Stock Code:4119

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 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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Representation Letter

The entities that are required to be included in the combined financial statements of SCI Pharmtech, Inc. as of and for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 endorsed by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, SCI Pharmtech, Inc. and subsidiaries do not prepare a separate set of combined financial statements.

Company name: SCI Pharmtech, Inc.
Chairman: Weichyun Wong
Date: March 13, 2019

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of SCI Pharmtech, Inc. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as of December 31, 2018 and 2017, the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The key audit matters we judged shall be presented in the financial report as follows:

1. **Inventory valuation**

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

Description of key audit matters:

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

Our audit procedures include:

Assessing the reasonableness of provision policies and procedures on allowance for inventory valuation losses, including the evaluation of changes in the market, customer demand and inventory turn-over to identify the obsolete inventories, as well as performing a retrospective review of inventory movements to evaluate the reasonableness of inventory obsolescence reserve policy and policy on scrapping of inventories. Furthermore, sampling and inspecting the Group’s sales price; as well as verifying the calculation of the lower of cost or net realizable value; evaluating the adopted net realizable value as a basis for obsolete inventories.

2. **Revenue recognition**

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

Description of key audit matters:

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

Our audit procedures include:

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

Other Matter

SCI Pharmtech Inc. has additionally prepared its parent-company-only financial statements as of and for the years ended December 31, 2018 and 2017, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRIC, SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Taipei, Taiwan (Republic of China)
March 13, 2019

Notes to Readers

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

The 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 Originally Issued in Chinese)

SCI Pharmtech, Inc. and subsidiaries

Consolidated Balance Sheets

December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars)

		December 31, 2018		December 31, 2017	
	Assets	**Amount**	**%**	**Amount**	**%**
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 361,181	10	255,869	8
1110	Financial assets at fair value through profit or loss (note 6(b))	430,106	11	414,735	13
1170	Notes and accounts receivable, net (notes 6(e) and 6(p))	390,917	10	173,627	5
1310	Inventories, net (note 6(f))	503,072	13	482,825	15
1470	Other current assets	21,643	1	11,728	-
		1,706,919	45	1,338,784	41
	Non-current assets:				
1523	Non-current available-for-sale financial assets, net (note 6(d))	-	-	42,366	1
1518	Non-current financial assets at fair value through other comprehensive income (note 6(c))	75,296	2	-	-
1600	Property, plant and equipment (notes 6(g) and 8)	1,884,164	50	1,785,971	54
1780	Intangible assets	47,368	1	1,047	-
1840	Deferred tax assets (note 6(l))	51,232	1	53,904	2
1900	Other non-current assets	24,100	1	73,559	2
		2,082,160	55	1,956,847	59
	Total assets	**$ 3,789,079**	**100**	**3,295,631**	**100**

		December 31, 2018		December 31, 2017	
	Liabilities and Equity	**Amount**	**%**	**Amount**	**%**
	Current liabilities:				
2170	Notes and accounts payable	$ 89,156	2	35,180	1
2130	Current contract liabilities (note 6(p))	30,403	1	-	-
2200	Other payables (note 6(i))	196,569	5	159,666	5
2213	Payables on contractors and equipment	88,047	2	18,503	-
2230	Current tax liabilities	73,063	2	36,841	1
2250	Current provisions (note 6(j))	76,501	2	67,501	2
2300	Other current liabilities	2,972	-	25,282	1
		556,711	14	342,973	10
	Non-Current liabilities:				
2570	Deferred tax liabilities (note 6(l))	47	-	856	-
2640	Provisions for employee benefits, non-current (note 6(k))	22,090	1	22,054	1
		22,137	1	22,910	1
	Total liabilities	578,848	15	365,883	11
	Equity attributable to owners of parent (note 6(m)):				
	Share capital:				
3100	Ordinary Share	794,853	21	794,853	24
3200	Capital surplus	1,348,339	36	1,348,339	41
3310	Legal reserve	288,248	8	269,150	8
3320	Special reserve	7,727	-	7,727	-
3350	Unappropriated retained earnings	775,852	20	517,566	16
3400	Other components of equity	(4,788)	-	(7,887)	-
	Total equity	3,210,231	85	2,929,748	89
	Total liabilities and equity	**$ 3,789,079**	**100**	**3,295,631**	**100**

See accompanying notes to consolidated financial statements.

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

SCI Pharmtech, Inc. and subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars , except earnings per share)

		2018		2017	
		Amount	**%**	**Amount**	**%**
4110	Operating revenues (note 6(p))	$ 1,939,913	100	1,301,050	100
5110	Operating costs (notes 6(f) and 12)	1,190,970	61	905,368	70
5900	**Gross profit**	748,943	39	395,682	30
	Operating expenses (note 12):				
6100	Selling expenses	117,359	6	86,169	7
6200	Administrative expenses	77,988	4	41,884	3
6300	Research and development expenses	36,851	2	33,089	2
6450	Expected credit losses (gains) (note 6(e))	1,179	-	-	-
		233,377	12	161,142	12
6900	**Net operating income**	515,566	27	234,540	18
	Non-operating income and expenses:				
7190	Other income	9,107	-	9,860	1
7101	Interest income from bank deposits	2,410	-	927	-
7235	Gains on financial assets (liabilities) at fair value through profit or loss	1,601	-	3,514	-
7510	Interest expense	(2)	-	-	-
7590	Miscellaneous disbursements	(377)	-	(830)	-
7630	Foreign exchange gains (losses)	16,482	1	(13,237)	(1)
		29,221	1	234	-
7900	**Profit before tax**	544,787	28	234,774	18
7950	Income tax expense (note 6(l))	97,550	5	43,798	3
8200	**Profit**	447,237	23	190,976	15
8300	**Other comprehensive income:**				
8310	**Items that may not be reclassified subsequently to profit or loss:**				
8311	Gains (losses) on remeasurements of defined benefit plans (note 6(k))	(586)	-	129	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	2,939	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(1))	1,626	-	(22)	-
	Other comprehensive income, net	3,979	-	107	-
8500	**Total comprehensive income**	**$ 451,216**	**23**	**191,083**	**15**
	Earnings per share (note 6(o)):				
9750	**Basic earnings per share**	**$**	**5.63**		**2.41**
9850	**Diluted earnings per share**	**$**	**5.57**		**2.39**

See accompanying notes to consolidated financial statements.

