

(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 Six Months Ended  
June 30, 2018 and 2017**

The independent 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 independent 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 June 30, 2018, the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2018, and the consolidated statements of changes in equity and cash flows for the six months ended June 30, 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 June 30, 2018, and of its consolidated financial performance and its consolidated cash flows for the six months ended June 30, 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 June 30, 2017 was reviewed by another auditor who expressed an unmodified opinion on this statement on August 10, 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)  
August 8, 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.

The independent 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 independent auditors' report and consolidated financial statements, the Chinese version shall prevail.





(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 and six months ended June 30, 2018 and 2017

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

		For the three months ended June 30				For the six months ended June 30			
		2018		2017		2018		2017	
		Amount	%	Amount	%	Amount	%	Amount	%
4110	Sales revenue	\$ 530,437	100	284,274	100	956,083	100	612,823	100
5110	Cost of sales (notes 6(f) and (12))	<u>295,816</u>	<u>56</u>	<u>197,940</u>	<u>70</u>	<u>589,725</u>	<u>62</u>	<u>425,667</u>	<u>69</u>
5900	<b>Gross profit</b>	<u>234,621</u>	<u>44</u>	<u>86,334</u>	<u>30</u>	<u>366,358</u>	<u>38</u>	<u>187,156</u>	<u>31</u>
<b>Operating expenses (note (12)):</b>									
6100	Selling expenses	36,859	7	17,026	6	65,904	7	35,284	6
6200	Administrative expenses	30,842	6	10,996	4	43,893	4	19,402	3
6300	Research and development expenses	<u>9,554</u>	<u>1</u>	<u>8,101</u>	<u>3</u>	<u>18,858</u>	<u>2</u>	<u>16,738</u>	<u>3</u>
		<u>77,255</u>	<u>14</u>	<u>36,123</u>	<u>13</u>	<u>128,655</u>	<u>13</u>	<u>71,424</u>	<u>12</u>
6900	<b>Net operating income</b>	<u>157,366</u>	<u>30</u>	<u>50,211</u>	<u>17</u>	<u>237,703</u>	<u>25</u>	<u>115,732</u>	<u>19</u>
<b>Non-operating income and expenses:</b>									
7190	Other income	4,764	1	1,296	-	5,391	1	7,867	1
7101	Interest income from bank deposits	735	-	302	-	862	-	456	-
7235	Gains on financial assets (liabilities) at fair value through profit or loss (note (6) (b))	70	-	1,570	1	1,722	-	3,499	1
7510	Interest expense	(2)	-	-	-	(2)	-	-	-
7590	Miscellaneous disbursements	(89)	-	(38)	-	(178)	-	(311)	-
7610	Gains (losses) on disposals of property, plant and equipment	-	-	(1,338)	-	81	-	(1,058)	-
7630	Foreign exchange gains (losses)	<u>20,790</u>	<u>4</u>	<u>802</u>	<u>-</u>	<u>11,321</u>	<u>1</u>	<u>(10,686)</u>	<u>(2)</u>
		<u>26,268</u>	<u>5</u>	<u>2,594</u>	<u>1</u>	<u>19,197</u>	<u>2</u>	<u>(233)</u>	<u>-</u>
7900	<b>Profit before tax</b>	<u>183,634</u>	<u>35</u>	<u>52,805</u>	<u>18</u>	<u>256,900</u>	<u>27</u>	<u>115,499</u>	<u>19</u>
7950	Income tax expense (note (6)(1))	<u>34,496</u>	<u>7</u>	<u>13,082</u>	<u>4</u>	<u>46,809</u>	<u>5</u>	<u>24,374</u>	<u>4</u>
	<b>Profit for the period</b>	<u>149,138</u>	<u>28</u>	<u>39,723</u>	<u>14</u>	<u>210,091</u>	<u>22</u>	<u>91,125</u>	<u>15</u>
8300	<b>Other comprehensive income:</b>								
8310	<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>								
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note (6)(c))	(405)	-	-	-	(944)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss(note (6)(1))	-	-	-	-	1,488	-	-	-
8300	<b>Other comprehensive income (loss) for the period, net of tax</b>	<u>(405)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>544</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<b>Total comprehensive income for the period</b>	<u>\$ 148,733</u>	<u>28</u>	<u>39,723</u>	<u>14</u>	<u>210,635</u>	<u>22</u>	<u>91,125</u>	<u>15</u>
<b>Earnings per share (note (6)(o)):</b>									
9750	<b>Basic net income per share</b>	<u>\$ 1.88</u>		<u>0.50</u>		<u>2.64</u>		<u>1.15</u>	
9850	<b>Diluted net income per share</b>	<u>\$ 1.87</u>		<u>0.50</u>		<u>2.63</u>		<u>1.14</u>	

See accompanying notes to financial statements.

