

SCI PHARMTECH, INC. AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Review Report
For the Three Months Ended March 31, 2019 and 2018**

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

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Independent Auditors' Review Report

To the Board of Directors SCI Pharmtech, Inc.:

Introduction

We have reviewed the accompanying consolidated balance sheets of SCI Pharmtech, Inc. and its subsidiaries as of March 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of SCI Pharmtech, Inc. and its subsidiaries as of March 31, 2019 and 2018, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)
May 9, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of March 31, 2019 and 2018

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019, December 31, 2018, and March 31, 2018

(expressed in thousands of New Taiwan dollars)

Assets		March 31, 2019		December 31, 2018		March 31, 2018		Liabilities and Equity		March 31, 2019		December 31, 2018		March 31, 2018	
		Amount	%	Amount	%	Amount	%			Amount	%	Amount	%	Amount	%
Current assets:								Current liabilities:							
1100	Cash and cash equivalents (note 6(a))	\$ 576,686	15	361,181	10	272,377	8	2130	Current contract liabilities (note 6(q))	\$ 48,631	1	30,403	1	31,239	1
1110	Financial assets at fair value through profit or loss (note 6(b))	434,873	11	430,106	11	428,176	13	2170	Notes and accounts payable	102,251	3	89,156	2	74,054	2
1170	Notes and accounts receivable, net (notes 6(d) and 6(q))	332,843	8	390,917	10	258,867	8	2200	Other payables (note 6(i))	185,222	5	196,569	5	132,070	4
1310	Inventories, net (note 6(e))	517,593	13	503,072	13	449,464	13	2213	Payables on contractors and equipment	48,079	1	88,047	2	13,107	-
1470	Other current assets	26,969	1	21,643	1	12,240	-	2230	Current tax liabilities	112,883	3	73,063	2	49,153	2
		<u>1,888,964</u>	<u>48</u>	<u>1,706,919</u>	<u>45</u>	<u>1,421,124</u>	<u>42</u>	2250	Current provisions (note 6(k))	83,244	2	76,501	2	71,735	2
								2280	Current lease liabilities (note 6(j))	1,878	-	-	-	-	-
Non-current assets:								2300	Other current liabilities	55	-	2,972	-	3,330	-
1518	Non-current financial assets at fair value through other comprehensive income (note 6(c))	68,219	2	75,296	2	41,827	1			<u>582,243</u>	<u>15</u>	<u>556,711</u>	<u>14</u>	<u>374,688</u>	<u>11</u>
1600	Property, plant and equipment (notes 6(f) and 8)	1,880,130	47	1,884,164	50	1,775,941	52	Non-Current liabilities:							
1755	Right-of-use assets (note 6(g))	3,641	-	-	-	-	-	2570	Deferred tax liabilities	47	-	47	-	856	-
1780	Intangible assets	48,865	1	47,368	1	33,594	1	2580	Non-current lease liabilities (note 6(j))	1,770	-	-	-	-	-
1840	Deferred tax assets	51,232	1	51,232	1	55,392	2	2640	Provisions for employee benefits, non-current	21,950	-	22,090	1	21,930	1
1900	Other non-current assets	32,159	1	24,100	1	61,406	2			<u>23,767</u>	<u>-</u>	<u>22,137</u>	<u>1</u>	<u>22,786</u>	<u>1</u>
		<u>2,084,246</u>	<u>52</u>	<u>2,082,160</u>	<u>55</u>	<u>1,968,160</u>	<u>58</u>	Total liabilities		<u>606,010</u>	<u>15</u>	<u>578,848</u>	<u>15</u>	<u>397,474</u>	<u>12</u>
								Equity attributable to owners of parent (note 6(n)):							
								Share capital:							
								3100	Ordinary Share	794,853	20	794,853	21	794,853	23
								3200	Capital surplus	1,348,339	34	1,348,339	36	1,348,339	40
								3310	Legal reserve	288,248	7	288,248	8	269,150	8
								3320	Special reserve	7,727	-	7,727	-	7,727	-
								3350	Unappropriated retained earnings	939,898	24	775,852	20	580,007	17
								3400	Other components of equity	(11,865)	-	(4,788)	-	(8,266)	-
								Total equity		<u>3,367,200</u>	<u>85</u>	<u>3,210,231</u>	<u>85</u>	<u>2,991,810</u>	<u>88</u>
								Total liabilities and equity		<u>\$ 3,973,210</u>	<u>100</u>	<u>\$ 3,789,079</u>	<u>100</u>	<u>\$ 3,389,284</u>	<u>100</u>
Total assets		<u>\$ 3,973,210</u>	<u>100</u>	<u>3,789,079</u>	<u>100</u>	<u>3,389,284</u>	<u>100</u>								

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2019 and 2018

(expressed in Thousands of New Taiwan Dollars , except for earnings per common share)

