

SCI PHARMTECH, INC. AND SUBSIDIARIES**Consolidated Financial Statements**

**With Independent Auditors' Report
For the Years Ended December 31, 2019 and 2018**

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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, 2019 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10 by the Financial Supervisory Commission, "Consolidated 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, 2020



安侯建業聯合會計師事務所

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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, 2019 and 2018, the consolidated statement of comprehensive income, consolidated statement of 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, 2019 and 2018, 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 audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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(e) 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(n) 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, 2019 and 2018, 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 review resulting in this independent auditors' report are Kuan-Ying Kuo and Shu-Min Hsu.

KPMG

Taipei, Taiwan (Republic of China)
March 13, 2020

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' audit 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' audit 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, 2019 and 2018

(expressed in thousands of New Taiwan dollars)

		December 31, 2019		December 31, 2018				December 31, 2019		December 31, 2018			
		Amount	%	Amount	%			Amount	%	Amount	%		
Current assets:		Assets						Liabilities and Equity					
						Current liabilities:							
1100	Cash and cash equivalents (note 6(a))	\$	553,555	13	361,181	10	2170	Notes and accounts payable	\$	94,302	2	89,156	2
1110	Financial assets at fair value through profit or loss (note 6(b))		466,025	11	430,106	11	2130	Current contract liabilities (note 6(q))		59,092	2	30,403	1
1170	Notes and accounts receivable, net (notes 6(d) and 6(q))		352,404	9	390,917	10	2200	Other payables (note 6(i))		229,830	6	196,569	5
1310	Inventories, net (note 6(c))		527,081	13	503,072	13	2213	Payables on contractors and equipment		16,605	-	88,047	2
1470	Other current assets		36,953	1	21,643	1	2230	Current tax liabilities		96,671	2	73,063	2
			1,936,018	47	1,706,919	45	2250	Current provisions (note 6(k))		83,957	2	76,501	2
Non-current assets:						2280	Current lease liabilities (note 6(j))		1,795	-	-	-	-
1518	Non-current financial assets at fair value through other comprehensive income (note 6(c))		137,329	3	75,206	2	2300	Other current liabilities		2,012	-	2,972	-
1600	Property, plant and equipment (notes 6(f) and 8)		1,876,999	46	1,884,164	50				584,264	14	556,711	14
1755	Right-of-use assets (note 6(g))		2,974	-	-	-	Non-Current liabilities:			-	-	47	-
1780	Intangible assets		47,661	1	47,368	1	2570	Deferred tax liabilities (note 6(m))		1,197	-	-	-
1840	Deferred tax assets (note 6(m))		57,243	2	51,232	1	2580	Non-current lease liabilities (note 6(j))		21,376	1	22,090	1
1900	Other non-current assets		23,253	1	24,100	1	2640	Provisions for employee benefits, non-current (note 6(l))		22,573	1	22,137	1
			2,145,459	53	2,082,160	55		Total liabilities		606,837	15	578,848	15
							Equity attributable to owners of parent (note 6(n)):						
							3100	Ordinary Share		794,853	19	794,853	21
							3200	Capital surplus		1,348,339	33	1,348,339	36
							3310	Legal reserve		332,971	8	288,248	8
							3320	Special reserve		4,788	-	7,727	-
							3350	Unappropriated retained earnings		971,435	24	775,852	20
							3400	Other components of equity		22,254	1	(4,788)	-
								Total equity		3,474,640	85	3,210,231	85
Total assets		\$	4,081,477	100	3,789,079	100		Total liabilities and equity	\$	4,081,477	100	3,789,079	100

(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, 2019 and 2018
(expressed in Thousands of New Taiwan Dollars, except for earnings per common share)

	2019		2018	
	Amount	%	Amount	%
4110 Sales revenue (note 6(q))	\$ 2,355,747	100	1,939,913	100
5110 Cost of sales (notes 6(e) and 12)	1,419,977	60	1,190,970	61
5900 Gross profit	<u>935,770</u>	<u>40</u>	<u>748,943</u>	<u>39</u>
Operating expenses (note 12):				
6100 Selling expenses	108,286	4	117,359	6
6200 Administrative expenses	91,446	4	77,988	4
6300 Research and development expenses	38,917	2	36,851	2
6450 Expected credit losses (gains) (note 6(d))	-	-	1,179	-
	<u>238,649</u>	<u>10</u>	<u>233,377</u>	<u>12</u>
6900 Net operating income	<u>697,121</u>	<u>30</u>	<u>515,566</u>	<u>27</u>
Non-operating income and expenses:				
7190 Other income (note 6(j))	13,895	-	9,026	-
7101 Interest income from bank deposits	4,622	-	2,410	-
7235 Gains on financial assets (liabilities) at fair value through profit or loss	7,635	-	1,601	-
7510 Interest expense (note 6(j))	(52)	-	(2)	-
7590 Miscellaneous disbursements	(470)	-	(377)	-
7610 Gains (losses) on disposals of property, plant and equipment	(1,623)	-	81	-
7630 Foreign exchange gains (losses)	(9,968)	-	16,482	1
	<u>14,039</u>	<u>-</u>	<u>29,221</u>	<u>1</u>
7900 Profit before tax	<u>711,160</u>	<u>30</u>	<u>544,787</u>	<u>28</u>
7950 Less: Income tax expenses (note 6(m))	<u>140,059</u>	<u>6</u>	<u>97,550</u>	<u>5</u>
Profit	<u>571,101</u>	<u>24</u>	<u>447,237</u>	<u>23</u>
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(l))	130	-	(586)	-
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	27,042	1	2,939	-
8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(m))	<u>26</u>	<u>-</u>	<u>(1,626)</u>	<u>-</u>
8300 Other comprehensive income, net	<u>27,146</u>	<u>1</u>	<u>3,979</u>	<u>-</u>
8500 Total comprehensive income	<u>\$ 598,247</u>	<u>25</u>	<u>451,216</u>	<u>23</u>
Earnings per share (note 6(p)):				
9750 Basic earnings per share	<u>\$ 7.19</u>		<u>5.63</u>	
9850 Diluted earnings per share	<u>\$ 7.12</u>		<u>5.57</u>	