**SCI PHARMTECH, INC. AND SUBSIDIARIES**

## Consolidated Statements of Changes in Equity

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

[illegible]

See accompanying notes to financial statements.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
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SCI Pharmtech, Inc. and subsidiaries

Consolidated Statements of Cash Flows

For the six months ended June 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2018	2017
<b>Cash flows from (used in) operating activities:</b>		
Profit before tax	\$ 256,900	115,499
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation expense	63,035	64,751
Amortization expense	2,023	29
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(1,722)	(3,499)
Interest expense	2	-
Interest income	(862)	(456)
Compensation cost of share-based payments	160	717
Others	3,246	1,058
	<u>65,882</u>	<u>62,600</u>
<b>Changes in operating assets and liabilities:</b>		
Decrease (increase) in notes and accounts receivable	(212,841)	29,448
Decrease (increase) in inventories	11,095	(20,546)
Decrease (increase) in other current assets	(5,780)	(3,701)
Increase (decrease) in notes and accounts payable	53,664	(1,619)
Increase (decrease) in contract liabilities	37,208	-
Increase (decrease) in other payable	36,449	(17,191)
Increase (decrease) in provisions	3,857	2,000
Increase (decrease) in other current liabilities	(10,150)	(15,432)
Increase (decrease) in provision for employee benefits, non-current	(219)	(215)
	<u>(20,835)</u>	<u>35,344</u>
Cash flow from (used in) operations	236,065	150,843
Interest received	862	456
Interest paid	(2)	-
Income taxes paid	(33,297)	(44,395)
<b>Net cash flows from (used in) operating activities</b>	<u>203,628</u>	<u>106,904</u>
<b>Cash flows from (used in) investing activities:</b>		
Acquisition of financial assets at fair value through profit or loss	(13,770)	-
Acquisition of financial assets at fair value through profit or loss, designated as upon initial recognition	-	(102,036)
Acquisition of intangible assets	(11,254)	-
Acquisition of property, plant and equipment	(43,348)	(28,349)
Proceeds from disposal of property, plant and equipment	81	-
Increase in prepayments of property, plant and equipment	(18,626)	(35,549)
Decrease in refunded deposits	1,959	500
<b>Net cash flows from (used in) investing activities</b>	<u>(84,958)</u>	<u>(165,434)</u>
<b>Cash flows from (used in) financing activities:</b>		
<b>Net cash flows from (used in) financing activities</b>	<u>-</u>	<u>-</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	118,670	(58,530)
<b>Cash and cash equivalents at beginning of the period</b>	255,869	326,777
<b>Cash and cash equivalents at end of the period</b>	<u>\$ 374,539</u>	<u>268,247</u>

See accompanying notes to financial statements.

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**June 30, 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 June 30, 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 six months ended June 30, 2018 and 2017 were authorized for issuance by the board of directors on August 8, 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.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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

(Continued)

**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:

Impacted line items on the consolidated balance sheet	June 30, 2018			January 1, 2018		
	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
Notes and accounts						
receivable, net (note 1)	\$ 380,403	6,065	386,468	173,627	-	173,627
Inventories, net (note 1)	431,597	(1,370)	430,227	482,825	(1,967)	480,858
Other current assets (note 1)	16,138	1,370	17,508	11,728	1,967	13,695
<b>Impact on assets</b>		<b>6,065</b>			<b>-</b>	
Other payable (note 1)	\$ 366,141	-	366,141	178,169	(17,039)	161,130
Other current liabilities (notes 1 and 2)	69,379	(55,722)	13,657	25,282	(7,540)	17,742
Current contract liabilities (note 2)	-	61,787	61,787	-	24,579	24,579
<b>Impact on liabilities</b>		<b>6,065</b>			<b>-</b>	

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

Note 1: The estimate of possible sales returns and allowances are currently recognized as reduction of notes and accounts receivable or other payables, which will be recognized as refund liabilities (under other current liabilities) after adopting IFRS 15. In addition, the estimate of possible sales return cost are currently recognized as inventories, which will be recognized as right to recover product to be returned - current (under other current assets) 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.