		For the three months ended March 31			
		2019		2018	
		Amount	%	Amount	%
4110	Sales revenue (note 6(q))	\$ 603,687	100	425,646	100
5110	Cost of sales (notes 6(e) and 12)	<u>338,373</u>	<u>56</u>	<u>293,909</u>	<u>69</u>
	Gross profit	<u>265,314</u>	<u>44</u>	<u>131,737</u>	<u>31</u>
	Operating expenses (note 12):				
6100	Selling expenses	32,566	5	29,045	7
6200	Administrative expenses	29,231	5	13,051	3
6300	Research and development expenses	<u>9,749</u>	<u>2</u>	<u>9,304</u>	<u>2</u>
		<u>71,546</u>	<u>12</u>	<u>51,400</u>	<u>12</u>
6900	Net operating income	<u>193,768</u>	<u>32</u>	<u>80,337</u>	<u>19</u>
	Non-operating income and expenses:				
7190	Other income	2,135	-	627	-
7101	Interest income from bank deposits	814	-	127	-
7235	Gains on financial assets (liabilities) at fair value through profit or loss	4,767	1	1,652	-
7510	Interest expense	(15)	-	-	-
7590	Miscellaneous disbursements	(93)	-	(89)	-
7210	Gains on disposals of property, plant and equipment	-	-	81	-
7630	Foreign exchange gains (losses)	<u>2,490</u>	<u>1</u>	<u>(9,469)</u>	<u>(2)</u>
		<u>10,098</u>	<u>2</u>	<u>(7,071)</u>	<u>(2)</u>
7900	Profit before tax	203,866	34	73,266	17
7950	Less: Income tax expenses (note 6(m))	<u>39,820</u>	<u>7</u>	<u>12,313</u>	<u>3</u>
	Profit	<u>164,046</u>	<u>27</u>	<u>60,953</u>	<u>14</u>
8300	Other comprehensive income:				
8310	Items that may not be reclassified subsequently to profit or loss:				
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(7,077)	(1)	(539)	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(m))	<u>-</u>	<u>-</u>	<u>(1,488)</u>	<u>(1)</u>
8300	Other comprehensive income, net	<u>(7,077)</u>	<u>(1)</u>	<u>949</u>	<u>1</u>
8500	Total comprehensive income	<u>\$ 156,969</u>	<u>26</u>	<u>61,902</u>	<u>15</u>
	Earnings per share (note 6(p)):				
9750	Basic earnings per share	<u>\$ 2.06</u>		<u>0.77</u>	
9850	Diluted earnings per share	<u>\$ 2.05</u>		<u>0.77</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
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SCI PHARMTECH, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the three months ended March 31, 2019 and 2018
(expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent					Other equity interest				Total equity
	Ordinary shares	Capital surplus	Legal reserve	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	
	Special reserve	Unappropriated retained earnings								
Balance at January 1, 2018	\$ 794,853	1,348,339	269,150	7,727	517,566	-	(7,727)	(160)	(7,887)	2,929,748
Effects of retrospective application	-	-	-	-	-	(7,727)	7,727	-	-	-
Balance at January 1, 2018 after adjustments	794,853	1,348,339	269,150	7,727	517,566	(7,727)	-	(160)	(7,887)	2,929,748
Net income for the three months ended March 31, 2018	-	-	-	-	60,953	-	-	-	-	60,953
Other comprehensive income for the three months ended March 31, 2018	-	-	-	-	1,488	(539)	-	-	(539)	949
Total comprehensive income for the three months ended March 31, 2018	-	-	-	-	62,441	(539)	-	-	(539)	61,902
Share-based payments transactions	-	-	-	-	-	-	-	160	160	160
Balance at March 31, 2018	\$ 794,853	1,348,339	269,150	7,727	580,007	(8,266)	-	-	(8,266)	2,991,810
Balance at January 1, 2019	\$ 794,853	1,348,339	288,248	7,727	775,852	(4,788)	-	-	(4,788)	3,210,231
Net income for the three months ended March 31, 2019	-	-	-	-	164,046	-	-	-	-	164,046
Other comprehensive income for the three months ended March 31, 2019	-	-	-	-	-	(7,077)	-	-	(7,077)	(7,077)
Total comprehensive income for the three months ended March 31, 2019	-	-	-	-	164,046	(7,077)	-	-	(7,077)	156,969
Balance at December 31, 2019	\$ 794,853	1,348,339	288,248	7,727	939,898	(11,865)	-	-	(11,865)	3,367,200

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
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SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2019	2018
Cash flows from (used in) operating activities:		
Profit before tax	\$ 203,866	73,266
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation expense	32,537	31,496
Amortization expense	1,318	887
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(4,767)	(1,652)
Interest expense	15	-
Interest income	(814)	(127)
Share-based payment transactions	-	160
Others	-	2,534
	<u>28,289</u>	<u>33,298</u>
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	58,074	(85,240)
Decrease (increase) in inventories	(14,521)	33,361
Decrease (increase) in other current assets	(5,326)	(512)
Increase (decrease) in contract liabilities	18,228	6,660
Increase (decrease) in notes and accounts payable	13,095	38,874
Increase (decrease) in other payable	(11,347)	(10,498)
Increase (decrease) in provisions	6,743	4,234
Increase (decrease) in other current liabilities	(2,917)	(14,412)
Increase (decrease) in provision for employee benefits , non-current	(140)	(124)
	<u>90,178</u>	<u>5,641</u>
Cash flow from (used in) operations	294,044	78,907
Interest received	814	127
Interest paid	(15)	-
Net cash flows from (used in) operating activities	<u>294,843</u>	<u>79,034</u>
Cash flows from (used in) investing activities:		
Acquisition of mandatorily measured at fair value through profit or loss	-	(11,789)
Acquisition of property, plant and equipment	(67,835)	(29,456)
Proceeds from disposal of property, plant and equipment	-	81
Decrease (Increase) in refundable deposits	-	325
Acquisition of intangible assets	(2,800)	(2,620)
Decrease (Increase) in prepayments of property, plant and equipment	(8,238)	(19,067)
Net cash flows from (used in) investing activities	<u>(78,873)</u>	<u>(62,526)</u>
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(465)	-
Net cash flows from (used in) financing activities	<u>(465)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	215,505	16,508
Cash and cash equivalents at beginning of period	361,181	255,869
Cash and cash equivalents at end of period	<u>\$ 576,686</u>	<u>272,377</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards