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, 2019 and 2018

(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	Unrealized gains (losses) on financial assets measured at fair value	Unrealized gains (losses) on financial assets measured at fair value	Unrealized gains (losses) on financial assets measured at fair value	Total equity
Balance at January 1, 2018	\$ 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	-	-	-	-	3,979
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	448,277	-	-	-	-	451,216
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	19,098	-	(19,098)	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(170,893)	-	-	-	-	(170,893)
Share-based payments transactions	-	-	-	-	-	-	-	-	-	-
Balance on December 31, 2018	794,853	1,348,339	288,248	7,727	775,852	(4,788)	160	(4,788)	160	3,210,231
Profit for the year ended December 31, 2019	-	-	-	-	571,101	-	-	-	-	571,101
Other comprehensive income for the year ended December 31, 2019	-	-	-	-	104	27,042	-	27,042	-	27,146
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	571,205	27,042	-	27,042	-	598,247
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	44,723	-	(44,723)	-	-	-	-	-
Special reserve appropriated	-	-	-	(2,939)	2,939	-	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(333,838)	-	-	-	-	(333,838)
Balance at December 31, 2019	\$ 794,853	1,348,339	332,971	4,788	971,435	22,254	-	22,254	-	3,474,640

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, 2019 and 2018****(expressed in Thousands of New Taiwan Dollars)**

	2019	2018
Cash flows from (used in) operating activities:		
Profit before tax	\$ 711,160	544,787
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation expense	131,081	127,810
Amortization expense	5,650	4,592
Expected credit loss	-	1,179
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	(7,635)	(1,601)
Interest expense	52	2
Interest income	(4,622)	(2,410)
Share-based payment transactions	-	160
Loss (gain) from disposal of property, plant and equipment	1,623	(81)
Others	50	2,385
	<u>126,199</u>	<u>132,036</u>
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	38,513	(218,469)
Decrease (increase) in inventories	(24,009)	(22,214)
Decrease (increase) in other current assets	(15,310)	(7,948)
Increase (decrease) in notes and accounts payable	5,146	53,976
Increase (decrease) in contract liabilities	28,689	5,824
Increase (decrease) in other payable	33,261	53,942
Increase (decrease) in provisions	7,456	9,000
Increase (decrease) in other current liabilities	(960)	(14,770)
Increase (decrease) in provision for employee benefits , non-current	(584)	(550)
	<u>198,401</u>	<u>(9,173)</u>
Cash flow from (used in) operations	909,561	535,614
Interest received	4,622	2,410
Interest paid	(52)	(2)
Income taxes paid	(122,535)	(57,839)
Net cash flows from (used in) operating activities	<u>791,596</u>	<u>480,183</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(34,991)	(29,991)
Acquisition of financial assets at fair value through profit or loss	(78,931)	(13,770)
Proceeds from disposal of financial assets at fair value through profit or loss	50,647	-
Acquisition of property, plant and equipment	(187,570)	(141,049)
Proceeds from disposal of property, plant and equipment	-	81
Decrease (increase) in refundable deposits	4,288	2,145
Acquisition of intangible assets	(4,978)	(15,614)
Decrease (increase) in prepayments of property, plant and equipment	(11,939)	(5,780)
Net cash flows from (used in) investing activities	<u>(263,474)</u>	<u>(203,978)</u>
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(1,910)	-
Cash dividends paid	(333,838)	(170,893)
Net cash flows from (used in) financing activities	<u>(335,748)</u>	<u>(170,893)</u>
Net increase (decrease) in cash and cash equivalents	192,374	105,312
Cash and cash equivalents at beginning of period	<u>361,181</u>	<u>255,869</u>
Cash and cash equivalents at end of period	<u>\$ 553,555</u>	<u>361,181</u>

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, 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(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, 2020.

(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.

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.

(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(j).

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
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3) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$4,113 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:

	<u>January 1, 2019</u>
Operating lease commitment at December 31, 2018	\$ 4,421
Recognition exemption for:	
short-term leases	(202)
leases of low-value assets	<u>(21)</u>
	<u>\$ 4,198</u>
Discounted using the incremental borrowing rate at January 1, 2019 (as of lease liabilities recognized at January 1, 2019)	<u>\$ 4,113</u>

(b) The impact of IFRS issued by the 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, 2020 in accordance with Rule No. 1080323028 issued by the FSC on July 29, 2019:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- (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 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 “Classification of Liabilities as Current or Non-current”	January 1, 2022

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.

(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 at fair value through profit or loss are measured at fair value;
- 2) Financial assets at fair value through other comprehensive income are measured at fair value;
- 3) The defined benefit liabilities (assets) are measured at fair value of the plan assets less the present value of the defined benefit obligation, limited as explained in note 4(n).

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(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 consolidated financial statements are presented in New Taiwan Dollar (NTD), which is the Company's functional currency. All financial information presented in NTD 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. Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. 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 difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in equity, and the Group will attribute it to the owners of the parent.

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

Name of investor	Name of subsidiary	Principal activity	Shareholding		
			December 31, 2019	December 31, 2018	Note
The Company	Yushan Holding Universal Ltd.	Investment	- %	100.00 %	Note 1
The Company	Yushan Pharmaceuticals Inc. (Yushan)	The research and development, manufacture and sale of API	100.00 %	-	% Note 2
Yushan Holding Universal Ltd.	Yushan	The research and development, manufacture and sale of API	- %	100.00 %	Note 2

Note 1: Yushan Holding Universal Ltd. completed liquidation procedure in May 2019.