<u>Impacted line items on the consolidated statement of cash flows</u>	<u>For the six month ended June 30, 2018</u>		
	<u>Before adjustments</u>	<u>Impact of changes in accounting policies</u>	<u>After adjustments</u>
<b>Cash flows from (used in) operating activities:</b>			
<b>Profit before tax</b>	\$ 256,900	-	256,900
<b>Adjustments:</b>			
Decrease (Increase) in notes and accounts receivable, net	(206,776)	(6,065)	(212,841)
Decrease (Increase) in inventories	11,692	(597)	11,095
Increase (Decrease) in other current assets	(6,377)	597	(5,780)
Increase (Decrease) in contract liabilities	-	37,208	37,208
Increase (Decrease) in other accounts payables	19,410	17,039	36,449
Increase (Decrease) in other current liabilities	38,032	(48,182)	(10,150)
<b>Impact on net cash flows from (used in) operating activities</b>		<u><u>-</u></u>	

(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.

(Continued)



**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.
- If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group assumed that the credit risk on its asset will not increase significantly since its initial recognition.

(Continued)



**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.)

Financial Assets	IAS39		IFRS9	
	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	-	-

(Continued)

**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 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, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
IFRS 16 “Leases”	January 1, 2019
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 19 “Plan Amendment, Curtailment or Settlement”	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

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 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

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

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, and does not expect the adoption of IFRS 16 to have any impact. The actual impact of applying IFRS 16 on its financial statements in the period of initial application will depend on future economic conditions, including the Group's discounting rate, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options, and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases. No significant impact is expected for the Group's finance leases. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

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

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the most significant impact identified is that the Group will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments.

(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 have yet to be endorsed by the FSC:

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective date per IASB</b>
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 17 “Insurance Contracts”	January 1, 2021

The Group assessed that the above IFRSs may not be relevant to the Group.

**(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.

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

(b) Basis of Consolidation

List of subsidiaries in the consolidated financial statements.

Name of investor	Name of subsidiary	Principal activity	Shareholding		
			June 30, 2018	December 31, 2017	June 30, 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)

(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.

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**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
- its 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 ex-dividend 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.

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

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 during 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 considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade which is considered to be BBB- or higher per Standard & Poor's, Baa3 or higher per Moody's or twA or higher per Taiwan Ratings'.

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.

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

(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.

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

**(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:**

Except 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**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Cash on hand	\$ 387	416	378
Checking accounts and demand deposits	101,445	155,450	87,869
Time deposits	171,230	80,000	180,000
Bills sold under repurchase agreements	101,477	20,003	-
	<u><u>\$ 374,539</u></u>	<u><u>255,869</u></u>	<u><u>268,247</u></u>

(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**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Financial assets held-for-trading:			
Non-derivative financial assets			
Beneficiary certificate	\$ -	275,744	522,238
Stocks listed on domestic markets	-	138,991	121,083
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Beneficiary certificate	276,500	-	-
Stocks listed on domestic markets	153,727	-	-
Total	<u><u>\$ 430,227</u></u>	<u><u>414,735</u></u>	<u><u>643,321</u></u>

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

The Group did not provide any aforementioned financial assets as collateral for its loans as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

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

	<u>June 30, 2018</u>
<b>Financial assets at fair value through other comprehensive income</b>	
Unlisted stocks on domestic markets	\$ <u><u>41,422</u></u>

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 June 30, 2017. Please refer to note (6) (d) for more details.

No strategic investments were disposed as of June 30, 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 June 30, 2018, the Group did not provide any aforementioned financial assets as collateral for its loans.

- (d) Available-for-sale financial assets

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Unlisted stocks on domestic markets	\$ 50,093	50,093
Adjustments to valuation of available-for-sale financial assets	<u>(7,727)</u>	<u>(7,727)</u>
Total	<u>\$ <u>42,366</u></u>	<u><u>42,366</u></u>

On June 30, 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 June 30, 2017 and December 31, 2017, the Group did not provide any available-for-sale financial assets as collateral for its loans.

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

(e) Notes and accounts receivable

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Notes receivable from operating activities	\$ 9,027	794	4,565
Accounts receivable-measured as amortized cost	395,583	190,975	236,726
Less: Loss allowance	<u>(18,142)</u>	<u>(18,142)</u>	<u>(18,142)</u>
	<b><u>\$ 386,468</u></b>	<b><u>173,627</u></b>	<b><u>223,149</u></b>

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 June 30, 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, including the reasonable prediction of historical credit loss experience and future economic situation. The loss allowance provision as of June 30, 2018 was determined as follows:

	<b>Gross carrying amount</b>	<b>Rate of loss allowance provision</b>	<b>Loss allowance provision</b>
Current	\$ 326,679	-	-
1 to 30 days past due	41,962	-	-
31 to 60 days past due	17,164	-	-
61 to 90 days past due	566	-	-
91 to 180 days past due	97	-	-
More than 360 days past due	<u>18,142</u>	100 %	<u>18,142</u>
	<b><u>\$ 404,610</u></b>		<b><u>18,142</u></b>