SCI PHARMTECH, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2019 and 2018

(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 its subsidiaries (together referred to as the “Group” and individually as the “Group entities”). Please refer to note 4(b) for related information of the Group primarily business activities. Mercuries & Associates, Holding Ltd. is the parent company of the Company.

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

These consolidated financial statements were authorized for issuance by the Board of Directors on May 9, 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, 2019.

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

(Continued)

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

The Group applied IFRS 16 using the modified retrospective approach. The details of the changes in accounting policies are disclosed below:

1) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4(c).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

2) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

- Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(Continued)

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

3) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$4,113 thousand of both right-of-use assets and lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 1.50%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	January 1, 2019
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 4,421
Recognition exemption for:	
short-term leases	(202)
leases of low-value assets	(21)
	\$ 4,198
Discounted using the incremental borrowing rate at January 1, 2019 (as of lease liabilities recognized at January 1, 2019)	\$ 4,113

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

As of the date, the following IFRSs that have been issued by the 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.

(Continued)

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

(4) Summary of significant accounting policies:

(a) Statement of compliance

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2018. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2018.

(b) Basis of Consolidation

List of subsidiaries in the consolidated financial statements.

Name of investor	Name of subsidiary	Principal activity	Shareholding		
			March 31, 2019	December 31, 2018	March 31, 2018
The Company	Yushan Holding Universal Ltd.	Investment	100.00 %	100.00 %	100.00 %
Yushan Holding Universal Ltd.	Yushan Pharmaceuticals Inc. (Yushan)	The research and development, manufacture and sale of API	100.00 %	100.00 %	100.00 %

(c) Lease (applicable from January 1, 2019)

(i) Identifying a lease

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- 3) the Group has the right to direct the use of the asset if either:
 - The Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

(Continued)

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

- In rare cases where the decision on how, and for what purpose, the asset is used is predetermined.
 - the Group has the right to operate the asset and the providers do not have the right to vary; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(ii) As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- 1) fixed payments, including in-substance fixed payments;
- 2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- 3) amounts expected to be payable under a residual value guarantee; and
- 4) payments or penalties for purchase or termination options that are reasonably certain to be exercised.

(Continued)

SCI PHARMTECH, INC. AND SUBSIDIARIES
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The lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- 1) there is a change in future lease payments arising from the change in an index or rate; or
- 2) there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- 3) there is a change in the Group's estimate of purchase options; or
- 4) there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- 5) there is any lease modifications in lease subject, scope of the lease or other terms.

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(d) Income taxes

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

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

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

(e) Employee benefits

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

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

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

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 “Interim Financial Reporting” and endorsed by the FSC) requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of the consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2018. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2018.

(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2018. Please refer to note 6 of the 2018 annual consolidated financial statements.

(a) Cash and cash equivalents

	March 31, 2019	December 31, 2018	March 31, 2018
Cash on hand	\$ 358	311	540
Checking accounts and demand deposits	229,248	147,875	104,477
Time deposits	203,080	171,995	167,360
Bills sold under repurchase agreements	<u>144,000</u>	<u>41,000</u>	<u>-</u>
	<u>\$ 576,686</u>	<u>361,181</u>	<u>272,377</u>

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

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

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

	March 31, 2019	December 31, 2018	March 31, 2018
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Beneficiary certificate	\$ 278,749	277,113	275,014
Stocks listed on domestic markets	<u>156,124</u>	<u>152,993</u>	<u>153,162</u>
Total	<u>\$ 434,873</u>	<u>430,106</u>	<u>428,176</u>

The Group did not provide any aforementioned financial assets as collateral for its loans as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- (c) Financial asset at fair value through other comprehensive income, non-current:

	March 31, 2019	December 31, 2018	March 31, 2018
Financial assets at fair value through other comprehensive income:			
Unlisted stocks on domestic markets	\$ 68,219	75,296	41,827

On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes.

No strategic investments were disposed as of March 31, 2019 and 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group did not provide any aforementioned financial assets as collateral for its loans.