Note 2: Yushan was a subsidiary of Yushan Holding Universal Ltd.. Since April 2019, Yushan has become a subsidiary of the Company due to the Group's adjustment of organization structure.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(d) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. At the end of each subsequent reporting period, monetary items denominated in foreign currencies are translated into the functional currencies using the exchange rate at that date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated into the functional currencies using the exchange rate at the date that the fair value was determined. Non-monetary-items denominated in foreign currencies that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Exchange differences are generally recognized in profit or loss, except for those differences relating to the following, which are recognized in other comprehensive income:

- (i) an investment in equity securities designated as at fair value through other comprehensive income;
- (ii) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- (iii) qualifying cash flow hedges to the extent that the hedges are effective.

(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 is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is expected to be realized within twelve months after the reporting period; or
- (iv) The asset is cash or a 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.

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 is expected to be settled in the normal operating cycle;
- (ii) It is held primarily for the purpose of trading;
- (iii) It is due to be settled within twelve months after the reporting period; or
- (iv) The Group 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 issuing equity instruments do not affect its classification.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(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 are subject to an insignificant risk of changes in value. 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 should be recognized as cash equivalents.

(g) Financial instruments

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

On initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVOCI) – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

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.

These assets are subsequently measured at amortized cost, which is the amount at which the financial asset is measured at initial recognition, plus/minus, the cumulative amortization using the effective interest method, adjusted for any loss allowance. Interest income, foreign exchange gains and losses, as well as impairment, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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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.

Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Equity investments at FVOCI are subsequently measured at fair value. Dividends 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 are recognized in other comprehensive income and are never reclassified to profit or loss.

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

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. 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.

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

4) Impairment of financial assets

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

The Group measures loss allowances at an amount equal to lifetime 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

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

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

12-month ECL are the portion of ECL that result from default events that are possible within the 12 months 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 ECL is the maximum contractual period over which the Group is exposed to credit risk.

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

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

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

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the debtor 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). ECL 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 asset 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;

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- 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 charged to profit or loss and is recognized in other comprehensive income instead of reducing the carrying amount of the asset.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written 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

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognized in its statement of balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

2) Equity instrument

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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3) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

4) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

5) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(h) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method, and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their present 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, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods 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 and adjusted if appropriate.

(j) 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

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- 3) the Group has the right to direct the use of the asset throughout the period of use only if either:
- The Group has the right to direct how and for what purpose the asset is used throughout the period of use; or
 - the relevant decisions about how and for what purpose the asset is used are predetermined and:
 - the Group has the right to operate the asset throughout the period of use, without the supplier having the right to change those operating instructions; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used throughout the period of use.

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.

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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 lease term resulting from a change of its assessment on whether it will exercise an option to purchase the underlying assets, or
- 4) there is a change of its assessment on whether it will exercise an extension or termination option; or
- 5) there are 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.

Applicable before January 1, 2019

(i) As a lessee

Operating leases are not recognized in the Group's balance sheets.

Payments made under operating leases (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense on a straight-line basis, over the term of the lease.

(k) Intangible assets

(i) Other intangible assets

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

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(ii) Subsequent expenditure

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

(iii) Amortization

Amortization is calculated over the cost of the asset, less its residual value, and 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 life of computer software is 6~11 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(l) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax asset) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present 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.

(n) Revenue from contracts with customers

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

(i) Sale of goods

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

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.

(ii) Financing components

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

(o) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculate by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of plan assets.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income, and accumulated in retained earnings within equity. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

(iv) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid 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.

(p) Share-based payment

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

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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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 during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share appreciation rights. Any changes in the liability are recognized in profit or loss.

(q) Income taxes

Income taxes comprise 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 are recognized in profit or loss.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatment, do not meet the definition of income taxes, and therefore accounted for them under IAS37.

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payables or receivables are the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

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 are recognized except for the following:

- (i) temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits (losses) at the time of the transaction;
- (ii) temporary differences related to investments in subsidiaries and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- (iii) taxable temporary differences arising on the initial recognition of goodwill.

Deferred taxes are measured at tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if any.

Deferred tax assets and liabilities are offset if the following criteria are met:

- (i) The Group has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1) the same taxable entity; or

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- 2) different taxable entities which intend to settle current tax assets and liabilities on a net basis, or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets are 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 profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realized; such reductions are reversed when the probability of future taxable profits improves.

(r) Earnings per share

The Group discloses the Company's basic and diluted earnings per share attributable to ordinary shareholders of the Company. Basic earnings per share is calculated as the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding. Diluted earnings per share is calculated as 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 potentially dilutive ordinary shares. Dilutive potential ordinary shares comprise convertible bond, employee stock options, remuneration to employees not yet approved by the Board of directors, and restricted employee shares.

(s) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn 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 to 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 Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

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

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

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

Inventory valuation

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

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash on hand	\$ 535	311
Checking accounts and demand deposits	223,273	147,875
Time deposits	207,580	171,995
Bills sold under repurchase agreements	<u>122,167</u>	<u>41,000</u>
	<u>\$ 553,555</u>	<u>361,181</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

	December 31, 2019	December 31, 2018
Mandatorily measured at fair value through profit or loss:		
Non-derivative financial assets		
Beneficiary certificate	\$ 237,529	277,113
Stocks listed on domestic markets	<u>228,496</u>	<u>152,993</u>
Total	<u>\$ 466,025</u>	<u>430,106</u>

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

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

	December 31, 2019	December 31, 2018
Financial assets at fair value through other comprehensive income:		
Unlisted stocks on domestic markets	<u>\$ 137,329</u>	<u>75,296</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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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.

In June 2019, the Group participated in the capital increase by cash of Energenisis Biomedical Co., Ltd. (Energenisis) with the amount of \$14,994 and purchased its privately placed common shares of \$19,997, resulting in the Group to obtain its ownership interest of 2.47% as of December 31, 2019.

