Stock Code:4119

SCI PHARMTECH, INC.

Parent Company Only Financial Statements

With Independent Auditors' Report
For the Years Ended December 31, 2020 and 2019

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of SCI Pharmtech, Inc. ("the Company"), which comprise the statement of financial position as of December 31, 2020 and 2019, the statement of comprehensive income, the statement of changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

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 Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Emphasis of Matter

As stated in Note 10 of the financial statements, SCI Pharmatech, Inc., a major fire accident occurred on December 20, 2020, and caused damage to some buildings, equipment, construction in progress, and inventories, and spreading to several nearby factories, of which property was impaired and business operation was interrupted. The related compensation for damages and loss has been estimated. SCI Pharmatech, Inc. has entered into property insurance contracts, and is currently in the negotiating process with insurance companies. As the claims involve disaster identification, the compensation amount is not completely confirmed yet as of the reporting date. Except for the compensation (recorded as a deduction to miscellaneous disbursements), which is virtually certain to be received, the Company will recognize the rest of the compensation income in the subsequent year when it could be reasonably estimated. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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(g) and Note 5 of the 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 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 Company estimates the net realizable value of inventory. If there were no objective information regarding the current sales price available for reference, the Company 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.
- Performing a retrospective review of inventory movements to evaluate the reasonableness of inventory obsolescence reserve policy and policy on scrapping of inventories.
- Sampling and inspecting the Company’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 financial statements, for the accounting policy of Revenue recognition for operating revenue recognition.

Description of key audit matters:

The Company’s main products are the manufacture of Active Pharmaceutical Ingredients, and Intermediates, etc. The Company’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;
- 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 Company's operating revenue recognition.

3.Insurance claims and disaster indemnity estimates for major disasters

As stated in Note 10 of the financial statements, SCI Pharmatech, Inc., a major fire accident occurred on December 20, 2020 and caused damage to some buildings, equipment, construction in progress, and inventories, and spreading to several nearby factories. At present, the Company is actively handling insurance claims and negotiating related compensation losses with these damaged companies. As the assessment of insurance claims and compensation loss involves significant accounting judgments and estimates of the management, including the claim list approved by the insurance company, the assessment of the amount of insurance claims, and the basis for the estimation of damages loss claimed by the affected companies, etc.. Therefore, insurance claims and compensation loss estimates for major disasters is one of the significant evaluations in our audit procedures.

Our audit procedure included:

- Review the property insurance contract signed by the Company and the insurance company, and confirm if the inventories, building and equipment damaged by the fire are within the scope of property insurance claims.
- Obtain a claim list jointly issued by the insurance company and the insurance notary, and validate it with the list damaged inventories, buildings and equipment provided by the Company. Use the sampling method to cross check the completeness and correctness of the data.
- Interview the insurance company and its appointed notary to confirm that the Company did not lose the rights to apply for compensation due to the breach of insurance contracts. Obtain its opinion on the minimum amount of insurance compensation that the Company can collect. Check the accuracy of the accounting records and amounts of insurance claims.
- Obtain the opinion of a third-party notary public to evaluate the rationality of the property compensation losses accrual for the neighboring damaged companies.
- Obtain the management's estimate of the loss of business interruption of the damaged companies. Carefully evaluate the assumptions and bases used by the Company, and select samples to verify the correctness of the data. Review the accuracy of the accounting records and amounts of compensation losses and provisions.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company' 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 Company 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 Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 Company'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 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 Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 investment in other entities accounted for using the equity method to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

KPMG

Taipei, Taiwan (Republic of China)
March 24, 2021

Notes to Readers

The accompanying financial statements are intended only to present the 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 financial statements are those generally accepted and applied in the Republic of China.

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

(English Translation of Financial Statements Originally Issued in Chinese)

SCI PHARMTECH, INC.

Balance Sheets

December 31, 2020 and 2019

(expressed in thousands of New Taiwan dollars)

	Assets	December 31, 2020 Amount	%	December 31, 2019 Amount	%
	Current assets:				
1100	Cash and cash equivalents (note 6(a))	$ 603,094	13	523,085	13
1110	Current financial assets at fair value through profit or loss (note 6(b))	-	-	466,025	11
1170	Notes and accounts receivable, net (notes 6(d) and 6(q))	337,749	7	352,404	9
1310	Inventories, net (note 6(e))	380,879	8	527,081	13
1470	Other current assets (note 6(f) and 10)	567,012	13	36,809	1
		1,888,734	41	1,905,404	47
	Non-current assets:				
1510	Non-current financial assets at fair value through profit or loss (note 6(b))	667,955	15	-	-
1518	Non-current financial assets at fair value through other comprehensive income (note 6(c))	85,697	2	137,329	3
1550	Investments accounted for using equity method (note 6(g))	349,186	7	349,723	9
1600	Property, plant and equipment (notes 6(h) and 8)	1,180,943	26	1,557,790	38
1755	Right-of-use assets (note 6(i))	2,568	-	2,974	-
1780	Intangible assets	41,319	1	47,661	1
1840	Deferred tax assets (note 6(o))	263,546	6	57,243	1
1900	Other non-current assets	89,890	2	23,253	1
		2,681,104	59	2,175,973	53
	Total assets	$ 4,569,838	100	4,081,377	100

	Liabilities and Equity	December 31, 2020 Amount	%	December 31, 2019 Amount	%
	Current liabilities:				
2170	Notes and accounts payable	$ 80,878	2	94,302	2
2130	Current contract liabilities (note 6(r))	97,295	2	59,092	2
2200	Other payables (note 6(k))	188,838	4	229,730	6
2213	Payables on contractors and equipment	21,064	1	16,605	-
2230	Current tax liabilities	127,490	3	96,671	2
2250	Current provisions (notes 6(m) and 10)	595,232	13	83,957	2
2280	Current lease liabilities (note 6(l))	1,340	-	1,795	-
2300	Other current liabilities	9,977	-	2,012	-
		1,122,114	25	584,164	14
	Non-Current liabilities:				
2580	Non-current lease liabilities (note 6(l))	1,248	-	-	-
2570	Deferred tax liabilities (note 6(o))	103,811	2	1,197	-
2640	Provisions for employee benefits, non-current (note 6(n))	20,443	-	21,376	1
		125,502	2	22,573	1
	Total liabilities	1,247,616	27	606,737	15
	Equity (note 6(p)):				
3100	Ordinary share	794,853	17	794,853	19
3200	Capital surplus	1,348,339	30	1,348,339	33
3310	Legal reserve	390,081	9	332,971	8
3320	Special reserve	-	-	4,788	-
3350	Unappropriated retained earnings	818,327	18	971,435	24
3400	Other components of equity	(29,378)	(1)	22,254	1
	Total equity	3,322,222	73	3,474,640	85
	Total liabilities and equity	$ 4,569,838	100	4,081,377	100

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

SCI PHARMTECH, INC.

Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

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

		2020		2019	
		Amount	%	Amount	%
4110	Sales revenue (note 6(r))	$ 2,689,222	100	2,355,747	100
5110	Cost of sales (notes 6(e), 6(n) and 12)	1,414,894	53	1,419,977	60
5900	**Gross profit**	1,274,328	47	935,770	40
	Operating expenses (notes 6(n) and 12):				
6100	Selling expenses	111,927	4	108,286	4
6200	Administrative expenses	67,975	2	90,718	4
6300	Research and development expenses	43,365	2	38,917	2
6450	Impairment loss (impairment gain and reversal of important loss) determined in accordance with IFRS 9 (note 6(d))	(1,179)	-	-	-
		222,088	8	237,921	10
6900	**Net operating income**	1,052,240	39	697,849	30
	Non-operating income and expenses:				
7190	Other income	13,203	-	13,895	-
7101	Interest income	3,970	-	4,440	-
7235	Gains (losses) on financial assets (liabilities) at fair value through profit or loss	(15,707)	-	7,635	-
7070	Share of profit (loss) of subsidiaries, associates and joint ventures accounted for using equity method, net	(537)	-	(2,162)	-
7510	Interest expense (note 6(l))	(43)	-	(52)	-
7590	Miscellaneous disbursements (notes 6(t) and 10)	(567,285)	(21)	(469)	-
7630	Foreign exchange gains (losses)	(30,626)	(1)	(9,976)	-
		(597,025)	(22)	13,311	-
7900	**Profit before tax**	455,215	17	711,160	30
7950	Less: Income tax expenses (note 6(o))	95,091	4	140,059	6
8200	**Profit**	360,124	13	571,101	24
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(n))	130	-	130	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(51,632)	(2)	27,042	1
8349	Less：Income tax related to components of other comprehensive income that will not be reclassified to profit or loss (note 6(o))	26	-	26	-
8300	**Other comprehensive income, net**	(51,528)	(2)	27,146	1
8500	**Total comprehensive income**	**$ 308,596**	**11**	**598,247**	**25**
	Earnings per share (note 6(q)):				
9750	**Basic earnings per share**	**$**	**4.53**		**7.19**
9850	**Diluted earnings per share**	**$**	**4.49**		**7.12**

See accompanying notes to financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

SCI PHARMTECH, INC.

Statements of Changes in Equity

For the years ended December 31, 2020 and 2019

(expressed in thousands of New Taiwan dollars)

	Ordinary shares	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated retained earnings	Other equity interest: Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total equity
Balance at January 1, 2019	$ 794,853	1,348,339	288,248	7,727	775,852	(4,788)	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	27,146
Total comprehensive income for the year ended December 31, 2019	-	-	-	-	571,205	27,042	598,247
Appropriation and distribution of retained earnings:							
Legal reserve appropriated	-	-	44,723	-	(44,723)	-	-
Reversal of special reserve	-	-	-	(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	3,474,640
Profit for the year ended December 31, 2020	-	-	-	-	360,124	-	360,124
Other comprehensive income for the year ended December 31, 2020	-	-	-	-	104	(51,632)	(51,528)
Total comprehensive income for the year ended December 31, 2020	-	-	-	-	360,228	(51,632)	308,596
Appropriation and distribution of retained earnings:							
Legal reserve appropriated	-	-	57,110	-	(57,110)	-	-
Reversal of special reserve	-	-	-	(4,788)	4,788	-	-
Cash dividends of ordinary share	-	-	-	-	(461,014)	-	(461,014)
Balance at December 31, 2020	**$ 794,853**	**1,348,339**	**390,081**	**-**	**818,327**	**(29,378)**	**3,322,222**

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

SCI PHARMTECH, INC.

Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(expressed in thousands of New Taiwan dollars)

	2020	2019
Cash flows from (used in) operating activities:		
Profit before tax	$ 455,215	711,160
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation expense	127,510	130,976
Amortization expense	5,793	5,650
Expected credit loss (gain)	(1,179)	-
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	15,707	(7,635)
Interest expense	43	52
Interest income	(3,970)	(4,440)
Share of loss of subsidiaries, associates and joint ventures accounted for using equity method	537	2,162
Losses due to major disasters	566,771	-
Others	(74)	50
Total adjustments to reconcile profit	711,138	126,815
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	15,834	38,513
Decrease (increase) in inventories	(29,363)	(24,009)
Decrease (increase) in other current assets	(11,146)	(15,300)
Increase (decrease) in notes and accounts payable	(13,424)	5,146
Increase (decrease) in contract liabilities	38,203	28,689
Increase (decrease) in other payable	(40,892)	33,261
Increase (decrease) in provisions	2,199	7,456
Increase (decrease) in other current liabilities	7,965	(960)
Increase (decrease) in provision for employee benefits, non-current	(803)	(584)
Total changes in operating assets and liabilities	(31,427)	72,212
Total adjustments	679,711	199,027
Cash flow from (used in) operations	1,134,926	910,187
Interest received	3,970	4,440
Interest paid	(43)	(52)
Income taxes paid	(166,790)	(122,535)
Net cash flows from (used in) operating activities	972,063	792,040
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	-	(34,991)
Acquisition of financial assets at fair value through profit or loss	(217,637)	(78,931)
Proceeds from disposal of financial assets at fair value through profit or loss	-	50,647
Proceeds from disposal of subsidiaries	-	2,803
Acquisition of property, plant and equipment	(132,210)	(187,570)
Proceeds from disposal of property, plant and equipment	74	-
Decrease in refundable deposits	6,273	4,288
Acquisition of intangible assets	-	(4,978)
Decrease (increase) in prepayments of property, plant and equipment	(85,493)	(11,939)
Net cash flows from (used in) investing activities	(428,993)	(260,671)
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(2,047)	(1,910)
Cash dividends paid	(461,014)	(333,838)
Net cash flows from (used in) financing activities	(463,061)	(335,748)
Net increase (decrease) in cash and cash equivalents	80,009	195,621
Cash and cash equivalents at beginning of period	523,085	327,464
Cash and cash equivalents at end of period	**$ 603,094**	**523,085**

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)

SCI PHARMTECH, INC.

Notes to the Financial Statements

For the years ended December 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. Mercuries & Associates, Holding Ltd. is the parent company of the Company.

(2) Approval date and procedures of the financial statements

These financial statements were authorized for issuance by the Board of Directors on March 24, 2021.