- (d) Notes and accounts receivable

	March 31, 2019	December 31, 2018	March 31, 2018
Notes receivable from operating activities	\$ 175	2,360	247
Accounts receivable – measured as amortized cost	333,847	389,736	276,762
Less: Loss allowance	(1,179)	(1,179)	(18,142)
	\$ 332,843	390,917	258,867

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. 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 were determined as follows:

	March 31, 2019		
	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	\$ 302,249	-	-
1 to 30 days past due	28,628	-	-
31 to 60 days past due	33	-	-
61 to 90 days past due	1,933	-	-
91 to 180 days past due	-	-	-
More than 360 days past due	1,179	100 %	1,179
	\$ 334,022		1,179

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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	December 31, 2018		
	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
	March 31, 2018		
	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	\$ 222,644	-	-
1 to 30 days past due	33,840	-	-
31 to 60 days past due	9	-	-
61 to 90 days past due	2,127	-	-
91 to 180 days past due	247	-	-
More than 360 days past due	18,142	100 %	18,142
	\$ 277,009		18,142

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

	For the three months ended March 31,	
	2019	2018
Balance on January 1 (Balance on March 31)	\$ 1,179	18,142

As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group did not provide any aforementioned notes and accounts receivable as collaterals for its loans.

(e) Inventories

	March 31, 2019	December 31, 2018	March 31, 2018
Raw materials	\$ 156,248	141,204	104,381
Work in progress	119,475	123,733	72,945
Finished goods	241,870	238,135	272,138
	\$ 517,593	503,072	449,464

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

For the three months ended March 31, 2019 and 2018, inventory cost recognized as cost of sales amounting to \$338,373 and \$293,909, 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:

	For the three months ended March 31,	
	2019	2018
	The write-downs (reversals)	\$ 2,333

As of March 31, 2019, December 31, 2018 and March 31, 2018, the Group did not provide any inventories as collaterals for its loans.

(f) Property, plant and equipment

	Prepayment for equipment and construction in progress						Total
	Land	Buildings and construction	Machinery and equipment	Office equipment	Others equipment	in progress	
Cost:							
Balance on January 1, 2019	\$ 825,680	700,219	1,683,172	42,658	16,149	138,178	3,406,056
Additions	-	-	5,011	142	-	22,714	27,867
Transferred (out) in	-	-	164	-	-	-	164
Disposal and derecognitions	-	-	(2,240)	-	-	-	(2,240)
Balance on March 31, 2019	\$ 825,680	700,219	1,686,107	42,800	16,149	160,892	3,431,847
Balance on January 1, 2018	\$ 825,680	681,676	1,580,485	29,623	16,149	68,056	3,201,669
Additions	-	-	2,400	6,900	-	16,291	25,591
Transferred (out) in	-	-	81	103	-	(4,309)	(4,125)
Disposal and derecognitions	-	-	(1,490)	-	-	-	(1,490)
Balance on March 31, 2018	\$ 825,680	681,676	1,581,476	36,626	16,149	80,038	3,221,645
Depreciation and impairments loss:							
Balance on January 1, 2019	\$ -	314,702	1,182,640	18,474	6,076	-	1,521,892
Depreciation for the period	-	7,414	23,243	1,002	406	-	32,065
Disposals and derecognitions	-	-	(2,240)	-	-	-	(2,240)
Balance on March 31, 2019	\$ -	322,116	1,203,643	19,476	6,482	-	1,551,717
Balance on January 1, 2018	\$ -	292,442	1,103,904	14,900	4,452	-	1,415,698
Depreciation for the period	-	7,448	22,762	880	406	-	31,496
Disposals and derecognitions	-	-	(1,490)	-	-	-	(1,490)
Balance on March 31, 2018	\$ -	299,890	1,125,176	15,780	4,858	-	1,445,704

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

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Others equipment</u>	<u>Prepayment for equipment and construction in progress</u>	<u>Total</u>
Carrying amounts:							
Balance on January 1, 2019	\$ <u>825,680</u>	<u>385,517</u>	<u>500,532</u>	<u>24,184</u>	<u>10,073</u>	<u>138,178</u>	<u>1,884,164</u>
Balance on March 31, 2019	\$ <u>825,680</u>	<u>378,103</u>	<u>482,464</u>	<u>23,324</u>	<u>9,667</u>	<u>160,892</u>	<u>1,880,130</u>
Balance on January 1, 2018	\$ <u>825,680</u>	<u>389,234</u>	<u>476,581</u>	<u>14,723</u>	<u>11,697</u>	<u>68,056</u>	<u>1,785,971</u>
Balance on March 31, 2018	\$ <u>825,680</u>	<u>381,786</u>	<u>456,300</u>	<u>20,846</u>	<u>11,291</u>	<u>80,038</u>	<u>1,775,941</u>

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

As of March 31, 2019, December 31, 2018 and March 31, 2018, part of the property, plant and equipment the Group had provided at collateral for its loans. Please refer to note 8 for details.