In 2019, and 2018, no strategic investments were disposed, 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 December 31, 2019 and 2018, the Group did not provide any aforementioned financial assets as collateral for its loans.

(d) Notes and accounts receivable

	December 31, 2019	December 31, 2018
Notes receivable	\$ 19	2,360
Accounts receivable	353,564	389,736
Less: Loss allowance	(1,179)	(1,179)
	<u>\$ 352,404</u>	<u>390,917</u>

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 was determined as follows:

	December 31, 2019		
	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	\$ 306,855	-	-
1 to 30 days past due	38,822	-	-
31 to 60 days past due	6,714	-	-
61 to 90 days past due	-	-	-
91 to 180 days past due	-	-	-
181 to 270 days past due	13	-	-
More than 360 days past due	1,179	100 %	1,179
	<u>\$ 353,583</u>		<u>1,179</u>

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

	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	-	-
181 to 270 days past due	-	-	-
More than 360 days past due	1,179	100 %	1,179
	<u><u>\$ 392,096</u></u>		<u><u>1,179</u></u>

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

	2019	2018
Balance on January 1	\$ 1,179	18,142
Impairment losses recognized	-	1,179
Amounts written off	-	(18,142)
Balance on December 31	<u><u>\$ 1,179</u></u>	<u><u>1,179</u></u>

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

(e) Inventories

	December 31, 2019	December 31, 2018
Raw materials	\$ 106,971	141,204
Work in progress	103,055	123,733
Finished goods	317,055	238,135
	<u><u>\$ 527,081</u></u>	<u><u>503,072</u></u>

For the years ended December 31, 2019 and 2018, inventory cost recognized as cost of sales amounting to \$1,419,977 and \$1,190,970, 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:

	2019	2018
The write-downs (reversals)	<u><u>\$ 10,673</u></u>	<u><u>8,668</u></u>

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

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

(f) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group for the years ended December 31, 2019 and 2018 were as follows:

		Buildings and construction	Machinery and equipment	Office equipment	Others equipment	Prepayment for equipment and construction in progress	Total
Cost:	Land						
Balance on January 1, 2019	\$ 825,680	700,219	1,683,172	42,658	16,149	138,178	3,406,056
Additions	-	26,927	34,384	351	1,800	52,666	116,128
Transferred (out) in	-	21,594	7,533	-	771	(22,416)	7,482
Disposal and derecognitions	-	(10,898)	(57,589)	(2,353)	-	-	(70,840)
Balance on December 31, 2019	<u>\$ 825,680</u>	<u>737,842</u>	<u>1,667,500</u>	<u>40,656</u>	<u>18,720</u>	<u>168,428</u>	<u>3,458,826</u>
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	<u>\$ 825,680</u>	<u>700,219</u>	<u>1,683,172</u>	<u>42,658</u>	<u>16,149</u>	<u>138,178</u>	<u>3,406,056</u>
Depreciation and impairments loss:							
Balance on January 1, 2019	\$ -	314,702	1,182,640	18,474	6,076	-	1,521,892
Depreciation for the year	-	30,250	93,252	3,978	1,672	-	129,152
Disposals and derecognitions	-	(10,898)	(55,966)	(2,353)	-	-	(69,217)
Balance on December 31, 2019	<u>\$ -</u>	<u>334,054</u>	<u>1,219,926</u>	<u>20,099</u>	<u>7,748</u>	<u>-</u>	<u>1,581,827</u>
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	<u>\$ -</u>	<u>314,702</u>	<u>1,182,640</u>	<u>18,474</u>	<u>6,076</u>	<u>-</u>	<u>1,521,892</u>
Carrying amounts:							
Balance on December 31, 2019	<u>\$ 825,680</u>	<u>403,788</u>	<u>447,574</u>	<u>20,557</u>	<u>10,972</u>	<u>168,428</u>	<u>1,876,999</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 December 31, 2018	<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>

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

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(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 (according to IFRS 16)	4,113
Additions	868
Reductions	<u>(234)</u>
Balance on December 31, 2019	<u><u>\$ 4,747</u></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 year	1,929
Reductions	<u>(156)</u>
Balance on December 31, 2019	<u><u>\$ 1,773</u></u>
Carrying amount:	
Balance on January 1, 2019 (according to IFRS 16)	<u><u>\$ 4,113</u></u>
Balance on December 31, 2019	<u><u>\$ 2,974</u></u>

(h) Short-term borrowings

The details of short-term borrowings were as following:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Unsecured bank loans	<u><u>\$ -</u></u>	<u><u>-</u></u>
Unused credit line for short-term borrowings	<u><u>\$ 341,212</u></u>	<u><u>424,105</u></u>
Range of interest rates	<u><u>-</u></u>	<u><u>-</u></u>

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.

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Notes to the Consolidated Financial Statements

(i) Other payables

	December 31, 2019	December 31, 2018
Salaries payable	\$ 152,767	131,579
Others	<u>77,063</u>	<u>64,990</u>
	<u>\$ 229,830</u>	<u>196,569</u>

(j) Lease liabilities

The carrying amount of lease liabilities was as follows:

	December 31, 2019
Current	\$ <u>1,795</u>
Non-current	\$ <u>1,197</u>

Please refer to note 6(s), for maturity analysis.

The amounts recognized in profit or loss were as follows:

	2019
Interest on lease liabilities	\$ <u>52</u>
Expenses relating to short-term leases	\$ <u>1,412</u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u>300</u>
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>19</u>
Profits from the change of the lease (recorded as other income)	\$ <u>(1)</u>

The amounts recognized in the statement of cash flows for the Group was as follows:

Total cash outflow for leases	\$ <u>3,693</u>
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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.

