-derivative financial liabilities: | | | | | |
| Notes and accounts payable | $ 49,433 | (49,433) | (49,433) | - | - |

(Continued)

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

| | | Carrying Amount | Contractual cash flows | Within a year | 1 ~ 2 years | Over 2 years |
|---|---|---|---|---|---|---|
| Other payables | | 62,948 | (62,948) | (62,948) | - | - |
| | $ | 112,381 | (112,381) | (112,381) | - | - |

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

(iii) Market risk

1) Exposure to foreign currency risk

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

| | March 31, 2018 | | | December 31, 2017 | | | March 31, 2017 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Foreign currency | Exchange rate | TWD | Foreign currency | Exchange rate | TWD | Foreign currency | Exchange rate | TWD |
| Financial assets | | | | | | | | | |
| Monetary items | | | | | | | | | |
| USD to TWD | $ 12,711 | 29.055 | 369,318 | 8,475 | 29.71 | 251,792 | 8,573 | 30.31 | 259,379 |
| Financial liabilities | | | | | | | | - | |
| Monetary items | | | | | | | | - | |
| USD to TWD | 1,677 | 29.055 | 48,725 | 518 | - | 15,390 | 1,052 | 30.31 | 31,014 |

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 receivable, 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 for the three months ended March 31, 2018 and 2017 would have affected the net profit before tax increased or decreased $3,206 and $2,284, respectively. The analysis is performed on the same basis for both periods.

3) Exchange gains and losses of monetary items

The exchange gains and losses of monetary items, including realized and unrealized, are changed into functional currency, which is the Group's presentation currency. For the three months ended March 31, 2018 and 2017, the exchange gains and losses, including realized and unrealized, are $9,469 and $11,488, respectively.

(iv) Interest Rate analysis

For the details of financial assets and liabilities exposed to interest rate risk, please refer to note (6)(r) liquidity risk.

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

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 assets with variable interest rates, the analysis is on the basis of the assumption that the amount of assets 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.

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

| | Carrying amount | |
|---|---|---|
| | **March 31, 2018** | **March 31, 2017** |
| Variable rate instruments: | | |
| Financial assets | $ 103,845 | 164,247 |
| Financial liabilities | - | - |

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decrease by $ 65 and $103, respectively, for the three months ended March 31, 2018 and 2017, which would be mainly resulted from the bank savings with variable interest rates.

(v) Fair value

1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss and financial assts at fair value throuth other comprehensive income (available for sale financial assets) are measured on a recurring basis. The carrying amount and fair value of the Group’s 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 :

| | March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | |
| | **Book value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Financial assets at fair value through profit or loss** | | | | | |
| Non derivative financial assets mandatorily measured at fair value through profit or loss | $ 428,176 | 428,176 | - | - | 428,176 |
| **Financial assets at fair value through other comprehensive income** | | | | | |
| Unlisted stocks on domestic market | 41,827 | - | - | 41,827 | 41,827 |
| **Financial assets measured at amortized cost** | | | | | |
| Cash and cash equivalents | 272,377 | - | - | - | - |
| Notes and accounts receivable | 258,867 | - | - | - | - |

(Continued)

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

| | Book value | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|
| Other receivables | 480 | - | - | - | - |
| Refunded deposits (recognized as other non-current assets) | 13,591 | - | - | - | - |
| Subtotal | 545,315 | - | - | - | - |
| Total | $ 1,015,318 | 428,176 | - | 41,827 | 470,003 |
| **Financial liabilities measured at amortized cost** | | | | | |
| Notes and accounts payable | $ 74,054 | - | - | - | - |
| Other payables | 71,619 | - | - | - | - |
| Total | $ 145,673 | - | - | - | - |

| | 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 receivable | 173,627 | - | - | - | - |
| Other receivable | 75 | - | - | - | - |
| Refunded 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 payable | 94,814 | - | - | - | - |
| Total | $ 129,994 | | | | |

| | March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | |
| | **Book value** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial assets at fair value through profit or loss | | | | | |
| Beneficiary certification | $ 522,119 | 522,119 | - | - | 522,119 |
| Stocks | 71,116 | 71,116 | - | - | 71,116 |
| | 593,235 | 593,235 | - | - | 593,235 |
| Available-for-sale financial assets: | | | | | |
| Equity certification | 42,366 | - | - | 42,366 | 42,366 |
| Loans and receivables | | | | | |
| Cash and cash equivalents | 331,827 | - | - | - | - |
| Notes and accounts receivable | 182,116 | - | - | - | - |
| Other receivables | 55 | - | - | - | - |
| Refunded deposits (recognized as other non-current assets) | 15,236 | - | - | - | - |
| Subtotal | 529,234 | - | - | - | - |
| Total | $ 1,164,835 | 593,235 | - | 42,366 | 635,601 |

(Continued)

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

| | | | | | |
|---|---|---|---|---|---|
| Financial liabilities measured at amortized cost | | | | | |
| Notes and accounts payable | $ 49,433 | - | - | - | - |
| Other payables | 62,948 | - | - | - | - |
| Total | $ 112,381 | - | - | - | - |

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) Financial assets measured at amortized cost (debt investment that has no active markets)

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.