(g) Right-of-use assets

The Group leases many assets including company cars and copy machines. Information about leases for which the Group as a lessee is presented below:

	<u>Right-of-use assets</u>
Cost:	
Balance on January 1, 2019	\$ -
Effects of retrospective application	<u>4,113</u>
Balance on January 1, 2019 (as of Balance on March 31, 2019)	<u>\$ 4,113</u>
Accumulated depreciation:	
Balance on January 1, 2019	\$ -
Effects of retrospective application	<u>-</u>
Balance on January 1, 2019 (according to IFRS 16)	-
Depreciation for the period	<u>472</u>
Balance on March 31, 2019	<u>\$ 472</u>
Carrying amount:	
Balance on January 1, 2019 (according to IFRS 16)	<u>\$ 4,113</u>
Balance on March 31, 2019	<u>\$ 3,641</u>

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

(h) Short-term borrowings

The details of short-term borrowings were as following:

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Unsecured bank loans	\$ -	-	-
Unused credit line for short-term borrowings	\$ 340,673	424,105	426,460
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(s) for the information of interest risk, foreign currency risk and liquidity risk.

(i) Other payables

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Salaries payable	\$ 125,234	131,579	65,321
Others	59,988	64,990	66,749
	<u>\$ 185,222</u>	<u>196,569</u>	<u>132,070</u>

(j) Lease liabilities

	<u>March 31, 2019</u>		
	<u>Future</u> <u>minimum lease</u> <u>payments</u>	<u>Interest</u>	<u>Present value</u> <u>of minimum</u> <u>lease payments</u>
Less than one year	\$ 1,920	42	1,878
Between one and five years	1,791	21	1,770
	<u>\$ 3,711</u>	<u>63</u>	<u>3,648</u>
Current	<u>\$ 1,920</u>	<u>42</u>	<u>1,878</u>
Non-current	<u>\$ 1,791</u>	<u>21</u>	<u>1,770</u>

There were no significant changes in lease liabilities for the three months ended March 31, 2019.

The amounts recognized in profit or loss were as follows:

	<u>For the three</u> <u>months ended</u> <u>March 31, 2019</u>
Interest on lease liabilities	\$ 15
Expenses relating to short-term leases	\$ 406
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 10</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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The amounts recognized in the statement of cash flows for the Group was as follows:

	For the three months ended March 31, 2019
Total cash outflow for leases	<u>\$ 896</u>

The Group leases company cars and copy machines: The leases typically run for a period of three to six years.

The Group also leases vehicles and office equipment with contract terms of less than one year. These leases are short-term or leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

(k) Provisions

There were no significant changes in provisions for the three months ended March 31, 2019 and 2018. Please refer to note 6(j) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(l) Employee benefits

(i) Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2018 and 2017.

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

	For the three months ended March 31,	
	2019	2018
Operating cost	\$ 385	389
Operating expenses	<u>6</u>	<u>18</u>
	<u>\$ 391</u>	<u>407</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(ii) Defined contribution plans

The Group's expenses under the pension plan cost to the Bureau of Labor Insurance for the three months ended March 31, 2019 and 2018 were as follows:

	For the three months ended March 31,	
	2019	2018
	<u>2019</u>	<u>2018</u>
Operating cost	\$ 1,248	1,189
Selling expenses	66	61
Administration expenses	157	144
Research expenses	<u>181</u>	<u>174</u>
	<u>\$ 1,652</u>	<u>1,568</u>

(m) Income taxes

(i) The income tax expense in the interim financial statements is measured and disclosed accordance to paragraph B12 of IAS 34 "International Financial Reporting".

(ii) The income tax expenses for the three months ended March 31, 2019 and 2018 was calculated as follows:

	For the three months ended March 31,	
	2019	2018
	<u>2019</u>	<u>2018</u>
Current income tax expense	<u>\$ 39,820</u>	<u>12,313</u>

(iii) The amount of income tax recognized in other comprehensive income for the three months ended March 31, 2019 and 2018 was as follows:

	For the three months ended March 31,	
	2019	2018
	<u>2019</u>	<u>2018</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement from defined benefit plans	<u>\$ -</u>	<u>(1,488)</u>

(iv) Assessment of tax

The Company's and Yushan's tax returns for the years through 2017 were assessed by the Taipei National Tax Administration.

(n) Capital and other equities

Except for the following disclosure, there was no significant change for capital and other equity for the periods from January 1 to March 31, 2019 and 2018. For the related information, please refer to note 6 (m) of the consolidated financial statements for the year ended December 31, 2018.

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

(i) 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.

(ii) Earnings distribution

On March 13, 2019, the Company's Board of Directors resolved to appropriate the 2018 earnings. On June 26, 2018, the shareholder's meetings resolved to distribute the 2017 earnings. These earnings were appropriated as follows:

	2018		2017	
	Amount per share (dollars)	Total amount	Amount per share (dollars)	Total amount
Dividends distributed to commons shareholders:				
Cash	\$ <u>4.20</u>	<u>333,838</u>	<u>2.15</u>	<u>170,893</u>

(iii) 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, 2019	\$ (4,788)	-	-	(4,788)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	<u>(7,077)</u>	<u>-</u>	<u>-</u>	<u>(7,077)</u>
Balance at March 31, 2019	\$ <u>(11,865)</u>	<u>-</u>	<u>-</u>	<u>(11,865)</u>

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

	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	(539)	-	-	(539)
Amortization cost of employee restricted stock	-	-	160	160
Balance at March 31, 2018	<u>\$ (8,266)</u>	<u>-</u>	<u>-</u>	<u>(8,266)</u>

(o) Share-based payment

There were no significant changes for share-based payment during the periods from January 1 to March 31, 2019 and 2018. For the related information, please refer to note 6(n) of the consolidated financial statements for the year ended December 31, 2018.