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

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of parent									
			Retained earnings			Other equity interest				
	Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Unrealized employee benefit	Total other equity interest	Total equity
Balance on January 1, 2017	$ 794,853	1,348,339	227,455	7,727	701,630	-	(7,727)	(1,356)	(9,083)	3,070,921
Profit for the year ended December 31, 2017	-	-	-	-	190,976	-	-	-	-	190,976
Other comprehensive income for the year ended December 31, 2017	-	-	-	-	107	-	-	-	-	107
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	191,083	-	-	-	-	191,083
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	41,695	-	(41,695)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(333,452)	-	-	-	-	(333,452)
Share-based payments transactions	-	-	-	-	-	-	-	1,196	1,196	1,196
Balance on December 31, 2017	794,853	1,348,339	269,150	7,727	517,566	-	(7,727)	(160)	(7,887)	2,929,748
Effects of retrospective application	-	-	-	-	-	(7,727)	7,727	-	-	-
Balance on January 1, 2018 after adjustments	794,853	1,348,339	269,150	7,727	517,566	(7,727)	-	(160)	(7,887)	2,929,748
Profit for the year ended December 31, 2018	-	-	-	-	447,237	-	-	-	-	447,237
Other comprehensive income for the year ended December 31, 2018	-	-	-	-	1,040	2,939	-	-	2,939	3,979
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	448,277	2,939	-	-	2,939	451,216
Appropriation and distribution of retained earnings:										
Legal reserve	-	-	19,098	-	(19,098)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(170,893)	-	-	-	-	(170,893)
Share-based payments transactions	-	-	-	-	-	-	-	160	160	160
Balance on December 31, 2018	**$ 794,853**	**1,348,339**	**288,248**	**7,727**	**775,852**	**(4,788)**	**-**	**-**	**(4,788)**	**3,210,231**

See accompanying notes to consolidated financial statements.

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

SCI Pharmtech, Inc. and subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars)

	2018	2017
Cash flows from (used in) operating activities:		
Profit before tax	$ 544,787	234,774
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation expense	127,810	126,653
Amortization expense	4,592	147
Expected credit loss	1,179	-
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(1,601)	(3,514)
Interest expense	2	-
Interest income	(2,410)	(851)
Share-based payment transactions	160	1,196
Loss (gain) from disposal of property, plant and equipment	(81)	658
Others	2,385	1,029
	132,036	125,318
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	(218,469)	78,969
Decrease (increase) in inventories	(22,214)	15,532
Decrease (increase) in other current assets	(7,948)	(4,281)
Increase (decrease) in notes and accounts payable	53,976	(22,865)
Increase (decrease) in contract liabilities	5,824	-
Increase (decrease) in other payable	53,942	(34,083)
Increase (decrease) in provisions	9,000	4,500
Increase (decrease) in other current liabilities	(14,770)	(52,552)
Increase (decrease) in provision for employee benefits, non-current	(550)	(438)
	(9,173)	110,100
Cash flow from (used in) operations	535,614	344,874
Interest received	2,410	851
Interest paid	(2)	-
Income taxes paid	(57,839)	(64,074)
Net cash flows from (used in) operating activities	480,183	281,651
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(29,991)	-
Acquisition of mandatorily measured at fair value through profit or loss	(13,770)	-
Acquisition of financial assets at fair value through profit or loss	-	(160,030)
Proceeds from disposal of financial assets at fair value through profit or loss	-	286,595
Acquisition of intangible assets	(15,614)	(1,135)
Acquisition of property, plant and equipment	(141,049)	(106,904)
Proceeds from disposal of property, plant and equipment	81	400
Decrease (Increase) in refundable deposits	2,145	1,319
Decrease (Increase) in prepayments of property, plant and equipment	(5,780)	(39,352)
Net cash flows from (used in) investing activities	(203,978)	(19,107)
Cash flows from (used in) financing activities:		
Cash dividends paid	(170,893)	(333,452)
Net cash flows from (used in) financing activities	(170,893)	(333,452)
Net increase (decrease) in cash and cash equivalents	105,312	(70,908)
Cash and cash equivalents at beginning of period	255,869	326,777
Cash and cash equivalents at end of period	$ **361,181**	**255,869**

See accompanying notes to consolidated financial statements.

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

SCI PHARMTECH, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(expressed in thousands of New Taiwan dollars, unless otherwise specified)

(1) Company history

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on March 13, 2019.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018.

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

(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:

	December 31, 2018			January 1, 2018		
Impacted line items on the consolidated balance sheet	**Balances prior to the adoption of IFRS 15**	**Impact of changes in accounting policies**	**Balance upon adoption of IFRS 15**	**Balances prior to the adoption of IFRS 15**	**Impact of changes in accounting policies**	**Balance upon adoption of IFRS 15**
Notes and accounts receivable, net (note 1)	$ 387,965	2,952	390,917	173,627	-	173,627
Inventories, net (note 1)	503,450	(378)	503,072	482,825	(1,967)	480,858
Other current assets (note 1)	21,265	378	21,643	11,728	1,967	13,695
Impact on assets		**2,952**			**-**	
Other payable (including payables on contractors and equipment) (note 1)	$ 284,616	-	284,616	178,169	(17,039)	161,130
Other current liabilities (notes 1 and 2)	30,423	(27,451)	2,972	25,282	(7,540)	17,742
Current contract liabilities (note 2)	-	30,403	30,403	-	24,579	24,579
Impact on liabilities		**2,952**			**-**	

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.

