

SCI PHARMTECH, INC. AND SUBSIDIARIES**Consolidated Financial Statements****With Independent Auditors' Review Report
For the Three Months Ended March 31, 2020 and 2019**

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The independent auditors' review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' review report and consolidated financial statements, the Chinese version shall prevail.

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of SCI Pharmtech, Inc. and its subsidiaries as of March 31, 2020 and 2019, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of SCI Pharmtech, Inc. and its subsidiaries as of March 31, 2020 and 2019, and of its consolidated financial performance and its consolidated cash flows for the three months ended March 31, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)
May 8, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

The independent auditors’ review report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors’ review report and consolidated financial statements, the Chinese version shall prevail.

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2020, December 31, 2019, and March 31, 2019

(expressed in thousands of New Taiwan dollars)

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

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2020 and 2019

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

		For the three months ended March 31			
		2020		2019	
		Amount	%	Amount	%
4110	Sales revenue (note 6(p))	\$ 784,328	100	603,687	100
5110	Cost of sales (notes 6(e), 6(l) and 12)	425,911	54	338,373	56
5900	Gross profit	<u>358,417</u>	<u>46</u>	<u>265,314</u>	<u>44</u>
Operating expenses (notes 6(l) and 12):					
6100	Selling expenses	30,355	4	32,566	5
6200	Administrative expenses	37,628	5	29,231	5
6300	Research and development expenses	<u>10,232</u>	<u>1</u>	<u>9,749</u>	<u>2</u>
		<u>78,215</u>	<u>10</u>	<u>71,546</u>	<u>12</u>
6900	Net operating income	<u>280,202</u>	<u>36</u>	<u>193,768</u>	<u>32</u>
Non-operating income and expenses:					
7190	Other income	1,230	-	2,135	-
7101	Interest income from bank deposits	1,463	-	814	-
7235	Gains on financial assets (liabilities) at fair value through profit or loss	(21,606)	(3)	4,767	1
7510	Interest expense (note 6(j))	(10)	-	(15)	-
7590	Miscellaneous disbursements	(128)	-	(93)	-
7630	Foreign exchange gains (losses)	<u>4,664</u>	<u>1</u>	<u>2,490</u>	<u>1</u>
		<u>(14,387)</u>	<u>(2)</u>	<u>10,098</u>	<u>2</u>
7900	Profit before tax	<u>265,815</u>	<u>34</u>	<u>203,866</u>	<u>34</u>
7950	Less: Income tax expenses (note 6(m))	<u>57,484</u>	<u>7</u>	<u>39,820</u>	<u>7</u>
	Profit	<u>208,331</u>	<u>27</u>	<u>164,046</u>	<u>27</u>
8300	Other comprehensive income:				
8310	Items that may not be reclassified subsequently to profit or loss:				
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(34,601)	(5)	(7,077)	(1)
8349	Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(m))	-	-	-	-
8300	Other comprehensive income, net	<u>(34,601)</u>	<u>(5)</u>	<u>(7,077)</u>	<u>(1)</u>
8500	Total comprehensive income	<u>\$ 173,730</u>	<u>22</u>	<u>156,969</u>	<u>26</u>
Earnings per share (note 6(o)):					
9750	Basic earnings per share	<u>\$ 2.62</u>		<u>2.06</u>	
9850	Diluted earnings per share	<u>\$ 2.60</u>		<u>2.05</u>	

See accompanying notes to consolidated financial statements.

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

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the three months ended March 31, 2020 and 2019
(expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent					Other equity interest	
	Ordinary shares	Capital surplus	Retained earnings			Unrealized gains (losses) on financial assets measured at fair value	through other comprehensive income
			Legal reserve	Special reserve	Unappropriated retained earnings		
Balance at January 1, 2019	\$ 794,853	1,348,339	288,248	7,727	775,852	(4,788)	3,210,231
Profit for the three months ended March 31, 2019	-	-	-	-	164,046	-	164,046
Other comprehensive income for the three months ended March 31, 2019	-	-	-	-	-	(7,077)	(7,077)
Total comprehensive income for the three months ended March 31, 2019	-	-	-	-	164,046	(7,077)	156,969
Balance at March 31, 2019	<u>\$ 794,853</u>	<u>1,348,339</u>	<u>288,248</u>	<u>7,727</u>	<u>939,898</u>	<u>(11,865)</u>	<u>3,367,200</u>
Balance at January 1, 2020	\$ 794,853	1,348,339	332,971	4,788	971,435	22,254	3,474,640
Profit for the three months ended March 31, 2020	-	-	-	-	208,331	-	208,331
Other comprehensive income for the three months ended March 31, 2020	-	-	-	-	-	(34,601)	(34,601)
Total comprehensive income for the three months ended March 31, 2020	-	-	-	-	208,331	(34,601)	173,730
Balance at March 31, 2020	<u>\$ 794,853</u>	<u>1,348,339</u>	<u>332,971</u>	<u>4,788</u>	<u>1,179,766</u>	<u>(12,347)</u>	<u>3,648,370</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019