(p) Earnings per share

For the three months ended March 31, 2019 and 2018, the Company's earnings per share were calculated as follows:

	For the three months ended March 31,	
	2019	2018
Basic earnings per share		
Profit attributable to ordinary shareholders of the Company	<u>\$ 164,046</u>	<u>60,953</u>
Weighted-average number of ordinary shares at March 31	<u>79,485</u>	<u>79,424</u>
	<u>\$ 2.06</u>	<u>0.77</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders of the Company	<u>\$ 164,046</u>	<u>60,953</u>
Weighted-average number of ordinary shares (basic)	<u>79,485</u>	<u>79,424</u>
Effect of employee compensation	669	199
Effect of restricted employee shares unvested	-	-
Weighted-average number of ordinary shares (diluted) at March 31	<u>80,154</u>	<u>79,623</u>
	<u>\$ 2.05</u>	<u>0.77</u>

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

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended March 31,	
	2019	2018
Primary geographical markets		
Spain	\$ 129,840	58,269
United States	78,869	121,231
Italy	78,643	33,037
Switzerland	74,238	43,320
Japan	68,901	3,796
Taiwan	47,706	64,989
Netherlands	33,931	33,188
India	22,339	21,830
Others	69,220	45,986
	\$ 603,687	425,646
Major products		
Active Pharmaceutical Ingredients	\$ 383,766	276,406
Intermediates	178,972	103,832
Specialty Chemical	40,949	45,408
	\$ 603,687	425,646

(ii) Contract balances

	March 31, 2019	December 31, 2018	March 31, 2018
Notes and accounts receivable	\$ 334,022	392,096	277,009
Less: allowance for impairment	(1,179)	(1,179)	(18,142)
Total	\$ 332,843	390,917	258,867
Contract liabilities (sales received in advance)	\$ 48,631	30,403	31,239

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

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

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(r) Remuneration to employees and directors

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

For the three-month period ended March 31, 2019 and 2018, the remunerations to employees amounted to \$19,915 and \$8,605, respectively, and the remunerations to directors amounted to \$2,716 and \$1,173, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. Shares distributed to employees as employees' remuneration are calculated based on the closing price of the Company's shares on the day before the approval by the Board of Directors.

For the year ended December 31, 2018 and 2017, the remunerations to employees amounted to \$53,166 and \$22,989, respectively, and the remunerations to directors amounted to \$7,204 and \$3,135, respectively. The remunerations above are identical to those of the actual distributions. The information is available on the Market Observation Post System website.

(s) Financial Instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(r) of the consolidated financial statements for the year ended December 31, 2018.

(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.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- 3) Receivable and debt securities
- a) Please refer to note 6(d) 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:

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
March 31, 2019					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 102,251	(102,251)	(102,251)	-	-
Lease liabilities (including current and non-current)	3,648	(3,711)	(1,920)	(1,410)	(381)
Other payables	50,602	(50,602)	(50,602)	-	-
Payables on contractors and equipment	<u>48,079</u>	<u>(48,079)</u>	<u>(48,079)</u>	<u>-</u>	<u>-</u>
	<u>\$ 204,580</u>	<u>(204,643)</u>	<u>(202,852)</u>	<u>(1,410)</u>	<u>(381)</u>
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	<u>88,047</u>	<u>(88,047)</u>	<u>(88,047)</u>	<u>-</u>	<u>-</u>
	<u>\$ 233,305</u>	<u>(233,305)</u>	<u>(233,305)</u>	<u>-</u>	<u>-</u>
March 31, 2018					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 74,054	(74,054)	(74,054)	-	-
Other payables	58,512	(58,512)	(58,512)	-	-
Payables on contractors and equipment	<u>13,107</u>	<u>(13,107)</u>	<u>(13,107)</u>	<u>-</u>	<u>-</u>
	<u>\$ 145,673</u>	<u>(145,673)</u>	<u>(145,673)</u>	<u>-</u>	<u>-</u>

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

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

(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

	March 31, 2019			December 31, 2018			March 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets									
Monetary items									
USD to TWD	\$ 17,255	30.770	530,936	15,471	30.665	474,418	12,711	29.055	369,318
EUR to TWD	1,720	34.410	59,185	1,655	35	57,925	1,534	35.67	54,718
Financial liabilities									
Monetary items									
USD to TWD	2,145	30.770	66,002	1,722	30.665	52,805	1,677	29.055	48,725

2) Sensitivity analysis

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

The analysis assumes that all other variables remain constant. A strengthening (weakening) 1% of the functional currency against each foreign currency for the three months ended March 31, 2019 and 2018 would have affected the net profit before tax increased or decreased \$5,241 and \$3,753, respectively. The analysis is performed on the same basis for both periods.