Impacted line items on the consolidated statement of cash flows		2018 Before adjustments	2018 Impact of changes in accounting polices	2018 After adjustments
Cash flows from (used in) operating activities:				
Profit before tax	$	544,787	-	544,787
Adjustments:				
Decrease (increase) in notes and accounts receivable, net		(214,338)	(2,952)	(217,290)
Decrease (increase) in inventories		(20,625)	(1,589)	(22,214)
Decrease (increase) in other current assets		(9,537)	1,589	(7,948)
Increase (decrease) in contract liabilities		-	5,824	5,824
Increase (decrease) in other accounts payable (including payables on contractors and equipment)		106,447	17,039	123,486
Increase (decrease) in other current liabilities		5,141	(19,911)	(14,770)
Impact on net cash flows from (used in) operating activities			-	

(ii) IFRS 9 “Financial Instruments”

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

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

SCI PHARMTECH, INC. AND SUBSIDIARIES
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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 refer to note 4(g).

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 refer to note 4(g).

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.

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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.)

	IAS 39		IFRS 9	
Financial Assets	**Measurement categories**	**Carrying Amount**	**Measurement categories**	**Carrying Amount**
Cash and cash 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)

(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:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
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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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 chooses to elect the following practical expedients:

· apply a single discount rate to a portfolio of leases with similar characteristics.

· adjust the right-of-use assets, based on the amount reflected in IAS 37 onerous contract provision, immediately before the date of initial application, as an alternative to an impairment review.

· apply the exemption not to recognize the right-of-use assets and liabilities to leases with lease term that ends within 12 months of the date of initial application.

· exclude the initial direct costs from measuring the right-of-use assets at the date of initial application.

· use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3) So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for the operating leases of its copying machines, and company cars. No significant impact is expected for the Group’s finance leases.

(Continued)

(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 Group estimated that the application of the amendments would not have any material impact.

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

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

As of the date, the following IFRSs that have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
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
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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

(4) Summary of significant accounting policies:

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 consolidated financial statements, the Chinese version shall prevail.

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

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(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as "the Regulations") and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the Financial Supervisory Commission, R.O.C..

(b) Basis of preparation

(i) Basis of measurement

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

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

2) Fair value through other comprehensive income (available-for-sale financial assets) are measured at fair value;

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

(ii) Functional and presentation currency

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

(c) Basis of Consolidation

(i) Principles of preparation of the consolidated financial statements

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

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

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

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

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

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

(d) Foreign currencies

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

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

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

(i) Available-for-sale financial instrument;

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

(iii) Qualified cash flow hedge.

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

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

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

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

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

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

(Continued)

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

An entity shall classify a liability as current when:

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

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

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

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

(f) Cash and cash equivalents

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

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

(g) Financial instruments

(i) Financial assets (policy applicable from January 1, 2018)

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. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

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. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

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.

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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. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, using trade date accounting.

4) Impairment of financial assets

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

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

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

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

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

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

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

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

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

The Group 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.

(Continued)

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.

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.

(Continued)

(ii) Financial assets (policy applicable before January 1, 2018)

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

1) Financial assets at fair value through profit or loss

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

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

2) Available-for-sale financial assets

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

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

3) Loans and receivables

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

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

4) Impairment of financial assets

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

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

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

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

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

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

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

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

(Continued)

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

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

5) Derecognition of financial assets

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

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

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

(iii) Financial liabilities and equity instruments

1) Classification of debt or equity

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

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

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

2) Other financial liabilities

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

3) Derecognition of financial liabilities

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

4) Offsetting of financial assets and liabilities

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

(h) Inventories

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

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

(i) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent cost

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

(iii) Depreciation

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

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

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

1) Buildings: 2 ~ 55 years

2) Machinery: 3 ~15 years

3) Other equipment: 3 ~ 15 years

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

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

(j) Intangible assets

(i) Other intangible assets

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

(ii) Subsequent expenditure

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

(Continued)

(iii) Amortization

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

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

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

(k) Impairment of non-financial assets

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

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

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

(l) Provisions

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

(m) Revenue

(i) Revenue from contracts with customers (policy 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.

(Continued)

1) 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.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

2) 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.

(ii) Revenue (policy applicable before January 1, 2018)

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

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

(n) Employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

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

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

(iii) Short-term employee benefits

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

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

(o) Share-based payment

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

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

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

(p) Income taxes

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

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

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

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

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

(iii) Initial recognition of goodwill.

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

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

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

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

1) levied by the same taxing authority; or

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

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

(q) Earnings per share

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

(r) Operating segments

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

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

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

(Continued)

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

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

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

Inventory valuation

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 311	416
Checking accounts and demand deposits	147,875	155,450
Time deposits	171,995	80,000
Bills sold under repurchase agreements	41,000	20,003
	$ 361,181	**255,869**

(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 at fair value through profit or loss, current

	December 31, 2018	December 31, 2017
Financial assets held-for-trading:		
Non-derivative financial assets		
Beneficiary certificate	$ -	275,744
Stocks listed on domestic markets	-	138,991
Mandatorily measured at fair value through profit or loss:		
Non-derivative financial assets		
Beneficiary certificate	277,113	-
Stocks listed on domestic markets	152,993	-
Total	**$ 430,106**	**414,735**

(Continued)

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

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

		December 31, 2018
Financial assets at fair value through other comprehensive income:		
Unlisted stocks on domestic markets	$	75,296

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. Please refer to note 6(d) for more details.