Measurements of fair value of financial instruments without an active market are based on valuation technique or quoted price from a competitor. Fair value, measured by using valuation technique that can be extrapolated from either similar financial instruments or discounted cash flow method or other valuation techniques, including models, is calculated based on available market data at the 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.

4) Transfer from one level to another

For the three months ended March 31, 2018 and 2017, there was no transfer from one level to another.

5) Reconciliation of Level 3 fair values

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

| | | Fair value through other comprehensive income (Available-for-sale financial assets) |
|---|---|---|
| | | Unquoted equity instruments |
| January 1, 2018 | $ | 42,366 |
| Recognized under other comprehensive income | | (539) |
| March 31, 2018 | $ | 41,827 |
| January 1, 2017 (as of March 31, 2017) | $ | 42,366 |

For the three months ended March 31, 2018 and 2017, total gains and losses that were included in unrealized gains and losses from financial assets fair value through other comprehensive income were as follows:

| | | For the three months ended March 31, | |
|---|---|---|---|
| | | 2018 | 2017 |
| Total gains and losses recognized: | | | |
| In other comprehensive income, and presented in "unrealized gains and losses from financial assets fair value through other comprehensive income" | $ | (539) | - |

6) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure fair value include "financial assets measured at fair value through other comprehensive income – debt investments". Financial assets at fair value through other comprehensive income-equity investments without an active market have more than one significant unobservable inputs. The significant unobservable inputs of financial assets at fair value through other comprehensive income-equity investments without an active market are individually independent, and there is no correlation between them.

Quantified information of significant unobservable inputs was as follows:

| Item | Valuation technique | Significant unobservable inputs | Inter-relationship between significant unobservable inputs and fair value measurement |
|---|---|---|---|

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

| | | | |
|---|---|---|---|
| Fair value through other comprehensive income (Available-for-sale financial assets)- equity investments without an active market | Price-Book ratio method | ·The multiplier of Price-Book Ratio (As of March 31, 2018, December 31, 2017 and March 31, 2017 were 1.70, 1.64 and 1.88, respectively)<br>·Lack-of-Marketability discount rate (As of March 31, 2018, December 31, 2017 and March 31, 2017 were 50%) | The higher the fair value is, the higher the multiplier will be.<br>The higher the Lack-of-Marketability discount rate is, the lower the fair value will be. |

7) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The Group' s measurement on the fair value of financial instruments is deemed reasonable despite different valuation models or assumptions that may lead to various results.

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

| | Inputs | Move up or downs | Other comprehensive income Favour-able | Unfavour-able |
|---|---|---|---|---|
| **March 31, 2018** | | | | |
| Financial assets at fair value through other comprehensive income | Price-Book ratio multiples | 5% | $ 2,086 | 2,096 |
| Financial assets at fair value through other comprehensive income | Lack-of Marketability discount rate | 5% | $ 2,086 | 2,096 |
| **December 31, 2017** | | | | |
| Available-for-sale financial assets | Price-Book ratio multiples | 5% | $ 2,247 | 2,079 |
| Available-for-sale financial assets | Lack-of Marketability discount rate | 5% | $ 2,247 | 2,079 |
| **March 31, 2017** | | | | |
| Available-for-sale financial assets | Price-Book ratio multiples | 5% | $ 2,074 | 2,116 |

(Continued)

| | | | | |
|---|---|---|---|---|
| Available-for-sale financial assets | Lack-of Marketability discount rate | 5% | $ 2,074 | 2,116 |

The favourable and unfavourable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique. The analysis above only reflects the effects of changes in a single input, and it does not include the interrelationships with another input.

(s) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note (6) (r) of the consolidated financial statements for the year ended December 31, 2017.

(t) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2017. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2017. Please refer to Note (6) (s) of the consolidated financial statements for the year ended December 31, 2017.

(u) Investing and financing activities not affecting current cash flow

For the three months ended March 31, 2018 and 2017, all of the Group's investing and financing activities affect the current cash flow.

**(7) Related-party transactions:**

(a) Names and relationship with related parties: None.

(b) Significant transaction with related parties: None.

(c) Key management personnel compensation

| | For the three months ended March 31, 2018 | For the three months ended March 31, 2017 |
|---|---|---|
| Salary and short-term employee benefits | $ 2,075 | 2,107 |

**(8) Pledged assets:**

The carrying values of pledged assets were as follows:

| Assets | Subject | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|---|
| Land | Pledged as collaterals | $ 42,736 | 42,736 | 42,736 |
| Building | 〃 | 6,757 | 7,113 | 8,191 |

(Continued)

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

| | | |
|---|---|---|
| $ 49,493 | 49,849 | 50,927 |

**(9) Commitments and contingencies:**

As of March 31, 2018, December 31, 2017 and March 31, 2017, the unused balance of the Group's outstanding standby letters of credit amounted to $3,540, $0 and $4,126, respectively.