As of December 31, 2017 and June 30, 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:

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Past due 1 to 30 days	\$ 28,663	25,867
Past due 31 to 60 days	-	4,978
Past due 60 to 120 days	<u>166</u>	<u>1,179</u>
	<b><u>\$ 28,829</u></b>	<b><u>32,024</u></b>

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

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

		<b>For the six month ended June 30, 2017</b>	
	<b>For the six month ended June 30, 2018</b>	<b>Individually assessed impairment</b>	<b>Collectively assessed impairment</b>
Balance on January 1, 2018 and 2017 per IAS 39	\$ 18,142	<u>18,142</u>	<u>-</u>
Adjustment on initial application of IFRS 9	<u>-</u>		
Balance on January 1, 2018 per IFRS 9 (Balance on June 30, 2018)	<u>\$ 18,142</u>		

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

As of June 30, 2018, December 31, 2017 and June 30, 2017, the Group did not provide any aforementioned notes and accounts receivable as collaterals for its loans.

(f) Inventories

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Raw materials	\$ 156,445	92,708	95,392
Work in progress	98,991	53,237	165,588
Finished goods	<u>216,294</u>	<u>336,880</u>	<u>257,922</u>
	<u>\$ 471,730</u>	<u>482,825</u>	<u>518,902</u>

For the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, inventory cost recognized as cost of sales amounting to \$295,816, \$197,940, \$589,725 and \$425,667, respectively. During the same period, the write-down of inventories to net realizable value amounted to \$1,335, \$4,396, \$4,301 and \$7,463, respectively, recognized in cost of goods sale.

As of June 30, 2018, December 31, 2017 and June 30, 2017, the Group did not provide any inventories as collaterals for its loans.

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

(g) Property, plant and equipment

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Others equipment</u>	<u>Prepayment for equipment and construction in progress</u>	<u>Total</u>
<b>Cost:</b>							
Balance on January 1, 2018	\$ 825,680	681,676	1,580,485	29,623	16,149	68,056	3,201,669
Additions	-	-	8,434	6,996	-	27,177	42,607
Transferred (out) in	-	-	13,509	103	-	(18,448)	(4,836)
Disposal and derecognitions	-	-	(4,660)	-	-	-	(4,660)
Balance on June 30, 2018	<u>\$ 825,680</u>	<u>681,676</u>	<u>1,597,768</u>	<u>36,722</u>	<u>16,149</u>	<u>76,785</u>	<u>3,234,780</u>
Balance on January 1, 2017	\$ 825,680	678,731	1,560,624	24,042	23,016	-	3,112,093
Additions	-	149	16,371	2,574	9,255	-	28,349
Disposal and derecognitions	-	-	(1,058)	-	-	-	(1,058)
Reclassifications	-	1	3,833	-	(3,834)	-	-
Balance on June 30, 2017	<u>\$ 825,680</u>	<u>678,881</u>	<u>1,579,770</u>	<u>26,616</u>	<u>28,437</u>	<u>-</u>	<u>3,139,384</u>
<b>Depreciation and impairments loss:</b>							
Balance on January 1, 2018	\$ -	292,442	1,103,904	14,900	4,452	-	1,415,698
Depreciation for the period	-	14,873	45,595	1,755	812	-	63,035
Disposals and derecognitions	-	-	(4,660)	-	-	-	(4,660)
Balance on June 30, 2018	<u>\$ -</u>	<u>307,315</u>	<u>1,144,839</u>	<u>16,655</u>	<u>5,264</u>	<u>-</u>	<u>1,474,073</u>
Balance on January 1, 2017	\$ -	267,030	1,066,664	13,540	2,821	-	1,350,055
Depreciation for the period	-	14,933	48,049	954	815	-	64,751
Others	-	-	-	1	-	-	1
Balance on June 30, 2017	<u>\$ -</u>	<u>281,963</u>	<u>1,114,713</u>	<u>14,495</u>	<u>3,636</u>	<u>-</u>	<u>1,414,807</u>
<b>Carrying amounts:</b>							
Balance on January 1, 2018	<u>\$ 825,680</u>	<u>389,234</u>	<u>476,581</u>	<u>14,723</u>	<u>11,697</u>	<u>68,056</u>	<u>1,785,971</u>
Balance on June 30, 2018	<u>\$ 825,680</u>	<u>374,361</u>	<u>452,929</u>	<u>20,067</u>	<u>10,885</u>	<u>76,785</u>	<u>1,760,707</u>
Balance on January 1, 2017	<u>\$ 825,680</u>	<u>411,701</u>	<u>493,960</u>	<u>10,502</u>	<u>20,195</u>	<u>-</u>	<u>1,762,038</u>
Balance on June 30, 2017	<u>\$ 825,680</u>	<u>396,918</u>	<u>465,057</u>	<u>12,121</u>	<u>24,801</u>	<u>-</u>	<u>1,724,577</u>

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 June 30, 2018, December 31, 2017 and June 30, 2017, part of the property, plant and equipment the Group had provided at collateral for its loans. Please refer to note (8) for details.