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(k) Provisions

	Environmental protection costs
Balance at January 1, 2019	\$ 76,501
Provisions made during the year	79,326
Provisions used during the year	<u>(71,870)</u>
Balance at December 31, 2019	<u>\$ 83,957</u>
Balance at January 1, 2018	\$ 67,501
Provisions made during the year	26,436
Provisions used during the year	<u>(17,436)</u>
Balance at December 31, 2018	<u>\$ 76,501</u>

In 2019 and 2018, 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.

(l) 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, 2019	December 31, 2018
Present value of the defined benefit obligations	\$ (87,066)	(82,812)
Fair value of plan assets	<u>65,690</u>	<u>60,722</u>
Net defined benefit liabilities	<u>\$ (21,376)</u>	<u>(22,090)</u>

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 \$65,100 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.

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

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:

	<u>2019</u>	<u>2018</u>
Defined benefit obligation at January 1	\$ (82,812)	(81,748)
Current service costs and interest	(2,150)	(2,183)
Remeasurement in net defined benefit liability (assets)	(2,104)	(2,385)
Benefits paid	<u>-</u>	<u>3,504</u>
Defined benefit obligation at December 31	<u>\$ (87,066)</u>	<u>(82,812)</u>

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:

	<u>2019</u>	<u>2018</u>
Fair value of plan assets at January 1	\$ 60,722	59,694
Contributions made	2,149	2,157
Interest income	585	576
Remeasurement in net defined benefit liability (assets)	2,234	1,799
Benefits paid	<u>-</u>	<u>(3,504)</u>
Fair value of plan assets at December 31	<u>\$ 65,690</u>	<u>60,722</u>

4) Movements of the effect of the asset ceiling

In 2019 and 2018, there were no movements on the effect of the Company's defined benefit plans asset ceiling.

5) Expenses recognized in profit or loss

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

	<u>2019</u>	<u>2018</u>
Service cost	\$ 1,356	1,398
Net interest of net liabilities for defined benefit obligations	<u>209</u>	<u>209</u>
	<u>\$ 1,565</u>	<u>1,607</u>
Operating cost	\$ 1,564	1,581
Operating expenses	<u>1</u>	<u>26</u>
	<u>\$ 1,565</u>	<u>1,607</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- 6) 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, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Cumulative amount at January 1	\$ 8,024	7,438
Recognized during the year	(130)	586
Cumulative amount at December 31	<u>\$ 7,894</u>	<u>8,024</u>

- 7) Actuarial assumptions

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Discount rate as of December 31	0.70 %	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 \$2,398.

The weighted-average duration of the defined benefit obligation is 7 years.

- 8) Sensitivity analysis

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

		<u>The impact on the present value of the defined benefit obligation</u>	
		<u>Increased 0.25%</u>	<u>Decreased 0.25%</u>
As of December 31, 2019			
Discount rate	\$	(1,698)	1,753
Future salary increasing rate		1,735	(1,689)
As of December 31, 2018			
Discount rate		(1,698)	1,755
Future salary increasing rate		1,742	(1,693)

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.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2019 and 2018.

(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 \$6,769 and \$6,379 for the years ended December 31, 2019 and 2018, respectively. Payment was made to the Bureau of Labor Insurance.

(m) Income taxes

(i) Income tax expenses

The amount of income tax for the years ended December 31, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Current income tax expense		
Recognized during the period	\$ 145,929	97,496
Surtax on unappropriated earnings	-	109
Income tax estimate under (over)	<u>214</u>	<u>(3,544)</u>
	<u>146,143</u>	<u>94,061</u>
Deferred income tax expense		
Adjustment in tax rate	-	(9,366)
Recognition and reversal of temporary differences	<u>(6,084)</u>	<u>12,855</u>
	<u>(6,084)</u>	<u>3,489</u>
Income tax expense	<u>\$ 140,059</u>	<u>97,550</u>

The amount of income tax recognized in other comprehensive income for 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement in defined benefit plan	<u>\$ 26</u>	<u>(1,626)</u>

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

Reconciliation of income tax and profit before tax for 2019 and 2018 is as follows:

	2019	2018
Profit excluding income tax	\$ 711,160	544,787
Income tax using the Company's domestic tax rate	142,232	108,957
Adjustment in tax rate	-	(9,366)
Under (over) provision in prior periods	214	(3,544)
Surtax on unappropriated earnings	-	109
Other	(2,387)	1,394
	<u>\$ 140,059</u>	<u>97,550</u>

(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, 2019	December 31, 2018
Tax effect of loss carry forward	\$ 4,249	3,813

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 2019 and 2018 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, 2019	\$ 28,528	14,740	4,012	1,303	2,649	51,232
Recognized in profit or loss	2,135	1,491	(4,012)	1,928	4,495	6,037
Recognized in other comprehensive income	-	-	-	-	(26)	(26)
Balance on December 31, 2019	<u>\$ 30,663</u>	<u>16,231</u>	<u>-</u>	<u>3,231</u>	<u>7,118</u>	<u>57,243</u>

(Continued)

SCI PHARMTECH, INC. AND SUBSIDIARIES
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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, 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	<u>\$ 28,528</u>	<u>14,740</u>	<u>4,012</u>	<u>1,303</u>	<u>2,649</u>	<u>51,232</u>

	Gain on valuation of financial asset	Foreign exchange gain	Total
Deferred tax liabilities:			
Balance on January 1, 2019	\$ -	47	47
Recognized in profit or loss	-	(47)	(47)
Recognized in other comprehensive income	-	-	-
Balance on December 31, 2019	<u>\$ -</u>	<u>-</u>	<u>-</u>
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	<u>\$ -</u>	<u>47</u>	<u>47</u>

(iii) Examination and approval

The ROC tax authorities have examined the Company's and Yushan Pharmaceuticals Inc.'s income tax returns through 2017.