3) Exchange gains and losses of monetary items

The exchange gains and losses of monetary items, including realized and unrealized, are changed into functional currency, which is the Group's presentation currency. For the three months ended March 31, 2019 and 2018, the exchange gains (losses), including realized and unrealized, are \$2,490 and \$(9,469), respectively.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(iv) Interest rate analysis

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

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

	Carrying amount	
	March 31, 2019	March 31, 2018
Variable rate instruments:		
Financial assets	\$ 228,542	103,845
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 \$143 and \$ 65, respectively, for the three months ended March 31, 2019 and 2018, 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 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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SCI PHARMTECH, INC. AND SUBSIDIARIES
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March 31, 2019					
	Book value	Fair 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	\$ <u>434,873</u>	434,873	-	-	434,873
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	<u>68,219</u>	-	-	68,219	68,219
Financial assets measured at amortized cost					
Cash and cash equivalents	576,686	-	-	-	-
Notes and accounts receivable	332,843	-	-	-	-
Other receivables	304	-	-	-	-
Refunded deposits (recognized as other non-current assets)	<u>11,771</u>	-	-	-	-
Subtotal	<u>921,604</u>				
Total	<u><u>\$ 1,424,696</u></u>				
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 102,251	-	-	-	-
Other payables	50,602	-	-	-	-
Payables on contractors and equipment	48,079	-	-	-	-
Lease liabilities (including current and non-current)	<u>3,648</u>	-	-	-	-
Total	<u><u>\$ 204,580</u></u>				
December 31, 2018					
	Book value	Fair 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	\$ <u>430,106</u>	430,106	-	-	430,106
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	<u>75,296</u>	-	-	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)	<u>11,771</u>	-	-	-	-
Subtotal	<u>764,239</u>				
Total	<u><u>\$ 1,269,641</u></u>				

(Continued)

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

	December 31, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 89,156	-	-	-	-
Other payables	56,102	-	-	-	-
Payables on contractors and equipment	<u>88,047</u>	-	-	-	-
Total	<u>\$ 233,305</u>				
	March 31, 2018				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Non derivative financial assets mandatorily measured at fair value through profit or loss	\$ <u>428,176</u>	428,176	-	-	428,176
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	<u>41,827</u>	-	-	41,827	41,827
Financial assets measured at amortized cost					
Cash and cash equivalents	272,377	-	-	-	-
Notes and accounts receivable	258,867	-	-	-	-
Other receivables	480	-	-	-	-
Refunded deposits (recognized as other non-current assets)	<u>13,591</u>	-	-	-	-
Subtotal	<u>545,315</u>				
Total	<u>\$ 1,015,318</u>				
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 74,054	-	-	-	-
Other payables	58,512	-	-	-	-
Payables on contractors and equipment	<u>13,107</u>	-	-	-	-
Total	<u>\$ 145,673</u>				

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 and liabilities measured at amortized cost

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

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

- 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.

- 4) Transfer from one level to another

For the three months ended March 31, 2019 and 2018, there was no transfer from one level to another.

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

5) Reconciliation of Level 3 fair values

	Fair value through other comprehensive income
	Unquoted equity instruments
January 1, 2019	\$ 75,296
Total gains and losses recognized:	
In other comprehensive income	(7,077)
March 31, 2019	\$ 68,219
January 1, 2018	\$ 42,366
Total gains and losses recognized:	
In other comprehensive income	(539)
March 31, 2018	\$ 41,827

For the three months ended March 31, 2019 and 2018, 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:

	For the three months ended March 31,	
	2019	2018
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”	\$ (7,077)	(539)

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

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

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

<u>Item</u>	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>Inter-relationship between significant unobservable inputs and fair value measurement</u>
Fair value through other comprehensive income—equity investments without an active market	Price-Book ratio method	The multiplier of Price-Book Ratio (As of March 31, 2019, December 31, 2018 and March 31, 2018 were 1.69, 1.84 and 1.70, respectively)	The higher the fair value is, the higher the multiplier will be.
"	"	Lack-of-Marketability discount rate (As of March 31, 2019, December 31, 2018 and March 31, 2018 were 50%)	The higher the Lack-of-Marketability discount rate is, the lower the fair value will be.
"	Comparable transaction method	Lack-of-Marketability discount rate (As of March 31, 2019, December 31, 2018 were 22.89% and 22.36%, respectively)	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:

	<u>Inputs</u>	<u>Move up or downs</u>	<u>Other comprehensive income</u>	
			<u>Favorable</u>	<u>Unfavorable</u>
March 31, 2019				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>1,895</u>	<u>1,909</u>
Financial assets at fair value through other comprehensive income	Lack-of-Marketability discount rate	5%	\$ <u>3,404</u>	<u>3,418</u>

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

	Inputs	Move up or downs	Other comprehensive income	
			Favorable	Unfavorable
December 31, 2018				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>1,911</u>	<u>1,925</u>
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ <u>3,757</u>	<u>3,772</u>
March 31, 2018				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>2,086</u>	<u>2,096</u>
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ <u>2,086</u>	<u>2,096</u>

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

(t) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in Note 6(s) of the consolidated financial statements for the year ended December 31, 2018.

(u) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2018. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2018. Please refer to Note 6(t) of the consolidated financial statements for the year ended December 31, 2018.

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

The Group's investing and financing activities which did not affect the current cash flow in the three months ended March 31, 2019 and 2018, were as follows:

- (i) There were no non-cash investing activities in the three months ended March 31, 2018, and acquisition of right-of-use assets by lease for the three months ended March 31, 2019, please refer to note 6(g).