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

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

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

(d) Available-for-sale financial assets

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

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

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

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

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(e) Notes and accounts receivable

	December 31, 2018	December 31, 2017
Notes receivable from operating activities	$ 2,360	794
Accounts receivable – measured as amortized cost	389,736	190,975
Less: Loss allowance	(1,179)	(18,142)
	$ 390,917	**173,627**

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 December 31, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including the reasonable prediction of historical credit loss experience and future economic situation (macroeconomic and relevant industry information). The loss allowance provision as of December 31, 2018 was determined as follows:

	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	$ 264,117	-	-
1 to 30 days past due	75,483	-	-
31 to 60 days past due	1,095	-	-
61 to 90 days past due	-	-	-
91 to 180 days past due	50,222	-	-
More than 360 days past due	1,179	100 %	1,179
	$ 392,096		**1,179**

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

	December 31, 2017
Past due 1 to 30 days	$ 28,663
Past due 31 to 60 days	-
Past due 60 to 120 days	166
	$ 28,829

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

	2018	2017 Individually assessed impairment	2017 Collectively assessed impairment
Balance on January 1, 2018 and 2017 per IAS 39	$ 18,142	18,142	-
Adjustment on initial application of IFRS 9	-		
Balance on January 1, 2018 per IFRS 9	18,142		
Impairment losses recognized	1,179		
Amounts written off	(18,142)		
Balance on December 31, 2018 per IFRS 9	$ 1,179		

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

(f) Inventories

	December 31, 2018	December 31, 2017
Raw materials	$ 141,204	92,708
Work in progress	123,733	53,237
Finished goods	238,135	336,880
	$ 503,072	482,825

During the years ended December 31, 2018 and 2017, inventory cost recognized as cost of sales amounting to $1,190,970 and $905,368, respectively.

The write-down of inventories to net realizable value were recorded as cost of sales. Furthermore, the Group reversed the allowance for inventory valuation loss and obsolescence because the net realizable value was no longer lower than the cost after the disposal of obsolete inventories. The details are as following:

	2018	2017
The write-downs (reversals)	$ 8,668	7,730

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

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(g) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2018 and 2017 were as follows:

	Land	Buildings and construction	Machinery and equipment	Office equipment	Others equipment	Prepayment for equipment and construction in progress	Total
Cost:							
Balance on January 1, 2018	$ 825,680	681,676	1,580,485	29,623	16,149	68,056	3,201,669
Additions	-	23,868	45,558	6,032	-	135,135	210,593
Transferred (out) in	-	2,070	71,350	7,003	-	(65,013)	15,410
Disposal and derecognitions	-	(7,395)	(14,221)	-	-	-	(21,616)
Balance on December 31, 2018	$ 825,680	700,219	1,683,172	42,658	16,149	138,178	3,406,056
Balance on January 1, 2017	$ 825,680	678,731	1,560,624	24,042	14,827	8,189	3,112,093
Additions	-	149	23,747	6,268	-	76,740	106,904
Transferred (out) in	-	7,144	53,147	-	1,322	(16,873)	44,740
Disposal and derecognitions	-	(4,348)	(57,033)	(687)	-	-	(62,068)
Balance on December 31, 2017	$ 825,680	681,676	1,580,485	29,623	16,149	68,056	3,201,669
Depreciation and impairments loss:							
Balance on January 1, 2018	$ -	292,442	1,103,904	14,900	4,452	-	1,415,698
Depreciation for the year	-	29,655	92,957	3,574	1,624	-	127,810
Disposals and derecognitions	-	(7,395)	(14,221)	-	-	-	(21,616)
Balance on December 31, 2018	$ -	314,702	1,182,640	18,474	6,076	-	1,521,892
Balance on January 1, 2017	$ -	267,030	1,066,664	13,540	2,821	-	1,350,055
Depreciation for the year	-	29,760	93,215	2,047	1,631	-	126,653
Disposals and derecognitions	-	(4,348)	(55,975)	(687)	-	-	(61,010)
Balance on December 31, 2017	$ -	292,442	1,103,904	14,900	4,452	-	1,415,698
Carrying amounts:							
Balance on December 31, 2018	$ 825,680	385,517	500,532	24,184	10,073	138,178	1,884,164
Balance on January 1, 2017	$ 825,680	411,701	493,960	10,502	12,006	8,189	1,762,038
Balance on December 31, 2017	$ 825,680	389,234	476,581	14,723	11,697	68,056	1,785,971

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

As of December 31, 2018 and 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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(h) Short-term borrowings

The details of short-term borrowings were as following:

	December 31, 2018	December 31, 2017
Unsecured bank loans	$ -	-
Unused credit line for short-term borrowings	$ **424,105**	**430,000**
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

	December 31, 2018	December 31, 2017
Salaries payable	$ 131,579	75,261
Others	64,990	84,405
	$ **196,569**	**159,666**

(j) Provisions

	Environmental protection costs
Balance at January 1, 2018	$ 67,501
Provisions made during the year	26,436
Provisions used during the year	(17,436)
Balance at December 31, 2018	$ **76,501**
Balance at January 1, 2017	$ 63,001
Provisions made during the year	30,714
Provisions used during the year	(26,214)
Balance at December 31,2017	$ **67,501**

In 2018 and 2017, the provisions were recognized for the treatment of liquid waste in accordance with the Standards of Environmental Protection Administration; the amount of provisions were estimated at quantity and cost of the treatment of liquid waste. The Group considers to write off and recognize the said provisions in the following year.

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(k) Employee benefits

(i) Defined benefit plans

Reconciliation of the defined benefit obligation at present value and plan assets at fair value are as follows:

		December 31, 2018	December 31, 2017
Present value of the defined benefit obligations	$	(82,812)	(81,748)
Fair value of plan assets		60,722	59,694
Net defined benefit liabilities	$	**(22,090)**	**(22,054)**

The Company makes defined benefit plan contributions to the pension fund account with Bank of Taiwan that provides pensions for its employees upon retirement. The plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on years of service and average monthly salary for the six months prior to retirement.