(expressed in Thousands of New Taiwan Dollars)

	For the three months ended March 31	
	2020	2019
Cash flows from (used in) operating activities:		
Profit before tax	\$ 265,815	203,866
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation expense	33,070	32,537
Amortization expense	1,470	1,318
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	21,606	(4,767)
Interest expense	10	15
Interest income	(1,463)	(814)
	<u>54,693</u>	<u>28,289</u>
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	(152,052)	58,074
Decrease (increase) in inventories	103,536	(14,521)
Decrease (increase) in other current assets	(3,791)	(5,326)
Increase (decrease) in notes and accounts payable	(24,187)	13,095
Increase (decrease) in contract liabilities	2,634	18,228
Increase (decrease) in other payable	(3,751)	(11,347)
Increase (decrease) in provisions	2,124	6,743
Increase (decrease) in other current liabilities	10,510	(2,917)
Increase (decrease) in provision for employee benefits, non-current	(203)	(140)
	<u>(10,487)</u>	<u>90,178</u>
Cash flow from (used in) operations	255,328	294,044
Interest received	1,463	814
Interest paid	(10)	(15)
Income taxes paid	(141)	-
Net cash flows from (used in) operating activities	<u>256,640</u>	<u>294,843</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through profit or loss	(112,749)	-
Acquisition of property, plant and equipment	(17,667)	(67,835)
Acquisition of intangible assets	-	(2,800)
Decrease (increase) in prepayments of property, plant and equipment	(24,541)	(8,238)
Decrease in refunded deposits	1,725	-
Net cash flows from (used in) investing activities	<u>(153,232)</u>	<u>(78,873)</u>
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(496)	(465)
Net cash flows from (used in) financing activities	<u>(496)</u>	<u>(465)</u>
Net increase in cash and cash equivalents	102,912	215,505
Cash and cash equivalents at beginning of period	<u>553,555</u>	<u>361,181</u>
Cash and cash equivalents at end of period	<u>\$ 656,467</u>	<u>576,686</u>

See accompanying notes to consolidated financial statements.

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

SCI PHARMTECH, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

March 31, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on May 8, 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, 2020.

<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, IAS 39 and IFRS 7 “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.

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

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

(Continued)

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

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:

(a) Statement of compliance

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

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2019. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2019.

(b) Basis of Consolidation

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

Name of investor	Name of subsidiary	Principal activity	Shareholding				Note
			March 31, 2020	December 31, 2019	March 31, 2019		
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 %	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.

(Continued)

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

(c) Income taxes

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

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

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

(d) Employee benefits

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

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

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

The preparation of the consolidated interim financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2019. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2019.

(6) Explanation of significant accounts:

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2019. Please refer to note 6 of the 2019 annual consolidated financial statements.

(a) Cash and cash equivalents

	March 31, 2020	December 31, 2019	March 31, 2019
Cash on hand	\$ 506	535	358
Checking accounts and demand deposits	192,137	223,273	229,248
Time deposits	254,312	207,580	203,080
Bills sold under repurchase agreements	209,512	122,167	144,000
	<u><u>\$ 656,467</u></u>	<u><u>553,555</u></u>	<u><u>576,686</u></u>

(Continued)

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

- (i) The Group did not provide cash and cash equivalents as collateral for its loans.
- (ii) Please refer to note 6(r) for the interest rate risk and sensitivity analysis of the financial assets and liabilities of the Group.
- (b) Financial assets and liabilities at fair value through profit or loss

	March 31, 2020	December 31, 2019	March 31, 2019
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Beneficiary certificate	\$ 326,033	237,529	278,749
Stocks listed on domestic markets	<u>231,135</u>	<u>228,496</u>	<u>156,124</u>
Total	<u><u>\$ 557,168</u></u>	<u><u>466,025</u></u>	<u><u>434,873</u></u>

The Group did not provide any aforementioned financial assets as collateral for its loans as of March 31, 2020, December 31, 2019 and March 31, 2019, respectively.

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

	March 31, 2020	December 31, 2019	March 31, 2019
Financial assets at fair value through other comprehensive income:			
Unlisted stocks on domestic markets	<u><u>\$ 102,728</u></u>	<u><u>137,329</u></u>	<u><u>68,219</u></u>

Except for the following disclosure, there was no significant change for non-current financial assets at fair value through other comprehensive income for the three months ended March 31, 2020 and 2019. For the related information, please refer to note 6(c) of the consolidated financial statements for the year ended December 31, 2019.