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

(h) Short-term borrowings

The details of short-term borrowings are as following:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Unsecured bank loans	\$ -	-	-
Unused credit line for short-term borrowings	\$ 426,344	430,000	429,424
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 risk.

(i) Other payables

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Salaries payable	\$ 110,002	75,261	99,122
Payables on equipment	16,185	18,503	11,600
Dividend payable	170,893	-	333,452
Others	69,061	84,405	84,340
	<b>\$ 366,141</b>	<b>178,169</b>	<b>528,514</b>

(j) Provisions

There were no significant changes in provisions for the six months ended June 30, 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.

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**  
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The expenses recognized in profit or loss for the Group were as follows:

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Operating cost	\$ 403	389	792	758
Operating expenses	47	28	65	76
	<u>\$ 450</u>	<u>417</u>	<u>857</u>	<u>834</u>

(ii) Defined contribution plans

The Group's expenses under the pension plan cost to the Bureau of Labor Insurance for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 were as follows:

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Operating cost	\$ 1,199	1,162	2,388	2,303
Selling expenses	62	60	123	119
Administration expenses	142	132	286	263
Research expenses	174	184	348	371
	<u>\$ 1,577</u>	<u>1,538</u>	<u>3,145</u>	<u>3,056</u>

(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 June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 were as follows:

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Current tax expense	\$ 34,496	10,298	46,809	23,280
Deferred tax expense	-	2,784	-	1,094
Tax expense	<u>\$ 34,496</u>	<u>13,082</u>	<u>46,809</u>	<u>24,374</u>

(Continued)



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

- (ii) The amount of income tax recognized in other comprehensive income for the three months ended June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017 was as follows:

	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Items that will not be reclassified subsequently to profit or loss:				
Re-measurement from defined benefit plans	\$ <u>-</u>	<u>-</u>	<u>1,488</u>	<u>-</u>

- (iii) Examination and approval

The ROC tax authorities have examined the Company's and Yushan Pharmaceuticals Inc.'s income tax returns through 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 June 30, 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 June 30, 2018 and 2017 were as follows:

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Additional paid-in capital	\$ 1,270,247	1,270,247	1,270,247
Gain on disposal of assets	980	980	980
Stock options	71,530	71,530	71,530
Employee stock options	<u>5,582</u>	<u>5,582</u>	<u>5,582</u>
	<u>\$ 1,348,339</u>	<u>1,348,339</u>	<u>1,348,339</u>

- (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.

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**  
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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

Based on the resolutions of the annual stockholders' meetings held on June 26, 2018 and June 20, 2017, the appropriations of dividends from the distributable retained earnings of 2017 and 2016 were as follows:

	<b>2017</b>		<b>2016</b>	
	<b>Amount per share (dollars)</b>	<b>Total amount</b>	<b>Amount per share (dollars)</b>	<b>Total amount</b>
Dividends distributed to commons shareholders :				
Cash	<u>\$ 2.15</u>	<u>170,893</u>	<u>4.20</u>	<u>333,451</u>

(iv) Other equity (net of taxes)

	<b>financial assets measured at fair value through other comprehensive income</b>	<b>Unrealized gains (losses) on available-for- sale financial assets</b>	<b>Unearned employee benefit</b>	<b>Total</b>
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)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(944)	-	-	(944)
Amortization cost of employee restricted stock	-	-	160	160
Balance at June 30, 2018	<u>\$ (8,671)</u>	<u>-</u>	<u>-</u>	<u>(8,671)</u>
Balance at January 1, 2017	\$ -	(7,727)	(1,356)	(9,083)
Amortization cost of employee restricted stock	-	-	717	717
Balance at June 30, 2017	<u>\$ -</u>	<u>(7,727)</u>	<u>(639)</u>	<u>(8,366)</u>

(Continued)