(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 Company has initially adopted the following new amendments, which do not have a significant impact on its financial statements, from January 1, 2020:

- Amendments to IFRS 3 "Definition of a Business"
- Amendments to IFRS 9, IAS39 and IFRS7 "Interest Rate Benchmark Reform"
- Amendments to IAS 1 and IAS 8 "Definition of Material"
- Amendments to IFRS 16 "COVID-19-Related Rent Concessions"

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

The Company assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2021, would not have a significant impact on its financial statements:

- Amendments to IFRS 4 "Extension of the Temporary Exemption from Applying IFRS 9"
- Amendments to IFRS 9, IAS39, IFRS7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform－Phase 2"

(Continued)

SCI PHARMTECH, INC.
Notes to the Financial Statements

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

The following new and amended standards, which may be relevant to the Company, have been issued by the International Accounting Standards Board (IASB), but have yet to be endorsed by the FSC:

Standards or Interpretations	Content of amendment	Effective date per IASB
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of balance sheet, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.	January 1, 2023

The Company is evaluating the impact of its initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

The Company does not expect the following other new and amended standards, which have yet to be endorsed by the FSC, to have a significant impact on its financial statements:

- Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"
- IFRS 17 " Insurance Contracts" and amendments to IFRS 17 " Insurance Contracts"
- Amendments to IAS 16 "Property, Plant and Equipmentt－Proceeds before Intended Use"
- Amendments to IAS 37 "Onerous Contracts－Cost of Fulfilling a Contract"
- Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3 "Reference to the Conceptual Framework"
- Amendments to IAS 1 "Disclosure of Accounting Policies"
- Amendments to IAS 8 "Definition of Accounting Estimates"

SCI PHARMTECH, INC.
Notes to the Financial Statements

(4) Summary of significant accounting policies:

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

(a) Statement of compliance

These annual financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

(b) Basis of preparation

(i) Basis of measurement

Except for the following significant accounts, the annual 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(o).

(ii) Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the Company operates. The 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) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of the Company 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;

(Continued)

(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.

(d) 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 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 Company 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.

(e) 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.

(f) 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 Company 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.

(Continued)

SCI PHARMTECH, INC.
Notes to the Financial Statements

(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 Company 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.

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 Company 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.

(Continued)

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 Company'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 Company 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 Company 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 Company 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

· 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 Company is exposed to credit risk.

(Continued)

SCI PHARMTECH, INC.
Notes to the Financial Statements

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company 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 Company's historical experience and informed credit assessment as well as forward-looking information.

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

The Company 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 Company 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 Company in accordance with the contract and the cash flows that the Company expects to receive). ECL are discounted at the effective interest rate of the financial asset.

At each reporting date, the Company 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;

· 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.

(Continued)

SCI PHARMTECH, INC.
Notes to the Financial Statements

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company 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 Company 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 Company's procedures for recovery of amounts due.

5) Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company 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 Company 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.

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.

(Continued)

4) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company 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 Company 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.

(g) 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.

(h) Investment in subsidiaries

When preparing the parent company only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, the amounts of net income, other comprehensive income and equity attributable to shareholders of the Company in the parent company only financial statement are equal to those in the consolidated financial statements.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(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.

(Continued)

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 Company.

(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

(i) Identifying a lease

At inception of a contract, the Company 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 Company 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 Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(Continued)

3) the Company has the right to direct the use of the asset throughout the period of use only if either:

- The Company 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 Company 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 Company 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 Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

(ii) As a leasee

The Company 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 Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

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

1) fixed payments, including in-substance fixed payments;

2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

3) amounts expected to be payable under a residual value guarantee; and

4) payments or penalties for purchase or termination options that are reasonably certain to be exercised.

(Continued)

SCI PHARMTECH, INC.
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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 Company'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 Company 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 Company 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 Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(k) Intangible assets

(i) Other intangible assets

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

(ii) Subsequent expenditure

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

(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.

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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 Company 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.

(m) Provisions

A provision is recognized if, as a result of a past event, the Company 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 Company expects to be entitled in exchange for transferring goods or services to a customer. The Company 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 Company's main types of revenue are explained below.

(Continued)

(i) Sale of goods

The Company 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 Company 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 Company has a right to an amount of consideration that is unconditional.

(ii) Financing components

The Company 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 Company 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 Company '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.

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 Company, 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 Company 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 Company 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 Company can no longer withdraw the offer of those benefits and when the Company 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 Company 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) 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 Company 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 Company 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 reserve, 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 Company 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

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.

(q) Earnings per share

The Company discloses 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.

(r) Operating segments

The operating segment information is disclosed within the consolidated financial statements but not disclosed in the parent company only financial statements.

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

The preparation of the 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 financial statements.

Besides, for those uncertainties due to accounting assumptions and estimations, information about the significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is as follows. Those assumptions and estimation have been updated to reflect the impact of COVID-19 pandemic:

(a) Inventory valuation

Inventories are measured at the lower of cost or net realizable value. The Company 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.

(b) Insurance claims and disaster indemnity estimates for major disaster

(i) The Company has entered into property insurance contracts based on the replacement cost. Due to the highly uncertainty of the actual compensation income, the Company recognizes the compensation income when the income is virtually certain to be received. The final compensation income may be materially different from the estimated amount.

(ii) The fire disaster spread to several nearby factories, of which property was impaired. The damage indemnity is based on:

- the available information that the third-party notary public can provide through its survey and investigations,
- the scale of each factory,
- the average financial ratio of the comparable listed companies,
- the estimation of the financial information of each factories.

However, the damage indemnity requires further negotiation, and there are material uncertainties. The final damage indemnity may be materially different from the estimated amount.

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(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2020	December 31, 2019
Cash on hand	$ 580	519
Checking accounts and demand deposits	281,368	220,819
Time deposits	99,505	179,580
Bills sold under repurchase agreements	221,641	122,167
	$ 603,094	**523,085**

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

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

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

	December 31, 2020	December 31, 2019
Mandatorily measured at fair value through profit or loss:		
Non-derivative financial assets		
Beneficiary certificate	$ 417,065	237,529
Stocks listed on domestic markets	250,890	228,496
Total	**$ 667,955**	**466,025**
Current	**$ -**	**466,025**
Non-Current	**$ 667,955**	**-**

The Company reassessed the purpose of holding the aforementioned financial assets and reclassified them under non-current assets from current assets on September 30, 2020.

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

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

	December 31, 2020	December 31, 2019
Financial assets at fair value through other comprehensive income:		
Emerging stocks and unlisted stocks on domestic markets	**$ 85,697**	**137,329**

The Company 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 Company intends to hold for long-term for strategic purposes.