1) Composition of plan assets

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

The Company's Bank of Taiwan labor pension reserve account balance amounted to $60,722 at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

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

		2018	2017
Defined benefit obligation at January 1	$	(81,748)	(79,643)
Current service costs and interest		(2,183)	(2,384)
Remeasurement in net defined benefit liability (assets)		(2,385)	279
Benefits paid		3,504	-
Defined benefit obligation at December 31	$	**(82,812)**	**(81,748)**

(Continued)

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3) Movements of defined benefit plan assets

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

		2018	2017
Fair value of plan assets at January 1	$	59,694	57,022
Contributions made		2,157	2,105
Interest income		576	717
Remeasurement in net defined benefit liability (assets)		1,799	(150)
Benefits paid		(3,504)	-
Fair value of plan assets at December 31	$	**60,722**	**59,694**

4) Expenses recognized in profit or loss

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

		2018	2017
Service cost	$	1,398	1,399
Net interest of net liabilities for defined benefit obligations		209	268
	$	**1,607**	**1,667**
Operating cost	$	1,581	1,540
Operating expenses		26	127
	$	**1,607**	**1,667**

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

The Company’s remeasurement of the net defined benefit liability (assets) recognized in other comprehensive income for the years ended December 31, 2018 and 2017 was as follows:

		2018	2017
Cumulative amount at January 1	$	7,438	7,567
Recognized during the period		586	(129)
Cumulative amount at December 31	$	**8,024**	**7,438**

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6) Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate as of December 31	1.00 %	1.00 %
Future salary increasing rate	1.50 %	1.50 %

The expected allocation payment to be made by the Company to the defined benefit plans for the one-year period after the reporting date is $2,362.

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

7) Sensitivity analysis

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

	The impact on the present value of the defined benefit obligation	
	Increased 0.25%	**Decreased 0.25%**
As of December 31, 2018		
Discount rate	(1,698)	1,755
Future salary increasing rate	1,742	(1,693)
As of December 31, 2017		
Discount rate	(1,795)	1,859
Future salary increasing rate	1,845	(1,791)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2018 and 2017.

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(ii) Defined contribution plans

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

The Group recognized the pension costs under the defined contribution method amounting to \$6,379 and \$6,175 for the years ended December 31, 2018 and 2017, respectively. Payment was made to the Bureau of Labor Insurance.

(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.

(i) Income tax expenses

The amount of income tax for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Current income tax expense		
Recognized during the period	$ 97,496	52,477
10% surtax on unappropriated earnings	109	4,064
Income tax estimate under (over)	(3,544)	108
	94,061	56,649
Deferred income tax expense		
Adjustment in tax rate	(9,366)	-
Recognition and reversal of temporary differences	12,855	(12,851)
	3,489	(12,851)
Income tax expense	**$ 97,550**	**43,798**

The amount of income tax recognized in other comprehensive income for 2018 and 2017 was as follows:

	2018	2017
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement in defined benefit plan	**$ 1,626**	**(22)**

(Continued)

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Reconciliation of income tax and profit before tax for 2018 and 2017 is as follows:

	2018	2017
Profit excluding income tax	$ 544,787	234,774
Income tax using the Company's domestic tax rate	108,957	39,912
Adjustment in tax rate	(9,366)	-
Under (over) provision in prior periods	(3,544)	108
10% surtax on unappropriated earnings	109	4,064
Other	1,394	(286)
	$ 97,550	**43,798**

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax liabilities: None.

2) Unrecognized deferred tax assets

Details of unrecognized under deferred tax assets are as follows:

	December 31, 2018	December 31, 2017
Tax effect of loss carry forward	**$ 3,813**	**3,102**

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

3) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2018 and 2017 were as follows:

	Loss for market price decline and obsolete inventories	Provision	Investment income recognized under the equity method (overseas)	Deferred revenue	Others	Total
Deferred tax assets:						
Balance on January 1, 2018	$ 22,775	10,999	3,255	10,643	6,232	53,904
Recognized in profit or loss	5,753	3,741	757	(9,340)	(5,209)	(4,298)
Recognized in other comprehensive income	-	-	-	-	1,626	1,626
Balance on December 31, 2018	**$ 28,528**	**14,740**	**4,012**	**1,303**	**2,649**	**51,232**

(Continued)

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	Loss for market price decline and obsolete inventories	Provision	Investment income recognized under the equity method (overseas)	Deferred revenue	Others	Total
Balance on January 1, 2017	$ 21,461	10,234	2,991	2,793	4,147	41,626
Recognized in profit or loss	1,314	765	264	7,850	2,107	12,300
Recognized in other comprehensive income	-	-	-	-	(22)	(22)
Balance on December 31, 2017	**$ 22,775**	**10,999**	**3,255**	**10,643**	**6,232**	**53,904**

	Gain on valuation of financial asset	Foreign exchange gain	Total
Deferred tax liabilities:			
Balance on January 1, 2018	$ 780	76	856
Recognized in profit or loss	(780)	(29)	(809)
Recognized in other comprehensive income	-	-	-
Balance on December 31, 2018	**$ -**	**47**	**47**
Balance on January 1, 2017	$ 699	708	1,407
Recognized in profit or loss	81	(632)	(551)
Recognized in other comprehensive income	-	-	-
Balance on December 31, 2017	**$ 780**	**76**	**856**

(iii) Examination and approval

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

(iv) The ROC Income Tax Act allows losses for tax purposes, as assessed by the tax authorities, to offset taxable income over a period of ten years. Yushan Pharmaceuticals Inc. estimated tax losses which can be used to offset future taxable income as of December 31, 2018, were as follows:

Year of loss	Unused amount	Expiry year
2013(Assessed)	$ 4,627	2023
2014(Assessed)	10,633	2024
2015(Assessed)	885	2025
2016(Assessed)	959	2026
2017(Filed)	1,139	2027
2018(Estimated)	822	2028
	$ 19,065	

(Continued)

(m) Capital and other equities

As of December 31, 2018 and 2017, the authorized common stocks were $900,000 with a par value of 10 New Taiwan dollars per share, of which 8,000 thousand shares were reserved for the issuance of employee stock options, and of which 79,485 thousand shares, were issued. All issued shares were paid up upon issuance.