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

(n) Share-based payment

There were no significant changes for share-based payment during the periods from January 1 to June 30, 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 June 30, 2018 and 2017 and the six months ended June 30, 2018 and 2017, the Company's earnings per share were calculated as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Basic earnings per share				
Profit attributable to ordinary				
shareholders of the Company	\$ <u>149,138</u>	<u>39,723</u>	<u>210,091</u>	<u>91,125</u>
Weighted-average number of ordinary				
shares at June 30	<u>79,485</u>	<u>79,393</u>	<u>79,455</u>	<u>79,363</u>
Basic earnings per share	\$ <u>1.88</u>	<u>0.50</u>	<u>2.64</u>	<u>1.15</u>
Diluted earnings per share				
Profit attributable to ordinary				
shareholders of the Company	\$ <u>149,138</u>	<u>39,723</u>	<u>210,091</u>	<u>91,125</u>
Weighted-average number of ordinary				
shares (basic)	79,485	79,393	79,455	79,363
Effect of employee compensation	374	159	443	318
Effect of restricted employee shares				
unvested	-	82	-	112
Weighted-average number of ordinary				
shares (diluted) at June 30	<u>79,859</u>	<u>79,634</u>	<u>79,898</u>	<u>79,793</u>
Diluted earnings per share	\$ <u>1.87</u>	<u>0.50</u>	<u>2.63</u>	<u>1.14</u>

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**  
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(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	<b>For the three months ended June 30, 2018</b>	<b>For the six months ended June 30, 2018</b>
Primary geographical markets		
United States	\$ 145,606	266,837
Spain	63,166	121,435
Taiwan	48,316	113,305
Italy	52,355	85,392
Switzerland	41,102	84,422
India	45,621	67,451
Japan	58,029	61,825
Netherland	16,531	49,719
Other	59,711	105,697
	<u><u>\$ 530,437</u></u>	<u><u>956,083</u></u>
Major products		
Active Pharmaceutical	\$ 358,738	635,144
Ingredients		
Intermediates	142,581	246,413
Specialty Chemical	29,118	74,526
	<u><u>\$ 530,437</u></u>	<u><u>956,083</u></u>

(ii) Contract balances

	<b>June 30, 2018</b>	<b>January 1, 2018</b>
Notes and accounts receivable	\$ 404,610	191,769
Less: allowance for impairment	(18,142)	(18,142)
Total	<u><u>\$ 386,468</u></u>	<u><u>173,627</u></u>
Contract liabilities (sales received in advance)	<u><u>\$ 61,787</u></u>	<u><u>24,579</u></u>

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

The amounts of revenue recognized for the three and six months ended June 30, 2018 and 2017, that were included in the contract liability balance at the beginning of the period were \$2,822 and \$3,317, respectively.

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.

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

(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 and the six-month period ended June 30, 2018 and 2017, the remunerations to employees amounted to \$16,444, \$5,197, \$25,049 and \$11,188, respectively, and the remunerations to directors amounted to \$2,243, \$709, \$3,416 and \$1,526, 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

- 1) Please refer to note(6) (e) for the information of credit risk of notes and accounts receivable.
- 2) Other financial assets at amortized cost include other receivables and time deposits. The counterparties of the time deposits held by the Group are the financial institutions with investment grade credit ratings. Therefore, the credit risk is considered to be low.

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

(ii) Liquidity Risk

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

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
<b>June 30, 2018</b>					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 88,844	(88,844)	(88,844)	-	-
Other payables	248,324	(248,324)	(248,324)	-	-
	<u>\$ 337,168</u>	<u>(337,168)</u>	<u>(337,168)</u>	<u>-</u>	<u>-</u>
<b>December 31, 2017</b>					
Non-derivative financial liabilities:					
Note and accounts payable	\$ 35,180	(35,180)	(35,180)	-	-
Other payables	94,814	(94,814)	(94,814)	-	-
	<u>\$ 129,994</u>	<u>(129,994)</u>	<u>(129,994)</u>	<u>-</u>	<u>-</u>
<b>June 30, 2017</b>					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 56,426	(56,426)	(56,426)	-	-
Other payables	422,103	(422,103)	(422,103)	-	-
	<u>\$ 478,529</u>	<u>(478,529)</u>	<u>(478,529)</u>	<u>-</u>	<u>-</u>

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:

	<u>June 30, 2018</u>			<u>December 31, 2017</u>			<u>June 30, 2017</u>		
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>NTD</u>
Financial assets									
Monetary items									
USD to NTD	\$ 15,839	30.41	481,664	8,475	29.71	251,792	7,071	30.42	214,760
Financial liabilities									
Monetary items									
USD to NTD	1,559	30.41	47,409	518	29.71	15,390	2,863	30.42	87,232

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**  
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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 six months ended June 30, 2018 and 2017 would have affected the net profit before tax increased or decreased \$4,343 and \$1,275, 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 and six months ended June 30, 2018 and 2017, the exchange gains (losses), including realized and unrealized, are \$20,790, \$802, \$11,321 and \$(10,686), 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.