(Continued)

SCI PHARMTECH, INC.
Notes to the Financial Statements

In June 2019, the Company participated in the capital increase by cash of Energenesis Biomedical Co., Ltd. (Energenesis) with the amount of $14,994. Furthermore, the Company purchased Emergensis' privately placed common shares amounting to $19,997 in November 2019, resulting in the Company to obtain Energenesis' ownership interest of 2.44% as of December 31, 2020.

No strategic investments were disposed for the years ended December 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(u) for market risk of the Company.

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

(d) Notes and accounts receivable

	December 31, 2020	December 31, 2019
Notes receivable	$ 99	19
Accounts receivable	337,650	353,564
Less: Loss allowance	-	(1,179)
	$ 337,749	352,404

The Company applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables 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, 2020		
	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	$ 211,365	-	-
1 to 30 days past due	106,352	-	-
31 to 60 days past due	19,739	-	-
61 to 90 days past due	293	-	-
91 to 180 days past due	-	-	-
181 to 270 days past due	-	-	-
More than 360 days past due	-	100 %	-
	$ 337,749		-

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	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
	$ 353,583		**1,179**

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

	2020	2019
Balance at January 1	$ 1,179	1,179
Impairment losses reversed	(1,179)	-
Balance at December 31	**$ -**	**1,179**

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

(e) Inventories

	December 31, 2020	December 31, 2019
Raw materials	$ 116,984	106,971
Work in progress	16,322	103,055
Finished goods	247,573	317,055
	$ 380,879	**527,081**

For the years ended December 31, 2020 and 2019, inventory cost recognized as cost of sales amounting to $1,439,109 and $1,409,304, respectively.

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

	2020	2019
The write-downs (reversals)	**$ (24,215)**	**10,673**

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Notes to the Financial Statements

In 2020, the Company derecognized the inventories in fire damage amounting to $175,565, which are recorded under the losses due to disasters (miscellaneous disbursements). Please refer to note 6(t) and note 10 for the details.

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

(f) Other current assets

	December 31, 2020	December 31, 2019
Insurance claim receivable	$ 519,057	-
Prepayments to suppliers	26,876	19,310
Others	21,079	17,499
	$ 567,012	**36,809**

(g) Investments accounted for using equity method

A summary of the Company's financial information for equity-accounted investees at the reporting date is as follows:

	December 31, 2020	December 31, 2019
Subsidiaries	**$ 349,186**	**349,723**

(i) Subsidiaries

Please refer to the consolidated financial statements for the years ended December 31, 2020 and 2019.

(h) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Company for the years ended December 31, 2020 and 2019, were as follows:

	Land	Buildings and construction	Machinery and equipment	Office equipment	Others equipment	Prepayments for equipment and construction in progress	Total
Cost:							
Balance on January 1, 2020	$ 509,514	737,842	1,667,500	40,656	18,720	165,385	3,139,617
Additions	-	7,065	19,447	1,533	-	108,624	136,669
Transferred (out) in	-	2,130	17,524	(1,444)	-	(7,130)	11,080
Disposal and derecognitions	-	(193,516)	(1,160,587)	(7,828)	(5,752)	(47,209)	(1,414,892)
Balance on December 31, 2020	**$ 509,514**	**553,521**	**543,884**	**32,917**	**12,968**	**219,670**	**1,872,474**

(Continued)

SCI PHARMTECH, INC.
Notes to the Financial Statements

	Land	Buildings and construction	Machinery and equipment	Office equipment	Others equipment	Prepayments for equipment and construction in progress	Total
Balance on January 1, 2019	$ 509,514	700,219	1,680,420	42,658	16,149	135,135	3,084,095
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)	(54,837)	(2,353)	-	-	(68,088)
Balance on December 31, 2019	**$ 509,514**	**737,842**	**1,667,500**	**40,656**	**18,720**	**165,385**	**3,139,617**
Depreciation and impairments loss:							
Balance on January 1, 2020	$ -	334,054	1,219,926	20,099	7,748	-	1,581,827
Depreciation for the year	-	31,420	88,377	4,102	1,562	-	125,461
Transferred (out) in	-	-	-	(2,052)	-	-	(2,052)
Disposals and derecognitions	-	(117,472)	(887,579)	(4,186)	(4,468)	-	(1,013,705)
Balance on December 31, 2020	**$ -**	**248,002**	**420,724**	**17,963**	**4,842**	**-**	**691,531**
Balance on January 1, 2019	$ -	314,702	1,181,616	18,474	6,076	-	1,520,868
Depreciation of the year	-	30,250	93,147	3,978	1,672	-	129,047
Disposal and derecognitions	-	(10,898)	(54,837)	(2,353)	-	-	(68,088)
Balance on December 31, 2019	**$ -**	**334,054**	**1,219,926**	**20,099**	**7,748**	**-**	**1,581,827**
Carrying amounts:							
Balance on December 31, 2020	**$ 509,514**	**305,519**	**123,160**	**14,954**	**8,126**	**219,670**	**1,180,943**
Balance on January 1, 2019	**$ 509,514**	**385,517**	**498,804**	**24,184**	**10,073**	**135,135**	**1,563,227**
Balance on December 31, 2019	**$ 509,514**	**403,788**	**447,574**	**20,557**	**10,972**	**165,385**	**1,557,790**

In May 2013, the Company 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 Company is the actual owner of the land.

In 2020, the Company derecognized some part of property, plant and equipment in fire damage amounting to $401,187, which were recorded under the losses due to disasters (miscellaneous disbursements). Please refer to note 6(t) and note 10 for the details.

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

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(i) Right-of-use assets

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

		Amount
Cost:		
Balance on January 1, 2020	$	4,747
Additions		1,662
Reductions		(752)
Balance on December 31, 2020	$	5,657
Balance on January 1, 2019	$	4,113
Additions		868
Reductions		(234)
Balance on December 31, 2019	$	4,747
Accumulated Depreciation:		
Balance on January 1, 2020	$	1,773
Depreciation for the year		2,049
Reductions		(733)
Balance on December 31, 2020	$	3,089
Balance on January 1, 2019	$	-
Depreciation for the year		1,929
Reductions		(156)
Balance on December 31, 2019	$	1,773
Carrying amount:		
Balance on December 31, 2020	$	2,568
Balance on January 1, 2019	$	4,113
Balance on December 31, 2019	$	2,974

(j) Short-term borrowings

The details of short-term borrowings were as following:

	December 31, 2020	December 31, 2019
Unsecured bank loans	$ -	-
Unused credit line for short-term borrowings	$ 338,989	341,212
Range of interest rates	-	-

Please refer to note 8 for the details of property, plant and equipment as collateral for its loans.