- (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, 2019, 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(Assessed)	1,139	2027
2018(Filed)	825	2028
2019(Estimated)	2,177	2029
	<u>\$ 21,245</u>	

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

(n) Capital and other equity

As of December 31, 2019 and 2018, 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, 2019 and 2018 were as follows:

	December 31, 2019	December 31, 2018
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
	<u>\$ 1,348,339</u>	<u>1,348,339</u>

According to the R.O.C. Company Act, capital surplus can only be used to offset a deficit, and only the realized capital surplus can be used to increase the common stock or be distributed as cash dividends. The aforementioned realized capital surplus includes capital surplus resulting from premium on issuance of capital stock and earnings from donated assets received. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases by transferring capital surplus in excess of par value should not exceed 10% of the total common stock outstanding.

(ii) Retained Earnings

The Company's article of incorporation stipulates 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

When a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash, and only the portion of legal reserve which exceeds 25% of capital may be distributed.

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

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 21, 2019 and June 26, 2018, the appropriations of dividends from the distributable retained earnings of 2018 and 2017 were as follows:

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

On March 13, 2020, the Company's Board of Directors resolved to appropriate the 2019 earnings. These earnings were appropriated as follows:

	2019	
	Amount per share (dollars)	Total amount
Dividends distributed to ordinary shareholders:		
Cash	\$ <u>5.80</u>	<u>461,015</u>

(iv) Other equity (net of tax)

	Financial assets measured at fair value through other comprehensive income	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>27,042</u>	<u>-</u>	<u>27,042</u>
Balance at December 31, 2019	\$ <u>22,254</u>	<u>-</u>	<u>22,254</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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	Financial assets measured at fair value through other comprehensive income	Unearned employee benefit	Total
Balance at January 1, 2018	\$ (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	<u>\$ (4,788)</u>	<u>-</u>	<u>(4,788)</u>

(o) 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:

	2019	2018
Outstanding shares on January 1	-	92
Vested during the period	-	(92)
Outstanding shares on December 31	<u>-</u>	<u>-</u>

The compensation cost related to the restricted stock amounted to \$160 for the year ended December 31, 2018.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(p) Earnings per share

The calculation of basic earnings per share and diluted earnings per share for the year 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Basic earnings per share		
Profit attributable to ordinary shareholders of the Company	\$ <u>571,101</u>	<u>447,237</u>
Weighted-average number of ordinary shares (thousand shares)	<u>79,485</u>	<u>79,470</u>
	<u>\$ 7.19</u>	<u>5.63</u>
Diluted earnings per share		
Profit attributable to ordinary shareholders of the Company	\$ <u>571,101</u>	<u>447,237</u>
Weighted-average number of ordinary shares (thousand shares)	79,485	79,470
Effect of potentially dilutive ordinary shares:		
Effect of employee compensation	749	820
Effect of restricted employee shares unvested	<u>-</u>	<u>-</u>
Weighted-average number of ordinary shares (thousand shares) (diluted)	<u>80,234</u>	<u>80,290</u>
	<u>\$ 7.12</u>	<u>5.57</u>

(q) Revenue from contracts with customers

(i) Disaggregation of revenue

	<u>2019</u>	<u>2018</u>
Primary geographical markets:		
Spain	\$ 399,767	237,027
Italy	385,807	231,298
United States	315,998	590,203
Japan	258,866	115,402
Taiwan	221,055	216,809
India	172,716	128,223
Switzerland	149,056	122,870
Netherlands	139,899	83,066
Others	<u>312,583</u>	<u>215,015</u>
	<u>\$ 2,355,747</u>	<u>1,939,913</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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	<u>2019</u>	<u>2018</u>
Major products		
Active Pharmaceutical Ingredients	\$ 1,546,269	1,199,068
Intermediates	627,963	583,789
Specialty Chemical	<u>181,515</u>	<u>157,056</u>
	<u>\$ 2,355,747</u>	<u>1,939,913</u>

(ii) Contract balances

	<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>January 1, 2018</u>
Notes and accounts receivable	\$ 353,583	392,096	191,769
Less: allowance for impairment	<u>(1,179)</u>	<u>(1,179)</u>	<u>(18,142)</u>
Total	<u>\$ 352,404</u>	<u>390,917</u>	<u>173,627</u>
Contract liabilities (sales received in advance)	<u>\$ 59,092</u>	<u>30,403</u>	<u>24,579</u>

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.

(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 years ended December 31, 2019 and 2018, the remunerations to employees amounted to \$69,459 and \$53,166, respectively, and the remunerations to directors amounted to \$9,301 and \$7,204, 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 2019 and 2018 financial statements. Related information would be available at the Market Observation Post System website.

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

(s) Financial Instruments

(i) Credit risk

1) Credit risk exposure

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

2) Concentration of 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) Receivables and debt securities

a) For credit risk exposure of notes and trade receivables, please refer to note 6(d).

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>
December 31, 2019					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 94,302	(94,302)	(94,302)	-	-
Lease liabilities (including current and non-current)	2,992	(3,038)	(1,826)	(801)	(411)
Other payables	67,732	(67,732)	(67,732)	-	-
Payables on contractors and equipment	16,605	(16,605)	(16,605)	-	-
	<u>\$ 181,631</u>	<u>(181,677)</u>	<u>(180,465)</u>	<u>(801)</u>	<u>(411)</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	88,047	(88,047)	(88,047)	-	-
	<u>\$ 233,305</u>	<u>(233,305)</u>	<u>(233,305)</u>	<u>-</u>	<u>-</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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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, 2019			December 31, 2018		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD to TWD	\$ 19,088	29.93	571,304	15,471	30.665	474,418
EUR to TWD	2,124	33.39	70,920	1,655	35.00	57,925
Financial liabilities						
Monetary items						
USD to TWD	1,830	29.93	54,772	1,722	30.665	52,805

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 as of December 31, 2019 and 2018 would have affected the net profit before tax increased or decreased \$5,875 and \$4,795, respectively, for the years ended December 31, 2019 and 2018. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary items

Since the Group has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2019 and 2018, foreign exchange gain (loss) (including realized and unrealized portions) amounted to \$(9,968) and \$16,482, respectively.