(i) Capital surplus

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

	December 31, 2018	December 31, 2017
Additional paid-in capital	$ 1,270,247	1,270,247
Gain on disposal of assets	980	980
Stock options	71,530	71,530
Employee stock options	5,582	5,582
	$ 1,348,339	1,348,339

(ii) Retained Earning

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

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

1) Legal reserve

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

(Continued)

2) Special reserve

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

(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:

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

(iv) Other equity (net taxes)

	financial assets measured at fair value through other comprehensive income	**Unrealized gains (losses) on available-for-sale financial assets**	**Unearned employee benefit**	**Total**
Balance at January 1, 2018	$ -	(7,727)	(160)	(7,887)
Effects of retrospective application	(7,727)	7,727	-	-
Balance at January 1, 2018 after adjustments	(7,727)	-	(160)	(7,887)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	2,939	-	-	2,939
Amortization cost of employee restricted stock	-	-	160	160
Balance at December 31, 2018	$ **(4,788)**	**-**	**-**	**(4,788)**
Balance at January 1, 2017	$ -	(7,727)	(1,356)	(9,083)
Amortization cost of employee restricted stock	-	-	1,196	1,196
Balance at December 31, 2017	$ **-**	**(7,727)**	**(160)**	**(7,887)**

(Continued)

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(n) Share-based payment

(i) New restricted employee shares

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

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

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

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

	2018	2017
Outstanding shares on January 1	92	184
Vested during the period	(92)	(92)
Outstanding shares on December 31	**-**	**92**

The compensation cost related to the restricted stock amounted to $160 and $1,196, respectively, for the years ended December 31, 2018 and 2017.

(o) Earnings per share

(i) Basic earnings per share

The calculation of basic earnings per share as of December 31, 2018 and 2017, which were based on the profit attributable to ordinary shareholders of the Company, and amounted to $447,237 and $190,976, respectively; and the weighted average number of ordinary shares outstanding were 79,470 thousand shares and 79,378 thousand shares, respectively, which were calculated as follows:

1) Profit attributable to ordinary shareholders of the Company

	2018	2017
Profit attributable to ordinary shareholders of the Company	**$ 447,237**	**190,976**

(Continued)

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2) Weighted-average number of ordinary shares

		2018	2017
Issued ordinary shares at January 1		79,393	79,301
Effect of restricted employee shares vested		77	77
Weighted-average number of ordinary shares at December 31		**79,470**	**79,378**
Basic earnings per share (dollars)	**$**	**5.63**	**2.41**

(ii) Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2018 and 2017 were based on profit attributable to ordinary shareholders of the Company, and amounted to $447,237 and $190,976, respectively. And the weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares were 80,290 thousand shares and 80,042 thousand shares, respectively, calculated as follows:

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

		2018	2017
Profit attributable to ordinary shareholder of the Company (diluted)	**$**	**447,237**	**190,976**

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

		2018	2017
Weighted-average number of ordinary shares (basic)		79,470	79,378
Effect of employee compensation		820	559
Effect of restricted employee shares unvested		-	105
Weighted-average number of ordinary shares (diluted) at December 31		**80,290**	**80,042**
Diluted earnings per share (dollars)	**$**	**5.57**	**2.39**

(Continued)

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(p) Revenue from contracts with customers

(i) Disaggregation of revenue

		2018
Primary geographical markets		
United States	$	590,203
Spain		237,027
Italy		231,298
Taiwan		216,809
India		128,223
Switzerland		122,870
Japan		115,402
Others		298,081
	$	**1,939,913**
Major products		
Active Pharmaceutical Ingredients	$	1,199,068
Intermediates		583,789
Specialty Chemical		157,056
	$	**1,939,913**

(ii) Contract balances

		December 31, 2018	January 1, 2018
Notes and accounts receivable	$	392,096	191,769
Less: allowance for impairment		(1,179)	(18,142)
Total	**$**	**390,917**	**173,627**
Contract liabilities (sales received in advance)	**$**	**30,403**	**24,579**

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

The amount of revenue recognized for the year ended December 31, 2018, and included in the contract liability balance at the beginning of the period, was $5,009.

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

(q) Remuneration to employees and directors

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

For the years ended December 31, 2018 and 2017, the remunerations to employees amounted to \$53,166 and \$22,989, respectively, and the remunerations to directors amounted to \$7,204 and \$3,135, 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. There were no differences between the amounts approved in the Board of Directors and those recognized in the 2018 and 2017 financial statements. Related information would be available at the Market Observation Post System Website.

(r) Financial Instruments

(i) Credit risk

1) Exposure to credit risk

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

2) Concentration to credit risk

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

3) Receivable and debt securities

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

b) 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.