Please refer to note 6(u) for the information of interest risk, foreign currency risk, and liquidity risk.

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Notes to the Financial Statements

(k) Other payables

	December 31, 2020	December 31, 2019
Salaries payable	$ 118,602	152,767
Others	70,236	76,963
	$ 188,838	229,730

(l) Lease liabilities

The carrying amount of lease liabilities was as follows:

	December 31, 2020	December 31, 2019
Current	$ 1,340	1,795
Non-current	$ 1,248	1,197

Please refer to note 6(u) for maturity analysis.

	2020	2019
The amounts recognized in profit or loss were as follows:		
Interest on lease liabilities	$ 43	52
Expenses relating to short-term leases	$ 1,662	1,412
Variable lease payments not included in the measurement of lease liabilities	$ 546	300
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	$ 259	19
Profits from the change of the lease (recorded as other income)	$ -	(1)

The amounts recognized in the statement of cash flows for the Company were as follows:

	2020	2019
Total cash outflow for leases	$ 4,557	3,693

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

The Company 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 Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

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(m) Provisions

	Environmental protection costs	Fire disaster indemnity	Total
Balance at January 1, 2020	$ 83,957	-	83,957
Provisions made during the year	70,670	509,076	579,746
Provisions used during the year	(68,471)	-	(68,471)
Balance at December 31,2020	**$ 86,156**	**509,076**	**595,232**
Balance at January 1, 2019	$ 76,501	-	76,501
Provisions made during the year	79,326	-	79,326
Provisions used during the year	(71,870)	-	(71,870)
Balance at December 31,2019	**$ 83,957**	**-**	**83,957**

(i) In 2020 and 2019, 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 Company considers to write off and recognize the said provisions in the following year.

(ii) In 2020, the Company estimated the fire disaster indemnity amounting to $509,076 due to the fire spreading to the nearby factories. Please refer to note 6(t) and note 10 for the details.

(n) 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, 2020	December 31, 2019
Present value of the defined benefit obligations	$ (85,075)	(87,066)
Fair value of plan assets	64,632	65,690
Net defined benefit liabilities	**$ (20,443)**	**(21,376)**

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.

SCI PHARMTECH, INC.
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The Company’ s Bank of Taiwan labor pension reserve account balance amounted to $64,114 at the end of the reporting period. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

2) Movements in present value of the defined benefit obligations

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

	2020	2019
Defined benefit obligation at January 1	$ (87,066)	(82,812)
Current service costs and interest	(1,778)	(2,150)
Remeasurement in net defined benefit liability (assets)	(2,012)	(2,104)
Benefits paid	5,781	-
Defined benefit obligation at December 31	**$ (85,075)**	**(87,066)**

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:

	2020	2019
Fair value of plan assets at January 1	$ 65,690	60,722
Contributions made	2,122	2,149
Interest income	459	585
Remeasurement in net defined benefit liability (assets)	2,142	2,234
Benefits paid	(5,781)	-
Fair value of plan assets at December 31	**$ 64,632**	**65,690**

4) Movements of the effect of the asset ceiling

In 2020 and 2019, there were no movements on the effect of the Company's defined benefit plans asset ceiling.

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SCI PHARMTECH, INC.
Notes to the Financial Statements

5) Expenses recognized in profit or loss

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

	2020	2019
Service cost	$ 1,178	1,356
Net interest of net liabilities for defined benefit obligations	141	209
	$ 1,319	**1,565**
Operating cost	$ 1,259	1,564
Operating expenses	60	1
	$ 1,319	**1,565**

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, 2020 and 2019, was as follows:

	2020	2019
Cumulative amount at January 1	$ 7,894	8,024
Recognized during the year	(130)	(130)
Cumulative amount at December 31	**$ 7,764**	**7,894**

7) Actuarial assumptions

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

	December 31, 2020	December 31, 2019
Discount rate as of December 31	0.30 %	0.70 %
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 $2,305.

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

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8) Sensitivity analysis

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

		The impact on the present value of the defined benefit obligation	
		Increased 0.25%	**Decreased 0.25%**
As of December 31, 2020			
Discount rate	$	(1,594)	1,644
Future salary increasing rate		1,621	(1,579)
As of December 31, 2019			
Discount rate		(1,698)	1,753
Future salary increasing rate		1,735	(1,689)

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

There is no change in the method and assumptions used in the preparation of sensitivity analysis for 2020 and 2019.

(ii) Defined contribution plans

The Company 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 Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

The Company recognized the pension costs under the defined contribution method amounting to 7,076 and $6,769 for the years ended December 31, 2020 and 2019, respectively. Payment was made to the Bureau of Labor Insurance.

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Notes to the Financial Statements

(o) Income taxes

(i) Income tax expenses

The amount of income tax for the years ended December 31, 2020 and 2019, was as follows:

		2020	2019
Current income tax expense			
Recognized during the year	$	197,199	145,929
Surtax on unappropriated earnings		2,893	-
Income tax estimate under (over)		(2,483)	214
		197,609	146,143
Deferred income tax expense			
Recognition and reversal of temporary differences		(104,064)	(6,084)
Income tax underestimate (overestimate) for prior years		1,546	-
		(102,518)	(6,084)
Income tax expense	**$**	**95,091**	**140,059**

The amount of income tax recognized in other comprehensive income for 2020 and 2019 was as follows:

		2020	2019
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement in defined benefit plan	**$**	**26**	**26**

Reconciliation of income tax and profit before tax for 2020 and 2019 is as follows:

		2020	2019
Profit excluding income tax	$	455,215	711,160
Income tax using the Company’s domestic tax rate		91,043	142,232
Under (over) provision in prior periods		(937)	214
Surtax on unappropriated earnings		2,893	-
Other		2,092	(2,387)
	$	**95,091**	**140,059**

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Notes to the Financial Statements

(ii) Deferred tax assets and liabilities

1) Unrecognized deferred tax assets and liabilities: None.