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

No strategic investments were disposed as of March 31, 2020 and 2019, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

As of March 31, 2020, December 31, 2019 and March 31, 2019, the Group did not provide any aforementioned financial assets as collateral for its loans.

(Continued)

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

(d) Notes and accounts receivable

	March 31, 2020	December 31, 2019	March 31, 2019
Notes receivable	\$ 1,532	19	175
Accounts receivable	504,103	353,564	333,847
Less: Loss allowance	(1,179)	(1,179)	(1,179)
	<u>\$ 504,456</u>	<u>352,404</u>	<u>332,843</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:

	March 31, 2020		
	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	\$ 378,463	-	-
1 to 30 days past due	108,043	-	-
31 to 60 days past due	11,630	-	-
61 to 90 days past due	6,307	-	-
91 to 180 days past due	-	-	-
181 to 270 days past due	-	-	-
271 to 360 days past due	13	-	-
More than 360 days past due	1,179	100 %	1,179
	<u>\$ 505,635</u>		<u>1,179</u>

	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>

(Continued)

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

	March 31, 2019		
	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	\$ 302,249	-	-
1 to 30 days past due	28,628	-	-
31 to 60 days past due	33	-	-
61 to 90 days past due	1,933	-	-
91 to 180 days past due	-	-	-
181 to 270 days past due	-	-	-
271 to 360 days past due	-	-	-
More than 360 days past due	<u>1,179</u>	100 %	<u>1,179</u>
	<u>\$ 334,022</u>		<u>1,179</u>

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

	For the three months ended March 31,	
	2020	2019
Balance on January 1 (Balance on March 31)	<u>\$ 1,179</u>	<u>1,179</u>

As of March 31, 2020, December 31, 2019 and March 31, 2019, the Group did not provide any aforementioned notes and accounts receivable as collaterals for its loans.

(e) Inventories

	March 31, 2020	December 31, 2019	March 31, 2019
Raw materials	\$ 96,008	106,971	156,248
Work in progress	65,774	103,055	119,475
Finished goods	<u>261,763</u>	<u>317,055</u>	<u>241,870</u>
	<u>\$ 423,545</u>	<u>527,081</u>	<u>517,593</u>

For the three months ended March 31, 2020 and 2019, inventory cost recognized as cost of sales amounting to \$425,911 and \$338,373, respectively.

(Continued)

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

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

	For the three months ended March 31,	
	2020	2019
	\$	\$
The write-downs (reversals)	<u><u>(639)</u></u>	<u><u>2,333</u></u>

As of March 31, 2020, December 31, 2019 and March 31, 2019, the Group did not provide any inventories as collaterals for its loans.

(f) Property, plant and equipment

	Land	Buildings and construction	Machinery and equipment	Office equipment	Others equipment	Prepayment for equipment and construction in progress	Total
Cost:							
Balance on January 1, 2020	\$ 825,680	737,842	1,667,500	40,656	18,720	168,428	3,458,826
Additions	-	-	1,752	367	-	26,701	28,820
Transferred (out) in	-	-	16,325	-	-	(5,000)	11,325
Disposal and derecognitions	-	(1,051)	(6,568)	(24)	-	-	(7,643)
Balance on March 31, 2020	<u><u>\$ 825,680</u></u>	<u><u>736,791</u></u>	<u><u>1,679,009</u></u>	<u><u>40,999</u></u>	<u><u>18,720</u></u>	<u><u>190,129</u></u>	<u><u>3,491,328</u></u>
Balance on January 1, 2019	\$ 825,680	700,219	1,683,172	42,658	16,149	138,178	3,406,056
Additions	-	-	5,011	142	-	22,714	27,867
Transferred (out) in	-	-	164	-	-	-	164
Disposal and derecognitions	-	-	(2,240)	-	-	-	(2,240)
Balance on March 31, 2019	<u><u>\$ 825,680</u></u>	<u><u>700,219</u></u>	<u><u>1,686,107</u></u>	<u><u>42,800</u></u>	<u><u>16,149</u></u>	<u><u>160,892</u></u>	<u><u>3,431,847</u></u>
Depreciation and impairments loss:							
Balance on January 1, 2020	\$ -	334,054	1,219,926	20,099	7,748	-	1,581,827
Depreciation for the period	-	7,997	23,185	993	398	-	32,573
Disposals and derecognitions	-	(1,051)	(6,568)	(24)	-	-	(7,643)
Balance on March 31, 2020	<u><u>\$ -</u></u>	<u><u>341,000</u></u>	<u><u>1,236,543</u></u>	<u><u>21,068</u></u>	<u><u>8,146</u></u>	<u><u>-</u></u>	<u><u>1,606,757</u></u>
Balance on January 1, 2019	\$ -	314,702	1,182,640	18,474	6,076	-	1,521,892
Depreciation for the period	-	7,414	23,243	1,002	406	-	32,065
Disposals and derecognitions	-	-	(2,240)	-	-	-	(2,240)
Balance on March 31, 2019	<u><u>\$ -</u></u>	<u><u>322,116</u></u>	<u><u>1,203,643</u></u>	<u><u>19,476</u></u>	<u><u>6,482</u></u>	<u><u>-</u></u>	<u><u>1,551,717</u></u>