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:

	<b>Carrying amount</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Variable rate instruments:		
Financial assets	\$ 101,122	87,709
Financial liabilities	-	-

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decrease by \$126 and \$110, respectively, for the six months ended June 30, 2018 and 2017, which would be mainly resulted from the bank savings with variable interest rates.

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

(v) Fair value

1) Fair value hierarchy

The fair value of financial assets and liabilities at fair value through profit or loss and financial assets at fair value through 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 :

	June 30, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>					
Non derivative financial assets mandatorily measured at fair value through profit or loss	\$ 430,227	430,227	-	-	430,227
<b>Financial assets at fair value through other comprehensive income</b>					
Unlisted stocks on domestic market	41,422	-	-	41,422	41,422
<b>Financial assets measured at amortized cost</b>					
Cash and cash equivalents	374,539	-	-	-	-
Notes and accounts receivable	386,468	-	-	-	-
Other receivables	4,708	-	-	-	-
Refunded deposits (recognized as other non-current assets)	11,957	-	-	-	-
	777,672	-	-	-	-
<b>Total</b>	<b>\$ 1,249,321</b>	<b>430,227</b>	<b>-</b>	<b>41,422</b>	<b>471,649</b>
<b>Financial liabilities measured at amortized cost</b>					
Notes and accounts payable	\$ 88,844	-	-	-	-
Other payables	248,324	-	-	-	-
<b>Total</b>	<b>\$ 337,168</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**  
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December 31, 2017					
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>					
Beneficiary certification	\$ 275,744	275,744	-	-	275,744
Stocks	138,991	138,991	-	-	138,991
	<u>414,735</u>	<u>414,735</u>	<u>-</u>	<u>-</u>	<u>414,735</u>
Available-for-sale financial assets:					
Equity certification	42,366	-	-	42,366	42,366
<b>Loans and receivables</b>					
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	-	-	-	-
	<u>443,487</u>				
Total	<u><u>\$ 900,588</u></u>				
<b>Financial liabilities at amortized cost through profit or loss</b>					
Notes and accounts payable	\$ 35,180	-	-	-	-
Accrued expenses and other payable	94,814	-	-	-	-
Total	<u><u>\$ 129,994</u></u>				
June 30, 2017					
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets at fair value through profit or loss</b>					
Beneficiary certification	\$ 522,238	522,238	-	-	522,238
Stocks	121,083	121,083	-	-	121,083
	<u>643,321</u>	<u>643,321</u>	<u>-</u>	<u>-</u>	<u>643,321</u>
Available-for-sale financial assets:					
Equity certification	42,366	-	-	42,366	42,366
<b>Loans and receivables</b>					
Cash and cash equivalents	268,247	-	-	-	-
Notes and accounts receivable	223,149	-	-	-	-
Other receivables	322	-	-	-	-
Refunded deposits (recognized as other non-current assets)	14,735	-	-	-	-
	<u>506,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u><u>\$ 1,192,140</u></u>	<u><u>643,321</u></u>	<u><u>-</u></u>	<u><u>42,366</u></u>	<u><u>685,687</u></u>
<b>Financial liabilities measured at amortized cost</b>					
Notes and accounts payable	\$ 56,426	-	-	-	-
Other payables	422,103	-	-	-	-
Total	<u><u>\$ 478,529</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

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

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 six months ended June 30, 2018 and 2017, there was no transfer from one level to another.

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**  
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5) Reconciliation of Level 3 fair values

	Fair value through other comprehensive income (Available- for-sale financial assets)
	Unquoted equity instruments
January 1, 2018	\$ 42,366
Recognized under other comprehensive income	(944)
June 30, 2018	<u>\$ 41,422</u>
January 1, 2017 (as of June 30, 2017)	<u>\$ 42,366</u>

For the three and six months ended June 30, 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 June 30,		For the six months ended June 30,	
	2018	2017	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”	\$ (405)	-	(944)	-

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.

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**  
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Quantified information of significant unobservable inputs was as follows:

<b>Item</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between significant unobservable inputs and fair value measurement</b>
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 June 30, 2018, December 31, 2017 and June 30, 2017 were 1.78, 1.64 and 1.81, respectively) Lack-of-Marketability discount rate (As of June 30, 2018, December 31, 2017 and June 30, 2017 were 50%)	The higher the fair value is, the higher the multiplier will be.  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:

			Other comprehensive income	
	Inputs	Move up or downs	Favorable	Unfavorable
June 30, 2018				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ 2,078	2,065
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ 2,078	2,065
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