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2020 and 2019 were as follows:

		Loss for market price decline and obsolete inventories	Losses due to major disasters	Provision	Investment income recognized under the equity method (overseas)	Deferred revenue	Others	Total
Deferred tax assets:								
Balance on January 1, 2020	$	30,663	-	16,231	-	3,231	7,118	57,243
Recognized in profit or loss		(4,843)	115,350	100,324	-	(2,064)	(2,438)	206,329
Recognized in other comprehensive income		-	-	-	-	-	(26)	(26)
Balance on December 31, 2020	$	25,820	115,350	116,555	-	1,167	4,654	263,546
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	$	30,663	-	16,231	-	3,231	7,118	57,243

		Insurance claim compensation	Foreign exchange gain	Total
Deferred tax liabilities:				
Balance on January 1, 2020	$	-	-	-
Recognized in profit or loss		103,811	-	103,811
Recognized in other comprehensive income		-	-	-
Balance on December 31, 2020	$	103,811	-	103,811
Balance on January 1, 2019	$	-	47	47
Recognized in profit or loss		-	(47)	(47)
Recognized in other comprehensive income		-	-	-
Balance on December 31, 2019	$	-	-	-

(iii) Examination and approval

The ROC tax authorities have examined the Company's income tax returns through 2018.

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Notes to the Financial Statements

(p) Capital and other equity

As of December 31, 2020 and 2019, 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, 2020 and 2019 were as follows:

	December 31, 2020	December 31, 2019
Additional paid-in capital	$ 1,270,247	1,270,247
Gain on disposal of assets	980	980
Stock options	71,530	71,530
Employee stock options	5,582	5,582
	$ 1,348,339	**1,348,339**

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 Earning

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.
Notes to the 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.

3) Earnings distribution

Based on the resolutions of the annual stockholders' meetings held on June 19, 2020 and June 21, 2019, the appropriations of dividends from the distributable retained earnings of 2019 and 2018 were as follows:

	2019		2018	
	Amount per share (dollars)	**Total amount**	**Amount per share (dollars)**	**Total amount**
Dividends distributed to ordinary shareholders：				
Cash	$ 5.80	461,014	4.20	333,838

On March 24, 2021, the Company's Board of Directors resolved to appropriate the 2020 earnings. These earnings were appropriate as follows:

	2020	
	Amount per share (dollars)	**Total amount**
Dividends distributed to ordinary shareholders：		
Cash	$ 0.5	39,743
Shares	2.0	158,970
		$ 198,713

(Continued)

SCI PHARMTECH, INC.
Notes to the Financial Statements

(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		(51,632)
Balance at December 31, 2020	$	(29,378)
Balance at January 1, 2019	$	(4,788)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income		27,042
Balance at December 31, 2019	$	22,254

(q) Earnings per share

The calculation of basic earnings per share and diluted earnings per share for the years ended December 31, 2020 and 2019 are as follows:

		2020	2019
Basic earnings per share			
Profit attributable to ordinary shareholders of the Company	$	360,124	571,101
Weighted-average number of ordinary shares (thousand shares)		79,485	79,485
	$	4.53	7.19
Diluted earnings per share			
Profit attributable to ordinary shareholders of the Company	$	360,124	571,101
Weighted-average number of ordinary shares (thousand shares)		79,485	79,485
Effect of potentially dilutive ordinary shares:			
Effect of employee compensation		653	749
Weighted-average number of ordinary shares (thousand shares) (diluted)		80,138	80,234
	$	4.49	7.12

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Notes to the Financial Statements

(r) Revenue from contracts with customers

(i) Disaggregation of revenue

		2020	2019
Primary geographical markets			
United States	$	470,942	315,998
Italy		455,365	385,807
Spain		447,010	399,767
Japan		239,884	258,866
Taiwan		232,453	221,055
Netherlands		145,319	139,899
India		93,544	172,716
Switzerland		90,905	149,056
Others		513,800	312,583
	$	**2,689,222**	**2,355,747**
Major products			
Active Pharmaceutical Ingredients	$	1,962,646	1,546,269
Intermediates		597,497	627,963
Specialty Chemical		129,079	181,515
	$	**2,689,222**	**2,355,747**

(ii) Contract balances

		December 31, 2020	December 31, 2019	January 1, 2019
Notes and accounts receivable	$	337,749	353,583	392,096
Less: allowance for impairment		-	(1,179)	(1,179)
Total	$	**337,749**	**352,404**	**390,917**
Contract liabilities (sales received in advance)	$	**97,295**	**59,092**	**30,403**

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 Company transfers the ownership of goods and which customers do the payment.

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(s) 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, 2020 and 2019, the remunerations to employees amounted to $44,000 and $69,459, respectively, and the remunerations to directors amounted to $1,000 and $9,301, 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 2020 and 2019 financial statements. Related information would be available at the Market Observation Post System Website.

(t) Miscellaneous Disbursements

	2020	2019
Losses due to disaster resulting to property, plant and equipment and construction in progress	$ 401,187	-
Losses due to disaster resulting to inventories	175,565	-
Fire disaster indemnity	509,076	-
Insurance claim income	(519,057)	-
	566,771	-
Others	514	469
	$ 567,285	**469**

(u) 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.

SCI PHARMTECH, INC.

Notes to the Financial Statements

2) Concentration of credit risk

The Company's customers are mainly from the pharmaceutical industry; therefore, the Company 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 Company 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 Company are the financial institutions with investment grade credit ratings. Therefore, the credit risk is considered to be low.

(ii) Liquidity Risk

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

	Carrying Amount	Contractual cash flows	Within a year	1 ~ 2 years	Over 2 years
December 31, 2020					
Non-derivative financial liabilities:					
Notes and accounts payable	$ 80,878	(80,878)	(80,878)	-	-
Lease liabilities (including current and non-current)	2,588	(2,629)	(1,368)	(922)	(339)
Other payables	188,838	(188,838)	(188,838)	-	-
Payables on contractors and equipment	21,064	(21,064)	(21,064)	-	-
	$ 293,368	**(293,409)**	**(292,148)**	**(922)**	**(339)**
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	229,730	(229,730)	(229,730)	-	-
Payables on contractors and equipment	16,605	(16,605)	(16,605)	-	-
	$ 343,629	**(343,675)**	**(342,463)**	**(801)**	**(411)**

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

(Continued)

SCI PHARMTECH, INC.
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(iii) Currency risk

1) Exposure to foreign currency risk

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

Foreign currency: in thousands of dollars

	December 31, 2020			December 31, 2019		
	Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets						
Monetary items						
USD to TWD	$ 17,702	28.43	503,268	19,086	29.93	571,244
EUR to TWD	3,178	34.82	110,658	2,124	33.39	70,920
Financial liabilities						
Monetary items						
USD to TWD	1,417	28.43	40,285	1,830	29.93	54,772

2) Sensitivity analysis

The Company'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, 2020 and 2019 would have affected the net profit before tax increased or decreased $5,736 and $5,874, respectively, for the years ended December 31, 2020 and 2019. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary items

Since the Company has many kinds of functional currency, the information on foreign exchange gain (loss) on monetary items is disclosed by total amount. For years 2020 and 2019, foreign exchange gain (loss) (including realized and unrealized portions) amounted to $(30,626) and $(9,976), respectively.