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

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Others equipment</u>	<u>Prepayment for equipment and construction in progress</u>	<u>Total</u>
Carrying amounts:							
Balance on January 1, 2020	\$ <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 March 31, 2020	\$ <u>825,680</u>	<u>395,791</u>	<u>442,466</u>	<u>19,931</u>	<u>10,574</u>	<u>190,129</u>	<u>1,884,571</u>
Balance on January 1, 2019	\$ <u>825,680</u>	<u>385,517</u>	<u>500,532</u>	<u>24,184</u>	<u>10,073</u>	<u>138,178</u>	<u>1,884,164</u>
Balance on March 31, 2019	\$ <u>825,680</u>	<u>378,103</u>	<u>482,464</u>	<u>23,324</u>	<u>9,667</u>	<u>160,892</u>	<u>1,880,130</u>

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

As of March 31, 2020, December 31, 2019 and March 31, 2019, part of the property, plant and equipment the Group had provided at collateral for its loans. Please refer to note 8 for details.

(g) Right-of-use assets

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

	<u>Right-of-use assets</u>
Cost:	
Balance on January 1, 2020 (Balance on March 31, 2020)	\$ <u><u>4,747</u></u>
Balance on January 1, 2019 (Balance on March 31, 2019)	\$ <u><u>4,113</u></u>
Accumulated depreciation:	
Balance on January 1, 2020	\$ 1,773
Depreciation for the period	<u>497</u>
Balance on March 31, 2020	\$ <u><u>2,270</u></u>
Balance on January 1, 2019	\$ -
Depreciation for the period	<u>472</u>
Balance on March 31, 2019	\$ <u><u>472</u></u>
Carrying amount:	
Balance on January 1, 2020	\$ <u><u>2,974</u></u>
Balance on March 31, 2020	\$ <u><u>2,477</u></u>
Balance on January 1, 2019	\$ <u><u>4,113</u></u>
Balance on March 31, 2019	\$ <u><u>3,641</u></u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(h) Short-term borrowings

The details of short-term borrowings were as following:

	March 31, 2020	December 31, 2019	March 31, 2019
Unsecured bank loans	\$ <u>-</u>	<u>-</u>	<u>-</u>
Unused credit line for short-term borrowings	\$ <u>338,038</u>	<u>341,212</u>	<u>340,673</u>
Range of interest rates	<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(r) for the information of interest risk, foreign currency risk and liquidity risk.

(i) Other payables

	March 31, 2020	December 31, 2019	March 31, 2019
Salaries payable	\$ 142,365	152,767	125,234
Others	<u>83,714</u>	<u>77,063</u>	<u>59,988</u>
	<u>\$ 226,079</u>	<u>229,830</u>	<u>185,222</u>

(j) Lease liabilities

The carrying amount of lease liabilities was as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Current	\$ <u>1,681</u>	<u>1,795</u>	<u>1,878</u>
Non-current	<u>\$ 815</u>	<u>1,197</u>	<u>1,770</u>

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

	For the three months ended March 31,	
	2020	2019
The amounts recognized in profit or loss were as follows:		
Interest on lease liabilities	\$ <u>10</u>	<u>15</u>
Expenses relating to short-term leases	\$ <u>540</u>	<u>406</u>
Variable lease payments not included in the measurement of lease liabilities	\$ <u>153</u>	<u>51</u>
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>68</u>	<u>10</u>

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

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

Total cash outflow for leases	\$ <u>1,267</u>	<u>947</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.

(k) Provisions

There were no significant changes in provisions for the three months ended March 31, 2020 and 2019. Please refer to note 6(k) of the consolidated financial statements for the year ended December 31, 2019 for other related information.

(l) Employee benefits

(i) Defined benefit plans

Management believes that there was no material volatility of the market, no material reimbursement and settlement or other material one-time events since prior fiscal year. As a result, the pension cost in the accompanying interim period was measured and disclosed according to the actuarial report as of December 31, 2019 and 2018.