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

(iv) Interest rate analysis

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

	Carrying amount	
	December 31, 2019	December 31, 2018
Financial assets	\$ 223,008	147,437
Financial liabilities	-	-

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is based on 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 the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.25%, the Group's net profit before tax would have increased or decreased by \$558 and \$369, respectively, for the years ended December 31, 2019 and 2018, with all other variable factors remaining constant. This is mainly due to the Group's 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 were as follows; 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:

	December 31, 2019				
	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	\$ 466,025	466,025	-	-	466,025
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	137,329	28,710	-	108,619	137,329

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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December 31, 2019					
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	553,555	-	-	-	-
Notes and accounts receivable	352,404	-	-	-	-
Other receivables	4,516	-	-	-	-
Refunded deposits (recognized as other non-current assets)	7,483	-	-	-	-
Subtotal	917,958				
Total	<u>\$ 1,521,312</u>				
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 94,302	-	-	-	-
Lease liabilities (including current and non-current)	2,992	-	-	-	-
Other payables	67,732	-	-	-	-
Payables on contractors and equipment	16,605	-	-	-	-
Total	<u>\$ 181,631</u>				
December 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	\$ 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	-	-	-	-
Subtotal	764,239				
Total	<u>\$ 1,269,641</u>				
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 89,156	-	-	-	-
Other payables	56,102	-	-	-	-
Payables on contractors and equipment	88,047	-	-	-	-
Total	<u>\$ 233,305</u>				

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

2) Valuation techniques for financial instruments not measured at fair value

The Group's valuation techniques and assumptions used for financial instruments not measured at fair value are as follows:

a) Financial assets and liabilities measured at amortized cost

If there is quoted price generated by transactions, the recent transaction price and quoted price data is used as the basis for fair value measurement. However, if no quoted prices are available, the discounted cash flows are used to estimate fair values.

3) Valuation techniques for 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 a valuation technique or quoted price from a competitor. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable 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 years ended December 31, 2019 and 2018, there was no transfer from one level to another.

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5) Reconciliation of Level 3 fair values

	<u>Fair value through other comprehensive income</u>
	<u>Unquoted equity instruments</u>
January 1, 2019	\$ 75,296
Total gains and losses recognized:	
In other comprehensive income	13,326
Purchased	<u>19,997</u>
December 31, 2019	\$ <u>108,619</u>
January 1, 2018	\$ 42,366
Total gains and losses recognized:	
In other comprehensive income	2,939
Purchased	<u>29,991</u>
December 31, 2018	\$ <u>75,296</u>

For the years ended December 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:

	<u>2019</u>	<u>2018</u>
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”	\$ 13,326	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 – 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:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Fair value through other comprehensive income—equity investments without an active market	Price-Book ratio method	· The multiplier of Price-Book Ratio (As of December 31, 2019 and 2018 were 1.91 and 1.84, respectively)	The higher the fair value is, the higher the multiplier will be.
//	//	· Lack-of-Marketability discount rate (As of December 31, 2019 and 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 December 31, 2019 and 2018 were 19.03%–23.38% 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:

			Other comprehensive income	
	Inputs	Move up or downs	Favorable	Unfavorable
December 31, 2019				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>1,902</u>	<u>1,902</u>
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ <u>2,801</u>	<u>2,801</u>
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>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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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

(i) Overview

The Group have exposures to the following risks from its financial instruments:

- 1) credit risk
- 2) liquidity risk
- 3) market risk

The following likewise discusses the Group's objectives, policies and processes for measuring and managing the above mentioned risks. For more disclosures about the quantitative effects of these risk exposures, please refer to the respective notes in the accompanying consolidated financial statements.

(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 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.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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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 exposure to credit risk for the bank deposits, fixed income investments, and other financial instruments is measured and monitored by the Group's finance department. The Group only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Group does not expect any counterparty above fails to meet its obligations hence there is no significant credit risk arising from these counterparties.

3) Guarantees

The Group's policy is to provide financial guarantees only to wholly owned subsidiaries. As of December 31, 2019 and 2018, no other guarantees were outstanding.

(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, 2019 and 2018.

(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.

(Continued)

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

1) Currency risk

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

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

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

2) Interest rate risk

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

(u) 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 liability.

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, 2019 and 2018. The ratio of debt to capital in December 31, 2019 and 2018 is as follows:

	December 31, 2019	December 31, 2018
Total loan	\$ -	-
less: cash and cash equivalents	<u>553,555</u>	<u>361,181</u>
Net debt	\$ <u>-</u>	<u>-</u>
Total equity	\$ <u>3,474,640</u>	<u>3,210,231</u>
Debt-to-equity ratio	<u>-</u> %	<u>-</u> %

(Continued)

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

(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 for the years ended December 31, 2019 and 2018, were as follows:

- (i) There were no non-cash investing activities for the year ended December 31, 2018. For the acquisition of right-of-use assets by lease for the year ended December 31, 2019, please refer to note 6(g).
- (ii) There were no liabilities arising from financing activities for the year ended December 31, 2018, and reconciliation of liabilities arising from financing activities for the year ended December 31, 2019, was as follows:

	January 1, 2019	Cash flows	Non-cash changes Others	December 31, 2019
Lease liabilities	\$ 4,113	(1,910)	789	2,992

(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

	2019	2018
Salary and short-term employee benefits	\$ 43,333	33,630

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Assets	Subject	December 31, 2019	December 31, 2018
Land	Pledged as collaterals	\$ 42,736	42,736
Building	"	4,842	5,799
		\$ 47,578	48,535

(Continued)