(iv) Interest rate analysis

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

	Carrying amount	
	December 31, 2020	December 31, 2019
Financial assets	$ 281,072	220,587
Financial liabilities	-	-

(Continued)

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 Company management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.25%, the Company's net profit before tax would have increased or decreased by $703 and $551, respectively, for the years ended December 31, 2020 and 2019, with all other variable factors remaining constant. This is mainly due to the Company'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 Company' 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:

	December 31, 2020				
		Fair Value			
	Book value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss					
Non-derivative financial assets					
Mandatorily measured at fair value through profit or loss	$ 667,955	667,955	-	-	667,955
Financial assets at fair value through other comprehensive income					
Emerging stocks and unlisted stocks on domestic market	85,697	-	-	85,697	85,697
Financial assets measured at amortized cost					
Cash and cash equivalents	603,094	-	-	-	-
Notes and accounts receivable	337,749	-	-	-	-
Other receivables	519,651	-	-	-	-
Refunded deposits (recognized as other non-current assets)	1,210	-	-	-	-
Subtotal	1,461,704				
Total	**$ 2,215,356**				

(Continued)

SCI PHARMTECH, INC.
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	December 31, 2020				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial liabilities measured at amortized cost					
Notes and accounts payable	$ 80,878	-	-	-	-
Lease liabilities (including current and non-current)	2,588	-	-	-	-
Other payables	188,838	-	-	-	-
Payables on contractors and equipment	21,064	-	-	-	-
Total	$ 293,368				

	December 31, 2019				
		Fair Value			
	Book value	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Non-derivative financial assets Mandatorily measured at fair value through profit or loss	$ 466,025	466,025	-	-	466,025
Financial assets at fair value through other comprehensive income					
Emerging stocks and unlisted stocks on domestic market	137,329	28,710	-	108,619	137,329
Financial assets measured at amortized cost					
Cash and cash equivalents	523,085	-	-	-	-
Notes and accounts receivable	352,404	-	-	-	-
Other receivables	1,023	-	-	-	-
Refunded deposits (recognized as other non-current assets)	7,483	-	-	-	-
Subtotal	883,995				
Total	$ 1,487,349				
Financial liabilities measured at amortized cost					
Notes and accounts payable	$ 94,302	-	-	-	-
Lease liabilities (including current and non-current)	2,992	-	-	-	-
Other payables	229,730	-	-	-	-
Payables on contractors and equipment	16,605	-	-	-	-
Total	$ 343,629				

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

The Company'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 Company 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) Transfers from one level to another

Part of the Company's equity holdings in Energenesis comes from its cash capital increase, which is classified as fair value through other comprehensive income. The fair value as of December 31, 2020 and 2019, was $15,619 and $28,710, respectively. Energenesis is a listed company on the Emerging Stock Market. As of December 31, 2020, the degree of Energenesis's stock trading activity does not meet the definition of an active market. Therefore, the fair value measurement was transferred from Level 1 to Level 3 of the fair value hierarchy as of December 31, 2020.

There was no transfer from one level to another in 2019.

SCI PHARMTECH, INC.
Notes to the Financial Statements

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 profit or less		-
In other comprehensive income		(38,541)
Transfers in Level 3		15,619
December 31, 2020	**$**	**85,697**
January 1, 2019	$	75,296
Total gains and losses recognized:		
In profit or loss		-
In other comprehensive income		13,326
Purchased		19,997
December 31, 2019	**$**	**108,619**

For the years ended December 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:

		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"	$	(38,541)	13,326

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

The Company'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.

SCI PHARMTECH, INC.

Notes to the Financial Statements

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, 2020 and 2019 were 1.79~5.01 and 1.91, respectively)	The higher the fair value is, the higher the multiplier will be.
〃	〃	·Lack-of-Marketability discount rate (As of December 31, 2020 and 2019 were 23%~50% and 50%, respectively)	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 was 19.03%~23.38%)	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 Company's measurement on the fair value of financial instruments is deemed reasonable despite different valuation models or assumptions that may lead to various results. For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

	Inputs	Move up or downs	Other comprehensive income	
			Favorable	Unfavorable
December 31, 2020				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	$ 3,496	3,536
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	$ 2,895	2,895
December 31, 2019				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	$ 1,902	1,902
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	$ 2,801	2,801

SCI PHARMTECH, INC.
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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.

(v) Financial risk management

(i) Overview

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

1) credit risk

2) liquidity risk

3) market risk

The following likewise discusses the Company’ 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 financial statements.

(ii) Structure of risk management

The Company 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 Company’ s financial risk management focus on uncertainty in the financial market to avoid hidden difficulty at the financial statement and financial performance of the Company. The Company’s finance department carried out risk management according to the dealer’s authority approved by Board of Directors. The Company’ 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 Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company’s receivables from customers and investment securities.

1) Accounting receivable and other receivables

The Company’s finance department has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company’ 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 Company’ s benchmark creditworthiness may transact with the Company only on a prepayment basis.

(Continued)

The Company’ s exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company’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 Company’s customers are mainly from the pharmaceutical industry. In order to mitigate account receivable credit risk, the Company constantly assesses the financial status of the customers, and requests the customers to provide guarantee or security if necessary. The Company 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 Company 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 Company’s finance department. The Company only deals with banks, other external parties, corporate organizations, government agencies and financial institutions with good credit rating. The Company 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 Company’ s policy is to provide financial guarantees only to wholly owned subsidiaries. As of December 31, 2020 and 2019, no guarantees were outstanding.

(iv) Liquidity risk

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

Please refer to note 6(j) for unused short-term bank facilities as of December 31, 2020 and 2019.

SCI PHARMTECH, INC.
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(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 Company’s income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

1) Currency risk

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

The Company pays attention to changes in exchange rates and uses forward exchange contracts to hedge its currency risk. The Company’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 Company 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 Company did not borrow funds with variable interest rates, therefore there is no risk of cash flows.

(w) Capital management

The Company’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 Company 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 Company 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.

SCI PHARMTECH, INC.
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The Company's capital management strategy is to maintain a debt-to-equity ratio of less than 30% in December 31, 2020 and 2019. The ratio of debt to capital in December 31, 2020 and 2019, is as follows:

	December 31, 2020	December 31, 2019
Total loan	$ -	-
less: cash and cash equivalents	603,094	523,085
Net debt	**$ -**	**-**
Total equity	**$ 3,322,222**	**3,474,640**
Debt-to-equity ratio	- %	- %

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

The Company's investing and financing activities which did not affect the current cash flow for the years ended December 31, 2020 and 2019, were as follows:

(i) For the acquisition of right-of-use assets by lease for the years ended December 31, 2020 and 2019, please refer to note 6(i).