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- (ii) There were no liabilities arising from financing activities for the three months ended March 31, 2018, and reconciliation of liabilities arising from financing activities for the three months ended March 31, 2019, was as follows:

	January 1, 2019	Cash flows	Non-cash changes Foreign exchange movement	March 31, 2019
Lease liabilities	\$ <u>4,113</u>	<u>(465)</u>	<u>-</u>	<u>3,648</u>

(7) Related-party transactions:

- (a) Names and relationship with related parties: None.
(b) Significant transaction with related parties: None.
(c) Key management personnel compensation

	For the three months ended March 31,	
	2019	2018
Salary and short-term employee benefits	\$ <u>11,392</u>	<u>7,474</u>

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Assets	Subject	March 31, 2019	December 31, 2018	March 31, 2018
Land	Pledged as collaterals	\$ 42,736	42,736	42,736
Building	"	<u>5,545</u>	<u>5,799</u>	<u>6,757</u>
		<u>\$ 48,281</u>	<u>48,535</u>	<u>49,493</u>

(9) Commitments and contingencies:

- (a) As of March 31, 2019, December 31, 2018 and March 31, 2018, the unused balance of the Group's outstanding standby letters of credit amounted to \$9,327, \$5,895 and \$3,540, respectively.
(b) The significant outstanding purchase commitments for property, plant and equipment was as follows:

	March 31, 2019	December 31, 2018	March 31, 2018
Acquisitions of property, plant and equipment	\$ <u>89,862</u>	<u>109,810</u>	<u>-</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(10) Losses Due to Major Disasters: none

(11) Subsequent Events:

At a meeting of the Board of Directors held on May 9, 2019, the board members approved a resolution to purchase the ordinary shares for cash of Energenesis Biomedical Co., Ltd., and the shares of purchase will be 357,000, with par value of \$42 per share amounting to \$14,994.

(12) Other:

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

By function	For the three months ended March 31, 2019			For the three months ended March 31, 2018		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	51,761	31,682	83,443	44,293	16,741	61,034
Labor and health insurance	3,743	1,209	4,952	3,289	1,083	4,372
Pension	1,633	410	2,043	1,578	397	1,975
Remuneration of directors	-	2,716	2,716	-	1,173	1,173
Others	771	2,131	2,902	814	1,819	2,633
Depreciation	27,587	4,950	32,537	26,741	4,755	31,496
Amortization	374	944	1,318	33	854	887

(b) Seasonality of operations

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

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for the three months ended March 31, 2019:

- (i) Loans to other parties: None
- (ii) Guarantees and endorsements for other parties: None

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- (iii) Securities held as of March 31, 2019 (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			Fair value	Note
				Shares/Units (thousands)	Carrying value	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	46,108	- %	46,108	
"	Beneficiary Certificate (Cathay Taiwan Money Market Fund)	-	"	4,093	50,929	- %	50,929	
"	Beneficiary Certificate (Nomura Taiwan Money Market)	-	"	1,273	20,774	- %	20,774	
"	Beneficiary Certificate (Yuanta USD Money Market Fund-USD)	-	"	99	31,838	- %	31,838	
"	Beneficiary Certificate (Nomura Global Short Duration Bond Fund)	-	"	2,840	29,969	- %	29,969	
"	Beneficiary Certificate (CTBC Hua Win Money Market Fund)	-	"	913	10,059	- %	10,059	
"	Beneficiary Certificate (Taishin 1699 Money Market Fund)	-	"	3,592	48,590	- %	48,590	
"	Beneficiary Certificate (FSITC Taiwan Money Market Fund)	-	"	2,646	40,481	- %	40,481	
"	Stock (Fubon S&P Preferred Shares A)	-	"	793	51,704	- %	51,704	
"	Stock (Fubon S&P Preferred Shares B)	-	"	36	2,268	- %	2,268	
"	Stock (TAISHIN FINANCIAL HOLDING CO., LTD. Preferred Stock E)	-	"	400	22,080	- %	22,080	
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A)	-	"	790	50,639	- %	50,639	
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock B)	-	"	33	2,064	- %	2,064	
"	Stock (Fubon S&P US Preferred Stock)	-	"	1,400	27,370	- %	27,370	
"	Stock (Sunny Pharmtech Inc.)	-	Financial assets at fair value through other comprehensive income	4,497	38,048	4.02 %	38,048	
"	Stock (Energogenesis Biomedical Co., Ltd.)	-	"	779	30,171	0.16 %	30,171	

- (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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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(b) Information on investees:

The following is the information on investees for the three months ended March 31, 2019 (excluding information on investees in Mainland China):

Unit: thousand dollars/ thousand shares

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of March 31, 2019			Net income (losses) of investee	Share of profits/losses of investee	Note
				March 31, 2019	December 31, 2018	Shares (thousands)	Percentage of ownership	Carrying value			
SCI PHARMTECH, INC.	Yushan Holding Universal Ltd.	Grand Cayman Islands	Investment activities	374,750	374,750	12,485	100 %	354,559	(129)	(129)	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	35,190	100 %	351,761	(139)	(139)	Investment accounted for using equity method

(c) Information on investment in mainland China: None

(14) Segment information:

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