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

(9) Commitments and contingencies:

- (a) As of December 31, 2019 and 2018, the unused balance of the Group's outstanding standby letters of credit amounted to \$8,788 and \$5,895, respectively.
- (b) The significant outstanding purchase commitments for property, plant and equipment was as follows:

	December 31, 2019	December 31, 2018
Acquisitions of property, plant and equipment	<u>\$ 41,087</u>	<u>109,810</u>

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

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

By function By item	2019			2018		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	208,502	98,121	306,623	180,012	89,442	269,454
Labor and health insurance	14,067	4,539	18,606	12,343	3,855	16,198
Pension	6,671	1,663	8,334	6,402	1,584	7,986
Remuneration of directors	-	9,301	9,301	-	7,204	7,204
Others	3,250	9,327	12,577	3,216	7,426	10,642
Depreciation	111,654	19,427	131,081	109,122	18,688	127,810
Amortization	1,738	3,912	5,650	995	3,597	4,592

(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 year ended December 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
Notes to the Consolidated Financial Statements

- (iii) Securities held as of December 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				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	46,304	- %	46,304	2,760	- %	
"	Beneficiary Certificate (Cathay Taiwan Money Market Fund)	-	"	4,093	51,111	- %	51,111	4,093	- %	
"	Beneficiary Certificate (Nomura Taiwan Money Market)	-	"	1,273	20,857	- %	20,857	1,273	- %	
"	Beneficiary Certificate (Taishin 1699 Money Market Fund)	-	"	3,592	48,797	- %	48,797	3,592	- %	
"	Beneficiary Certificate (Yuanta USD Money Market Fund-USD)	-	"	99	31,478	- %	31,478	99	- %	
"	Beneficiary Certificate (Nomura Global Short Duration Bond Fund)	-	"	2,840	30,699	- %	30,699	2,840	- %	
"	Beneficiary Certificate (Fubon China Policy Bank Bond ETF)	-	"	420	8,283	- %	8,283	420	- %	
"	Stock (Fubon S&P Preferred Shares A)	-	"	793	51,862	- %	51,862	793	- %	
"	Stock (Fubon S&P Preferred Shares B)	-	"	36	2,315	- %	2,315	36	- %	
"	Stock (TAISHIN FINANCIAL HOLDING CO., LTD. Preferred Stock E)	-	"	400	22,160	- %	22,160	400	- %	
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A)	-	"	790	50,718	- %	50,718	790	- %	
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock B)	-	"	33	2,113	- %	2,113	33	- %	
"	Stock (Cathay Financial Holding Co., Ltd. Common Stock)	-	"	28	1,204	- %	1,204	28	- %	
"	Stock (Fubon S&P US Preferred Stock)	-	"	1,400	27,412	- %	27,412	1,400	- %	
"	Stock (CTBC Financial Holding Co., Ltd. Preferred Shares B)	-	"	685	45,347	- %	45,347	685	- %	
"	Stock (Shin Kong Financial Holding Co., Ltd. Preferred Shares A)	-	"	552	25,365	- %	25,365	552	- %	
"	Stock (Energenis Biomedical Co., Ltd.)	-	Financial assets at fair value through other comprehensive income	1,458	99,280	2.47 %	99,280	1,458	2.47 %	
"	Stock (Sunny Pharmtech Inc.)	-	"	4,497	38,049	3.47 %	38,049	4,497	4.02 %	

- (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) Related-party transactions for purchases and sales 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.

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

(ix) Trading in derivative instruments: None.

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

(b) Information on investees:

The following is the information on investees for the year ended December 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 December 31, 2019			Highest		Net income (losses) of investee	Share of profits/losses of investee	Note
				December 31, 2019	December 31, 2018	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	-	- %	-	12,485	100 %	(124)	(124)	Note 1 + 3
"	Yushan Pharmaceuticals Inc.	R.O.C	The research and development, manufacture and sale of API	351,761	-	35,190	100 %	349,723	35,190	100 %	(2,177)	(2,038)	Note 2 + 3
Yushan Holding Universal Ltd.	Yushan Pharmaceuticals Inc.	R.O.C	The research and development, manufacture and sale of API	-	371,000	-	- %	-	37,100	100 %	(2,177)	(139)	Note 2 + 3

Note 1 : Yushan Holding Universal Ltd. had completed its liquidation procedure in May 2019.

Note 2 : Yushan was a subsidiary of Yushan Holding Universal Ltd.. Beginning April 2019, however, Yushan became a subsidiary of the Group due to the Group's adjustment on its organization structure.

Note 3 : The transactions had been eliminated in the consolidated financial statements.

(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

<u>Products and Services</u>	<u>2019</u>	<u>2018</u>
API	\$ 1,546,269	1,199,068
Intermediates	627,963	583,789
Specialty chemicals	181,515	157,056
	<u>\$ 2,355,747</u>	<u>1,939,913</u>

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

(c) Geographic information

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

(i) Revenue from external customers:

<u>Country</u>	<u>2019</u>	<u>2018</u>
Revenue from external customers:		
Spain	\$ 399,767	237,027
Italy	385,807	231,298
United States	315,998	590,203
Japan	258,866	115,402
Taiwan	221,055	216,809
India	172,716	128,223
Switzerland	149,056	122,870
Netherlands	139,899	83,066
Others	312,583	215,015
	<u>\$ 2,355,747</u>	<u>1,939,913</u>

(i) Non-current Assets:

<u>Country</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non-current asset:		
Taiwan	\$ <u>1,950,887</u>	<u>1,955,632</u>

Non-current assets include plant, property, and equipment, intangible assets, and other assets, excluding financial instruments and 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:

	<u>2019</u>	<u>2018</u>
A Company	\$ 321,538	229,413
G Company	286,703	166,976
B Company	90,234	291,281
	<u>\$ 698,475</u>	<u>687,670</u>