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

	For the three months ended March 31,	
	2020	2019
Operating cost	\$ 387	385
Operating expenses	<u>(57)</u>	<u>6</u>
	<u>\$ 330</u>	<u>391</u>

(ii) Defined contribution plans

The Group's expenses under the pension plan cost to the Bureau of Labor Insurance for the three months ended March 31, 2020 and 2019 were as follows:

	For the three months ended March 31,	
	2020	2019
Operating cost	\$ 1,305	1,248
Selling expenses	65	66
Administration expenses	161	157
Research expenses	<u>190</u>	<u>181</u>
	<u>\$ 1,721</u>	<u>1,652</u>

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

(m) Income taxes

- (i) The income tax expense in the interim financial statements is measured and disclosed accordance to paragraph B12 of IAS 34 “International Financial Reporting”.
- (ii) The income tax expenses for the three months ended March 31, 2020 and 2019 were calculated as follows:

	For the three months ended March 31,	
	2020	2019
Current income tax expense	\$ <u>57,484</u>	<u>39,820</u>

- (iii) The amount of income tax recognized in other comprehensive income for the three months ended March 31, 2020 and 2019 were as follows:

	For the three months ended March 31,	
	2020	2019
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement from defined benefit plans	\$ <u>-</u>	<u>-</u>

(iv) Examination and approval

The ROC tax authorities have examined the Company’s and Yushan Pharmaceuticals Inc.’s income tax returns through 2018.

(n) Capital and other equity

Except for the following disclosure, there was no significant change for capital and other equity for the periods from January 1 to March 31, 2020 and 2019. For the related information, please refer to note 6(n) of the consolidated financial statements for the year ended December 31, 2019.

(i) 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.

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

(ii) Earnings distribution

On March 13, 2020, the Company's Board of Directors resolved to appropriate the 2019 earnings. On June 21, 2019, the shareholder's meeting resolved to distribute the 2018 earnings. These earnings were appropriated as follows:

	2019		2018	
	Amount per share (dollars)	Total amount	Amount per share (dollars)	Total amount
Dividends distributed to ordinary shareholders:				
Cash	<u>\$ 5.80</u>	<u>461,015</u>	<u>4.20</u>	<u>333,838</u>

(iii) Other equity (net of tax)

	Financial assets measured at fair value through other comprehensive income
Balance at January 1, 2020	\$ 22,254
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(34,601)
Balance at March 31, 2020	<u>\$ (12,347)</u>
Balance at January 1, 2019	\$ (4,788)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(7,077)
Balance at March 31, 2019	<u>\$ (11,865)</u>

(o) Earnings per share

For the three months ended March 31, 2020 and 2019, the Company's earnings per share were calculated as follows:

	For the three months ended March 31,	
	2020	2019
Basic earnings per share		
Profit attributable to ordinary shareholders of the Company	<u>\$ 208,331</u>	<u>164,046</u>
Weighted-average number of ordinary shares (thousand shares)	<u>79,485</u>	<u>79,485</u>
	<u><u>\$ 2.62</u></u>	<u><u>2.06</u></u>
Diluted earnings per share		
Profit attributable to ordinary shareholders of the Company	<u>\$ 208,331</u>	<u>164,046</u>

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

		For the three months ended March 31,	
		2020	2019
Weighted-average number of ordinary shares (thousand shares)		79,485	79,485
Effect of potentially dilutive ordinary shares:			
Effect of employee compensation		710	669
Weighted-average number of ordinary shares (thousand shares) (diluted)		80,195	80,154
		\$ 2.60	2.05
(p) Revenue from contracts with customers			
(i) Disaggregation of revenue			
		For the three months ended March 31,	
		2020	2019
Primary geographical markets:			
Spain	\$	153,942	129,840
Italy		150,051	78,643
United States		117,724	78,869
Japan		66,950	68,901
Netherlands		64,441	33,931
Taiwan		46,076	47,706
Switzerland		22,051	74,238
Others		163,093	91,559
	\$	784,328	603,687
Major products			
Active Pharmaceutical Ingredients	\$	534,543	383,766
Intermediates		219,521	178,972
Specialty Chemical		30,264	40,949
	\$	784,328	603,687

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

(ii) Contract balances

	March 31, 2020	December 31, 2019	March 31, 2019
Notes and accounts receivable	\$ 505,635	353,583	334,022
Less: allowance for impairment	(1,179)	(1,179)	(1,179)
Total	<u>\$ 504,456</u>	<u>352,404</u>	<u>332,843</u>
Contract liabilities (sales received in advance)	<u>\$ 61,726</u>	<u>59,092</u>	<u>48,631</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.