(ii) Liquidity Risk

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

		Carrying Amount	Contractual cash flows	Within a year	1 ~ 2 years	Over 2 years
December 31, 2018						
Non-derivative financial liabilities:						
Notes and accounts payable	$	89,156	(89,156)	(89,156)	-	-
Other payables		56,102	(56,102)	(56,102)	-	-
Payables on contractors and equipment		88,047	(88,047)	(88,047)	-	-
	$	**233,305**	**(233,305)**	**(233,305)**	**-**	**-**
December 31, 2017						
Non-derivative financial liabilities:						
Notes and accounts payable	$	35,180	(35,180)	(35,180)	-	-
Other payables		76,311	(76,311)	(76,311)	-	-
Payables on contractors and equipment		18,503	(18,503)	(18,503)	-	-
	$	**129,994**	**(129,994)**	**(129,994)**	**-**	**-**

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

(iii) Currency risk

1) Exposure to foreign currency risk

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

Foreign currency: in thousands of dollars

		December 31, 2018			December 31, 2017		
		Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets							
Monetary items							
USD to TWD	$	15,471	30.665	474,418	8,475	29.71	251,792
EUR to TWD		1,655	35	57,925	602	35.28	21,239

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.

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The analysis assumes that all other variables remain constant. A strengthening (weakening) 1% of the functional currency against each foreign currency on December 31, 2018 and 2017 would have affected the net profit before tax increased or decreased $5,323 and $2,730, respectively. The analysis is performed on the same basis for both periods.

3) Exchange gains and losses of monetary items

As the Company deals in diverse foreign currencies, gains or losses on foreign exchange were summarized as a single amount. In 2018 and 2017, the foreign exchange gains (losses), including both realized and unrealized, amounted to $16,482 and $(13,237), respectively.

(iv) Interest Rate analysis

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

	Carrying amount		
		December 31, 2018	**December 31, 2017**
Financial assets	$	147,437	155,233
Financial liabilities		-	-

The following sensitivity analysis is based on the risk exposure to interest rate on the derivative and non-derivative financial instruments on the reporting date. Regarding the 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.

If the interest rate had increased or decreased by 0.25%, the net profit before tax would have increased or decreased by $369 and $388, respectively, for the years ended December 31, 2018 and 2017, which would be mainly resulted from the bank savings with variable interest rates.

(v) Fair value

1) Fair value hierarchy

The fair value of financial assets 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 :

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	December 31, 2018				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non derivative financial assets mandatorily measured at fair value through profit or loss	$ 430,106	430,106	-	-	430,106
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	75,296	-	-	75,296	75,296
Financial assets measured at amortized cost					
Cash and cash equivalents	361,181	-	-	-	-
Notes and accounts receivable	390,917	-	-	-	-
Other receivables	370	-	-	-	-
Refunded deposits (recognized as other non-current assets)	11,771	-	-	-	-
	764,239				
Total	$ 1,269,641				
Financial liabilities measured at amortized cost					
Notes and accounts payable	$ 89,156	-	-	-	-
Other payables	56,102	-	-	-	-
Payables on contractors and equipment	88,047	-	-	-	-
Total	$ 233,305				

	December 31, 2017				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Beneficiary certification	$ 275,744	275,744	-	-	275,744
Stocks	138,991	138,991	-	-	138,991
	414,735				
Available-for-sale financial assets:					
Equity certification	42,366	-	-	42,366	42,366
Loans and receivables					
Cash and cash equivalents	255,869	-	-	-	-
Notes and accounts receivable	173,627	-	-	-	-
Other receivables	75	-	-	-	-
Refunded deposits (recognized as other non-current assets)	13,916	-	-	-	-
	443,487				
Total	$ 900,588				
Financial liabilities at amortized cost					
Notes and accounts payable	$ 35,180	-	-	-	-
Other payable	76,311	-	-	-	-
Payables on contractors and equipment	18,503	-	-	-	-
Total	$ 129,994				

(Continued)

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.

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

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.

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4) Transfer from one level to another

There was no transfer from one level to another in 2018 and 2017.

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
Total gains and losses recognized:		
In profit or loss		-
In other comprehensive income		2,939
Purchased		29,991
December 31, 2018	**$**	**75,296**
January 1, 2017 (as of December 31, 2017)	**$**	**42,366**

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

		2018	2017
Total gains and losses recognized:			
In other comprehensive income, and presented in "unrealized gains and losses from financial assets at fair value through other comprehensive income"	$	2,939	-

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 (available-for-sale financial assets) – 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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Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
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 December 31, 2018 and 2017 were 1.84 and 1.64, respectively) ·Lack-of-Marketability discount rate (As of December 31, 2018 were 50%, and 22.36%. As of December 31, 2017 was 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:

	Inputs	Move up or downs	Other comprehensive income Favorable	Other comprehensive income Unfavorable
December 31, 2018				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	$ 1,911	1,925
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	$ 3,757	3,772
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

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.

(Continued)

(s) Financial risk management

(i) Overview

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

1) Credit risk

2) Liquidity risk

3) Market risk

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

(ii) Structure of risk management

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

(iii) Credit risk

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

1) Accounting receivable and other receivables

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

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

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

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

2) Investment

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

3) Guarantees

Pursuant to the Group's policies, it is only permissible to provide financial guarantees to subsidiaries. As of December 31, 2018 and 2017, the Group do not offer any endorsement and guarantees.

(iv) Liquidity risk

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

Please refer to note 6(h) for unused short-term bank facilities as of December 31, 2018 and 2017.

(v) Market risk

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

1) Currency risk

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

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

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

2) Interest rate risk

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

(t) Capital management

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

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

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

The Group's capital management strategy is to maintain a debt-to-equity ratio of less than 30% in December 31, 2018 and 2017. The ratio of debt to capital in December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Total loan	$ -	-
less: cash and cash equivalent	361,181	255,869
Net debt	**$ -**	**-**
Total equity	$ 3,789,079	3,295,631
Debt-to-equity ratio	- %	- %

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

All of the Group's investing and financing activities affect the current cash flow in 2018 and 2017.

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(7) Related-party transactions:

(a) Parent company and ultimate controlling party

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

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

(c) Significant transaction with related parties: None.