**(10) Losses Due to Major Disasters: none**

**(11) Subsequent Events: none**

**(12) Other:**

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

| By function / By item | For the three months ended March 31, 2018 | | | For the three months ended March 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Cost of sales | Operating expenses | Total | Cost of sales | Operating expenses | Total |
| Employee benefits | | | | | | |
| Salary | 44,293 | 17,914 | 62,207 | 37,342 | 16,691 | 54,033 |
| Labor and health insurance | 3,289 | 1,083 | 4,372 | 3,570 | 1,132 | 4,702 |
| Pension | 1,578 | 397 | 1,975 | 1,510 | 425 | 1,935 |
| Others | 814 | 1,819 | 2,633 | 494 | 1,382 | 1,876 |
| Depreciation | 26,741 | 4,755 | 31,496 | 28,752 | 4,417 | 33,169 |
| Amortization | 33 | 854 | 887 | 15 | - | 15 |

(b) Seasonality of operations

The Group's operations were not affected by seasonality or cyclicality factors.

**(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 the three months ended March 31, 2018:

(i) Loans to other parties:None

(ii) Guarantees and endorsements for other parties:None

(iii) Securities held as of March 31, 2018 (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand dollars

(Continued)

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

| Name of holder | Category and name of security | Relationship with company | Account title | Ending balance | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Shares/Units (thousands) | Carrying value | Percentage of ownership (%) | Fair value | |
| The Company | Beneficiary Certificate (UPAMC James Bond Money Market Fund) | - | Current Financial Asset at Fair Value through Profit or Loss | 2,760 | 45,902 | - % | 45,902 | |
| 〃 | Beneficiary Certificate (Cathay Taiwan Money Market Fund) | - | 〃 | 4,093 | 50,732 | - % | 50,732 | |
| 〃 | Beneficiary Certificate (Nomura Taiwan Money Market) | - | 〃 | 1,273 | 20,679 | - % | 20,679 | |
| 〃 | Beneficiary Certificate (Yuanta USD Money Market Fund-USD) | - | 〃 | 99 | 29,501 | - % | 29,501 | |
| 〃 | Beneficiary Certificate (Nomura Global Short Duration Bond Fund) | - | 〃 | 2,840 | 29,545 | - % | 29,545 | |
| 〃 | Beneficiary Certificate (CTBC Hua Win Money Market Fund) | - | 〃 | 913 | 10,013 | - % | 10,013 | |
| 〃 | Beneficiary Certificate (Taishin 1699 Money Market Fund) | - | 〃 | 3,592 | 48,356 | - % | 48,356 | |
| 〃 | Beneficiary Certificate (FSITC Taiwan Money Market Fund) | - | 〃 | 2,646 | 40,285 | - % | 40,285 | |
| 〃 | Stock (Fubon S&P Preferred Stock) | - | 〃 | 829 | 54,300 | - % | 54,300 | |
| 〃 | Stock (TAISHIN FINANCIAL HOLDING CO., LTD.Preferred Stock E) | - | 〃 | 400 | 21,800 | - % | 21,800 | |
| 〃 | Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A) | - | 〃 | 790 | 50,323 | - % | 50,323 | |
| 〃 | Stock (Fubon S&P US Preferred Stock) | - | 〃 | 1,400 | 26,740 | - % | 26,740 | |
| 〃 | Stock (Sunny Pharmtech Inc.) | - | Non-Current financial assets at fair value through other comprehevsive income | 4,497 | 41,827 | 4.02 % | 41,827 | |

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

Unit: thousand dollars

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

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

(vii) Purchases from and sales to related parties in excess of $100 million or 20% of Acbel Polytech 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

(Continued)

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

(ix) Trading in derivative instruments: None.

(x) Business relationships and significant intercompany transactions: None.

(b) Information on investees:

The following is the information on investees for the three months ended March 31, 2018 (excluding information on investees in Mainland China):

Unit: thousand dollars/ thousand shares

| Name of investor | Name of investee | Location | Main businesses and products | Original investment amount | | Balance as of March 31, 2018 | | | Net income (losses) of investee | Share of profits/losses of investee | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | March 31, 2018 | December 31, 2017 | Shares (thousands) | Percentage of wnership | Carrying value | | | |
| SCI PHARMTECH, INC. | Yushan Holding Universal Ltd. | Grand Cayman Islands | Investment activities | 374,750 | 374,750 | 12,485 | 100 % | 355,305 | (299) | (299) | Equity investment of equity method |
| Yushan Holding Universal Ltd. | Yushan Pharmaceuticals Inc. | R.O.C | The research and development, manufacture and sale of API | 371,000 | 371,000 | 37,100 | 100 % | 352,481 | (242) | (242) | Equity investment of equity method |

(c) Information on investment in mainland China:None

**(14) Segment information:**

The Group only uses one segment to asses its performance and allocate resources Hence, there is no need to disclose the information.



(Continued)