(q) Remuneration to employees and directors

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

For the three months ended March 31, 2020 and 2019, the remunerations to employees amounted to \$26,220 and \$19,915, respectively, and the remunerations to directors amounted to \$3,575 and \$2,716, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. Shares distributed to employees as employees' remuneration are calculated based on the closing price of the Company's shares on the day before the approval by the Board of Directors.

For the year ended December 31, 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. The remunerations above are identical to those of the actual distributions. The information is available on the Market Observation Post System website.

(r) Financial Instruments

Except for the contention mentioned below, there was no significant change in the fair value of the Group's financial instruments and degree of exposure to credit risk, liquidity risk and market risk arising from financial instruments. For the related information, please refer to note 6(s) of the consolidated financial statements for the year ended December 31, 2019.

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

(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>
March 31, 2020					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 70,115	(70,115)	(70,115)	-	-
Lease liabilities (including current and non-current)	2,496	(2,566)	(1,731)	(531)	(304)
Other payables	73,699	(73,699)	(73,699)	-	-
Payables on contractors and equipment	<u>27,758</u>	<u>(27,758)</u>	<u>(27,758)</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 174,068</u></u>	<u><u>(174,138)</u></u>	<u><u>(173,303)</u></u>	<u><u>(531)</u></u>	<u><u>(304)</u></u>

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

	<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	<u>16,605</u>	<u>(16,605)</u>	<u>(16,605)</u>	<u>-</u>	<u>-</u>
	<u>\$ 181,631</u>	<u>(181,677)</u>	<u>(180,465)</u>	<u>(801)</u>	<u>(411)</u>
March 31, 2019					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 102,251	(102,251)	(102,251)	-	-
Lease liabilities (including current and non-current)	3,648	(3,711)	(1,920)	(1,410)	(381)
Other payables	50,602	(50,602)	(50,602)	-	-
Payables on contractors and equipment	<u>48,079</u>	<u>(48,079)</u>	<u>(48,079)</u>	<u>-</u>	<u>-</u>
	<u>\$ 204,580</u>	<u>(204,643)</u>	<u>(202,852)</u>	<u>(1,410)</u>	<u>(381)</u>

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

	March 31, 2020				December 31, 2019			March 31, 2019		
	Foreign currency	Exchange rate	TWD		Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets										
Monetary items										
USD to TWD	\$	23,772	30.175	717,320	19,088	29.93	571,304	17,255	30.770	530,936
EUR to TWD		2,867	33.04	94,726	2,124	33.39	70,920	1,720	34.410	59,185
Financial liabilities										
Monetary items										
USD to TWD		1,514	30.175	45,685	1,830	29.93	54,772	2,145	30.770	66,002

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

2) Sensitivity analysis

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

The analysis assumes that all other variables remain constant. A strengthening (weakening) 1% of the functional currency against each foreign currency for the three months ended March 31, 2020 and 2019 would have affected the net profit before tax increased or decreased \$7,664 and \$5,241, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary items

The exchange gains and losses of monetary items, including realized and unrealized, are changed into functional currency, which is the Group's presentation currency. For the three months ended March 31, 2020 and 2019, the exchange gains (losses), including realized and unrealized, are \$4,664 and \$2,490, respectively.

(iv) Interest rate analysis

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

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

	Carrying amount	
	March 31, 2020	March 31, 2019
Variable rate instruments:		
Financial assets	\$ 191,855	228,542
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 \$120 and \$143, respectively, for the three months ended March 31, 2020 and 2019, with all other variable factors remaining constant. This is mainly due to the Group's bank savings with variable interest rates.

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

(v) Fair value

1) Fair value hierarchy

The fair value of financial assets 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 lease liabilities, disclosure of fair value information is not required:

	March 31, 2020				
	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	\$ 557,168	557,168	-	-	557,168
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	102,728	19,682	-	83,046	102,728
Financial assets measured at amortized cost					
Cash and cash equivalents	656,467	-	-	-	-
Notes and accounts receivable	504,456	-	-	-	-
Other receivables	4,887	-	-	-	-
Refunded deposits (recognized as other non-current assets)	5,758	-	-	-	-
Subtotal	1,171,568				
Total	\$ 1,831,464				
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 70,115	-	-	-	-
Lease liabilities (including current and non-current)	2,496	-	-	-	-
Other payables	73,699	-	-	-	-
Payables on contractors and equipment	27,758	-	-	-	-
Total	\$ 174,068				

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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 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
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>				
March 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	\$ 434,873	434,873	-	-	434,873
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	68,219	-	-	68,219	68,219
Financial assets measured at amortized cost					
Cash and cash equivalents	576,686	-	-	-	-
Notes and accounts receivable	332,843	-	-	-	-
Other receivables	304	-	-	-	-
Refunded deposits (recognized as other non-current assets)	11,771	-	-	-	-
Subtotal	921,604				
Total	<u>\$ 1,424,696</u>				

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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		March 31, 2019			
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 102,251	-	-	-	-
Lease liabilities (including current and non-current)	3,648	-	-	-	-
Other payables	50,602	-	-	-	-
Payables on contractors and equipment	48,079	-	-	-	-
Total	\$ 204,580				

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.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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The measurement of fair value of a non-active market financial instruments held by the Group which do not have quoted market prices are based on the comparable market approach, with the use of key assumptions of price-book ratio multiple or earnings multiple of comparable listed companies as its basic measurement. These assumptions have been adjusted for the effect of discount without the marketability of the equity securities.