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**SCI PHARMTECH, INC. AND SUBSIDIARIES**  
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			Other comprehensive income	
	Inputs	Move up or downs	Favorable	Unfavorable
June 30, 2017				
Available-for-sale financial assets	Price-Book ratio multiples	5%	\$ <u>2,657</u>	<u>2,736</u>
Available-for-sale financial assets	Lack-of Marketability discount rate	5%	\$ <u>2,657</u>	<u>2,736</u>

The favorable and unfavorable 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 six months ended June 30, 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 June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Salary and short-term employee benefits	\$ <u>2,173</u>	<u>2,082</u>	<u>4,248</u>	<u>4,189</u>

(Continued)

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

**(8) Pledged assets:**

The carrying values of pledged assets were as follows:

<u>Assets</u>	<u>Subject</u>	<u>June 30, 2018</u>	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Land	Pledged as collaterals	\$ 42,736	42,736	42,736
Building	"	6,410	7,113	7,831
		<u>\$ 49,146</u>	<u>49,849</u>	<u>50,567</u>

**(9) Commitments and contingencies:**

As of June 30, 2018, December 31, 2017 and June 30, 2017, the unused balance of the Group's outstanding standby letters of credit amounted to \$3,656, \$0 and \$2,858, 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 June 30, 2018			For the three months ended June 30, 2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	46,316	32,414	78,730	36,716	14,920	51,636
Labor and health insurance	2,872	834	3,706	3,043	847	3,890
Pension	1,602	425	2,027	1,551	404	1,955
Remuneration of directors	-	2,243	2,243	-	709	709
Others	868	2,060	2,928	527	1,658	2,185
Depreciation	26,752	4,787	31,539	27,290	4,293	31,583
Amortization	284	852	1,136	14	-	14

(Continued)

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

By function By item	For the six months ended June 30, 2018			For the six months ended June 30, 2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	90,609	49,155	139,764	74,058	30,794	104,852
Labor and health insurance	6,161	1,917	8,078	6,613	1,979	8,592
Pension	3,180	822	4,002	3,061	829	3,890
Remuneration of directors	-	3,416	3,416	-	1,526	1,526
Others	1,682	3,879	5,561	1,021	3,040	4,061
Depreciation	53,493	9,542	63,035	56,042	8,709	64,751
Amortization	317	1,706	2,023	29	-	29

(b) Seasonality of operations

The Group's operations were not affected by seasonality or cyclicity 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 six months ended June 30, 2018:

(i) Loans to other parties: None

(ii) Guarantees and endorsements for other parties: None

(iii) Securities held as of June 30, 2018 (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				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	45,947	- %	45,947	
"	Beneficiary Certificate (Cathay Taiwan Money Market Fund)	-	"	4,093	50,775	- %	50,775	
"	Beneficiary Certificate (Nomura Taiwan Money Market)	-	"	1,273	20,700	- %	20,700	
"	Beneficiary Certificate (Yuantu USD Money Market Fund-USD)	-	"	99	31,046	- %	31,046	

(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 (Nomura Global Short Duration Bond Fund)	-	"	2,840	29,272	- %	29,272	
"	Beneficiary Certificate (CTBC Hua Win Money Market Fund)	-	"	913	10,024	- %	10,024	
"	Beneficiary Certificate (Taishin 1699 Money Market Fund)	-	"	3,592	48,406	- %	48,406	
"	Beneficiary Certificate (FSITC Taiwan Money Market Fund)	-	"	2,646	40,329	- %	40,329	
"	Stock (Fubon S&P Preferred Shares A)	-	"	793	50,276	- %	50,276	
"	Stock (Fubon S&P Preferred Shares B)	-	"	36	2,182	- %	2,182	
"	Stock (TAISHIN FINANCIAL HOLDING CO., LTD. Preferred Stock E)	-	"	400	21,680	- %	21,680	
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A)	-	"	790	49,454	- %	49,454	
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock B)	-	"	33	1,982	- %	1,982	
"	Stock (Fubon S&P US Preferred Stock)	-	"	1,400	28,154	- %	28,154	
"	Stock (Sunny Pharmtech Inc.)	-	Financial assets at fair value through other comprehensive income	4,497	41,422	4.02 %	41,422	

- (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
- (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
- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions: None.

(Continued)



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

(b) Information on investees:

The following is the information on investees for the six months ended June 30, 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 June 30, 2018			Net income (losses) of investee	Share of profits/losses of investee	Note
				June 30, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value			
SCI PHARMTECH, INC.	Yushan Holding Universal Ltd.	Grand Cayman Islands	Investment activities	374,750	374,750	12,485	100 %	355,108	(497)	(497)	Investment accounted for using 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 %	352,184	(538)	(538)	Investment accounted for using equity method

(c) Information on investment in mainland China: None

**(14) Segment information:**

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