(d) Key management personnel compensation

	2018	2017
Salary and short-term employee benefits	$ 33,630	23,593

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Assets	Subject	December 31, 2018	December 31, 2017
Land	Pledged as collaterals	$ 42,736	42,736
Building	〃	5,799	7,113
		$ 48,535	49,849

(9) Commitments and contingencies:

(a) As of December 31, 2018 and 2017, the unused balance of the Group's outstanding standby letters of credit amounted to $5,895 and $0, respectively.

(b) The significant outstanding purchase commitments for property, plant and equipment was as follows:

	December 31, 2018	December 31, 2017
Acquisitions of property, plant and equipment	$ 109,810	-

(10) Losses Due to Major Disasters: none

(11) Subsequent Events: none

(Continued)

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(12) Other:

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

By function / By item	2018			2017		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	180,012	89,442	269,454	146,003	61,335	207,338
Labor and health insurance	12,343	3,855	16,198	12,446	4,266	16,712
Pension	6,402	1,584	7,986	6,219	1,623	7,842
Remuneration of directors	-	7,204	7,204	-	3,135	3,135
Others	3,216	7,426	10,642	3,081	6,237	9,318
Depreciation	109,122	18,688	127,810	109,350	17,303	126,653
Amortization	995	3,597	4,592	96	51	147

(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:

(i) Loans to other parties:None

(ii) Guarantees and endorsements for other parties: None

(iii) Securities held as of December 31, 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				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company	Beneficiary Certificate (UPAMC James Bond Money Market Fund)	-	Current Financial asset at fair value through profit or loss	2,760	46,052	- %	46,052	2,760	- %	
〃	Beneficiary Certificate (Cathay Taiwan Money Market Fund)	-	〃	4,093	50,871	- %	50,781	4,093	- %	
〃	Beneficiary Certificate (Nomura Taiwan Money Market)	-	〃	1,273	20,748	- %	20,748	1,273	- %	
〃	Beneficiary Certificate (Yuanta USD Money Market Fund-USD)	-	〃	99	31,534	- %	31,534	99	- %	

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Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Highest balance during the year		Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	Shares/Units (thousands)	Percentage of ownership (%)	
The Company	Beneficiary Certificate (Nomura Global Short Duration Bond Fund)	-	Current Financial asset at fair value through profit or loss	2,840	28,913	- %	28,913	2,840	- %	
〃	Beneficiary Certificate (CTBC Hua Win Money Market Fund)	-	〃	913	10,046	- %	10,046	913	- %	
〃	Beneficiary Certificate (Taishin 1699 Money Market Fund)	-	〃	3,592	48,522	- %	48,522	3,592	- %	
〃	Beneficiary Certificate (FSITC Taiwan Money Market Fund)	-	〃	2,646	40,427	- %	40,427	2,646	- %	
〃	Stock (Fubon S&P Preferred Shares A)	-	〃	793	51,466	- %	51,466	793	- %	
〃	Stock (Fubon S&P Preferred Shares B)	-	〃	36	2,232	- %	2,232	36	- %	
〃	Stock (TAISHIN FINANCIAL HOLDING CO., LTD. Preferred Stock E)	-	〃	400	21,280	- %	21,280	400	- %	
〃	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A)	-	〃	790	50,323	- %	50,323	790	- %	
〃	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock B)	-	〃	33	2,044	- %	2,044	33	- %	
〃	Stock (Fubon S&P US Preferred Stock)	-	〃	1,400	25,648	- %	25,648	1,400	- %	
〃	Stock (Sunny Pharmtech Inc.)	-	Financial assets at fair value through other comprehensive income	4,497	38,364	4.02 %	38,364	4,497	4.02 %	
〃	Stock (Energenesis Biomedical Co., Ltd.,)	-	〃	779	36,932	0.16 %	36,932	779	0.16 %	

(iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of \$300 million or 20% of the capital stock: None

(v) Acquisition of individual real estate with amount exceeding the lower of \$300 million or 20% of the capital stock: None

(vi) Disposal of individual real estate with amount exceeding the lower of \$300 million or 20% of the capital stock: None

(vii) Purchases from and sales to related parties with amounts exceeding the lower of \$100 million or 20% of the capital stock: None

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

(ix) Trading in derivative instruments: None.

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

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(b) Information on investees:

The following is the information on investees for the year 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 December 31, 2018			Highest		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2018	December 31, 2017	Shares (thousands)	Percentage of ownership	Carrying value	Shares (thousands)	Percentage of ownership			
SCI PHARMTECH, INC.	Yushan Holding Universal Ltd.	Grand Cayman Islands	Investment activities	374,750	374,750	12,485	100 %	354,688	12,485	100 %	(916)	(916)	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 %	351,900	37,100	100 %	(822)	(822)	Investment accounted for using equity method

(c) Information on investment in mainland China: None

(14) Segment information:

(a) General Information

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

(b) Product information

Products and Services	**2018**	**2017**
API	$ 1,199,068	766,831
Intermediates	583,789	385,582
Specialty chemicals	157,056	148,637
	$ 1,939,913	**1,301,050**

(c) Geographic information

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

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(i) Revenue from external customers:

Country		2018	2017
Revenue from external customers:			
United States	$	590,203	264,913
Spain		237,027	137,529
Italy		231,298	180,953
Taiwan		216,809	184,888
India		128,223	35,900
Switzerland		122,870	86,144
Japan		115,402	157,550
Others		298,081	253,173
	$	**1,939,913**	**1,301,050**

(i) Non-current Assets:

Country		2018	2017
Non-current asset:			
Taiwan	$	**1,955,632**	**1,860,577**

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

(d) Major customers

The sales revenue from clients with account for more than 10% revenue in the consolidated statements of comprehensive income as follows:

		2018	2017
B Company	$	291,281	89,014
A Company		229,413	136,920
F Company		142,393	134,630
	$	**663,087**	**360,564**