4) Transfer from one level to another

For the three months ended March 31, 2020 and 2019, there was no transfer from one level to another.

5) Reconciliation of Level 3 fair values

	Fair value through other comprehensive income
	Unquoted equity instruments
January 1, 2020	\$ 108,619
Total gains and losses recognized:	
In other comprehensive income	(25,573)
March 31, 2020	\$ 83,046
January 1, 2019	\$ 75,296
Total gains and losses recognized:	
In other comprehensive income	(7,077)
March 31, 2019	\$ 68,219

For the three months ended March 31, 2020 and 2019, total gains and losses that were included in unrealized gains and losses from financial assets at fair value through other comprehensive income were as follows:

	For the three months ended March 31,	
	2020	2019
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”	\$ (25,573)	(7,077)

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

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

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Fair value through other comprehensive income – equity investments without an active market	Price-Book ratio method	· The multiplier of Price-Book Ratio (As of March 31, 2020, December 31, 2019 and March 31, 2019 were 1.98, 1.91 and 1.69, respectively)	The higher the fair value is, the higher the multiplier will be.
"	"	· Lack-of-Marketability discount rate (As of March 31, 2020, December 31, 2019 and March 31, 2019 were 50%)	The higher the Lack-of-Marketability discount rate is, the lower the fair value will be.
Fair value through other comprehensive income – equity investments without an active market	Comparable transaction method	· Lack-of-Marketability discount rate (As of March 31, 2020, December 31, 2019 and March 31, 2019 were 24.31%~30.65%, 19.03%~23.38% and 22.89%, 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:

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		Move up or	Other comprehensive	
	Inputs	downs	income	
			Favorable	Unfavorable
March 31, 2020				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>1,911</u>	<u>1,911</u>
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ <u>2,705</u>	<u>2,705</u>
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>
March 31, 2019				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>1,895</u>	<u>1,909</u>
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ <u>3,404</u>	<u>3,418</u>

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

(s) Financial risk management

There were no significant changes in the Group's financial risk management and policies as disclosed in note 6(t) of the consolidated financial statements for the year ended December 31, 2019.

(t) Capital management

Management believes that the objectives, policies and processes of capital management of the Group has been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2019. Also, management believes that there were no significant changes in the Group's capital management information as disclosed for the year ended December 31, 2019. Please refer to note 6(u) of the consolidated financial statements for the year ended December 31, 2019.

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(u) 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 three months ended March 31, 2020 and 2019, were as follows:

- (i) There were no non-cash investing activities for the three months ended March 31, 2020 and 2019.
- (ii) Reconciliation of liabilities arising from financing activities for the three months ended March 31, 2020 and 2019, was as follows:

	January 1, 2020	Cash flows	Non-cash changes Foreign exchange movement	March 31, 2020
Lease liabilities	<u>\$ 2,992</u>	<u>(496)</u>	<u>-</u>	<u>2,496</u>
	January 1, 2019	Cash flows	Non-cash changes Foreign exchange movement	March 31, 2019
Lease liabilities	<u>\$ 4,113</u>	<u>(465)</u>	<u>-</u>	<u>3,648</u>

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

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

	For the three months ended March 31,	
	2020	2019
Salary and short-term employee benefits	<u>\$ 14,078</u>	<u>11,392</u>

(8) **Pledged assets:**

The carrying values of pledged assets were as follows:

Assets	Subject	March 31, 2020	December 31, 2019	March 31, 2019
Land	Pledged as collaterals	<u>\$ 42,736</u>	<u>42,736</u>	<u>42,736</u>
Building	"	<u>4,673</u>	<u>4,842</u>	<u>5,545</u>
		<u>\$ 47,409</u>	<u>47,578</u>	<u>48,281</u>

(Continued)

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

(9) Commitments and contingencies:

- (a) As of March 31, 2020, December 31, 2019 and March 31, 2019, the unused balance of the Group's outstanding standby letters of credit amounted to \$11,962, \$8,788 and \$9,327, respectively.
- (b) The significant outstanding purchase commitments for property, plant and equipment was as follows:

	March 31, 2020	December 31, 2019	March 31, 2019
Acquisitions of property, plant and equipment	\$ <u><u>47,317</u></u>	<u><u>41,087</u></u>	<u><u>89,862</u></u>

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events:

At a meeting of the Board of Directors held on April 10, 2020, the board members approved a resolution to incorporate an investee company in Taiwan with Veolia Environment, wherein the Group will hold 40% shares of the investee company, which engages in circular economy by purifying and utilizing used solvents.

(12) Other:

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

By function	For the three months ended March 31, 2020			For the three months ended March 31, 2019		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
By item						
Employee benefits						
Salary	53,884	40,307	94,191	51,761	31,682	83,443
Labor and health insurance	3,875	1,216	5,091	3,743	1,209	4,952
Pension	1,692	359	2,051	1,633	410	2,043
Remuneration of directors	-	3,575	3,575	-	2,716	2,716
Others	824	2,324	3,148	771	2,131	2,902
Depreciation	28,084	4,986	33,070	27,587	4,950	32,537
Amortization	468	1,002	1,470	374	944	1,318

- (b) Seasonality of operations

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

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(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group for the three months ended March 31, 2020:

- (i) Loans to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of March 31, 2020 (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand dollars

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Beneficiary Certificate (UPAMC James Bond Money Market Fund)	-	Current Financial asset at fair value through profit or loss	2,760	46,360	-	46,360	
"	Beneficiary Certificate (Cathay Taiwan Money Market Fund)	-	"	4,093	51,172	-	51,172	
"	Beneficiary Certificate (Nomura Taiwan Money Market)	-	"	1,273	20,884	-	20,884	
"	Beneficiary Certificate (Taishin 1699 Money Market Fund)	-	"	3,592	48,864	-	48,864	
"	Beneficiary Certificate (Jih Sun Money Market Fund)	-	"	3,022	45,018	-	45,018	
"	Beneficiary Certificate (Yuanta USD Money Market Fund-USD)	-	"	99	31,859	-	31,859	
"	Beneficiary Certificate (Nomura Global Short Duration Bond Fund)	-	"	2,840	28,586	-	28,586	
"	Beneficiary Certificate (CTBC Hua Win Money Market Fund)	-	"	4,064	45,020	-	45,020	
"	Beneficiary Certificate (Fubon China Policy Bank Bond ETF)	-	"	420	8,270	-	8,270	
"	Stock (Fubon S&P Preferred Shares A)	-	"	793	49,166	-	49,166	
"	Stock (Fubon S&P Preferred Shares B)	-	"	36	2,189	-	2,189	
"	Stock (TAISHIN FINANCIAL HOLDING CO., LTD. Preferred Stock E)	-	"	400	20,760	-	20,760	
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A)	-	"	790	48,032	-	48,032	
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock B)	-	"	33	2,018	-	2,018	
"	Stock (Cathay Financial Holding Co., Ltd. Common Stock)	-	"	28	999	-	999	
"	Stock (Fubon S&P US Preferred Stock)	-	"	2,350	36,589	-	36,589	
"	Stock (CTBC Financial Holding Co., Ltd. Preferred Shares B)	-	"	685	43,840	-	43,840	
"	Stock (Shin Kong Financial Holding Co., Ltd. Preferred Shares A)	-	"	642	27,542	-	27,542	
"	Stock (Energenesis Biomedical Co., Ltd.)	-	Financial assets at fair value through other comprehensive income	1,458	64,499	2.47 %	64,499	
"	Stock (Sunny Pharmtech Inc.)	-	"	4,497	38,229	3.47 %	38,229	

- (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.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- (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.
- (ix) Trading in derivative instruments: None.
- (x) Business relationships and significant intercompany transactions: None.

(b) Information on investees:

The following is the information on investees for the three months ended March 31, 2020 (excluding information on investees in Mainland China):

Unit: thousand dollars/ thousand shares

Name of investor	Name of investee	Location	Main businesses and products	Original investment amount		Balance as of March 31, 2020			Net income (losses) of investee	Share of profits/losses of investee	Note
				March 31, 2020	December 31, 2019	Shares (thousands)	Percentage of ownership	Carrying value			
SCI PHARMTECH, INC.	Yushan Pharmaceuticals Inc.	R.O.C.	The research and development, manufacture and sale of API	351,761	351,761	35,190	100 %	349,641	(82)	(82)	Note 1

Note 1 : The transactions had been eliminated in the consolidated financial statements.

(c) Information on investment in mainland China: None

(a) Major shareholders:

Shareholder's Name	Shareholding	Shares	Percentage
Mercuries & Associates Holding Ltd.		25,236,132	31.74 %

(14) Segment information:

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