(ii) Reconciliation of liabilities arising from financing activities for the years ended December 31, 2020 and 2019, were as follows:

			Non-cash changes	
	January 1, 2020	Cash flows	Changes in lease payments	December 31, 2020
Lease liabilities	$ 2,992	(2,047)	1,643	2,588

			Non-cash changes	
	January 1, 2019	Cash flows	Changes in lease payments	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 Company, holding 33.11% of the Company' s outstanding shares. It has issued the consolidated financial statements available for public use.

(b) Relationship between parent company and its subsidiaries

Related party name	Related-party relationship
Yushan Holding Universal Ltd. (Yushan Holding)	Subsidiary company
Yushan Pharmaceuticals, Inc. (Yushan Pharmaceuticals)	Subsidiary company

(c) Significant transaction with related parties: None.

(d) Key management personnel compensation

	2020	2019
Salary and Short-term employee benefits	$ 35,382	43,333

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Assets	Subject	December 31, 2020	December 31, 2019
Land	Pledged as collaterals	$ 42,736	42,736
Building	〃	4,171	4,842
		$ 46,907	47,578

(9) Commitments and contingencies:

(a) As of December 31, 2020 and 2019, the unused balance of the Company's outstanding standby letters of credit amounted to $29,106 and $8,788, respectively.

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

	December 31, 2020	December 31, 2019
Acquisitions of property, plant and equipment	$ 49,143	41,087

(10) Losses Due to Major Disasters:

A major fire accident occurred on December 20, 2020, and caused damage to some buildings, equipment, construction in progress, and inventories, and spreading to several nearby factories, of which property was impaired and business operation was interrupted. The Company derecognized damaged buildings, equipment and construction in progress at $401,187, and the inventories at $175,565, and accrued for the damage loss for nearby damaged companies for $509,076. The total disaster loss is $1,085,828. Among which, the damage loss is based on the best estimate from the available evidence as of the reporting date. However, the actual loss of the claim is still subject to future negotiation, and there are contingent liabilities that cannot be estimated or recorded.

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The Company has already entered into related property insurance contracts and is currently in the process of negotiation with the insurance company to handle claims.

The Company has confirmed with the insurance company and its notary to recognize the virtually certain amount of compensation that can be received from the insurance company as claim receivables, but shall not exceed the disaster loss of each asset. As of December 31, 2020, the Company recognizes the claim receivable for $519,057, as a deduction to the miscellaneous disbursements. However, the insurance claims involve disaster identification, the Company has not been able to confirm the total amount of insurance claims, and will recognize it when the Company can almost be certain that it can receive the subsequent increase in insurance claims income.

(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	2020			2019		
By item	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
Employee benefits						
Salary	218,067	76,850	294,917	208,502	98,121	306,623
Labor and health insurance	14,756	4,782	19,538	14,067	4,539	18,606
Pension	6,601	1,794	8,395	6,671	1,663	8,334
Remuneration of directors	-	6,070	6,070	-	9,301	9,301
Others	3,503	9,481	12,984	3,250	9,327	12,577
Depreciation	107,569	19,941	127,510	111,654	19,322	130,976
Amortization	1,766	4,027	5,793	1,738	3,912	5,650

For the years ended December 31, 2020 and 2019, the information on the number of employees and employee benefit expense of the Company is as follows:

	2020	2019
Number of employees	278	271
Number of directors (non-employees)	5	5
Average employee benefit expenses	$ 1,230	1,301
Average salaries expenses	$ 1,080	1,153
Average employee salary expense adjustment	(6.33)%	6.56 %
Remuneration for supervisors	$ -	-

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The Company’s salary and remuneration policy (including directors, managers and employees) is as follows:

(i) Directors: the remuneration of the directors is based on the policy of the Company’s Articles of Incorporation.

The directors’ remuneration is less than 2% of the profit in according to the Articles of Incorporation. The reasonable remuneration is determined after considering the Company's operating results, and each director’s contribution. In addition, considering that independent directors are also the members of the audit and remuneration committees, the workload is more heavy, therefore, the independent directors have higher director remuneration than other members of the Board of Director.

(ii) Managers and employees:

1) The Company’s salary and remuneration policy is to provide a competitive salary level, to recruit and retain key managers and employees that are required for the Company's operations, and to achieve the Company's steady growth and sustainable development.

2) Employee remuneration includes monthly salary, performance bonus, year-end bonus and remuneration based on the profit status of the current year.

3) The remuneration of managers shall be handled in accordance with the "policies, systems, standards and structure of manager’s performance goals and salary remuneration".

(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 Company for the year ended December 31, 2020:

(i) Loans to other parties: None.

(ii) Guarantees and endorsements for other parties: None.

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(iii) Securities held as of December 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)	-	Non-current Financial asset at fair value through profit or loss	2,760	46,477	-	46,477	-
〃	Beneficiary Certificate (Cathay Taiwan Money Market Fund)	-	〃	4,093	51,305	-	51,305	-
〃	Beneficiary Certificate (Nomura Taiwan Money Market)	-	〃	1,273	20,940	-	20,940	-
〃	Beneficiary Certificate (Taishin 1699 Money Market Fund)	-	〃	3,592	49,019	-	49,019	-
〃	Beneficiary Certificate (Jih Sun Money Market Fund)	-	〃	3,022	45,174	-	45,174	-
〃	Beneficiary Certificate (Yuanta USD Money Market Fund-USD)	-	〃	99	30,151	-	30,151	-
〃	Beneficiary Certificate (Nomura Global Short Duration Bond Fund)	-	〃	2,840	30,371	-	30,371	-
〃	Beneficiary Certificate (CTBC Hua Win Money Market Fund)	-	〃	4,064	45,146	-	45,146	-
〃	Beneficiary Certificate (Fubon China Policy Bank Bond ETF)	-	〃	420	8,236	-	8,236	-
〃	Beneficiary Certificate (Yuanta De-Li Money Market Fund)	-	〃	2,744	45,116	-	45,116	-
〃	Beneficiary Certificate (Mega Diamond Money Market Fund)	-	〃	3,568	45,130	-	45,130	-
〃	Stock (Fubon S&P Preferred Shares A)	-	〃	793	49,404	-	49,404	-
〃	Stock (Fubon S&P Preferred Shares B)	-	〃	36	2,250	-	2,250	-
〃	Stock (TAISHIN FINANCIAL HOLDING CO., LTD. Preferred Stock E)	-	〃	400	21,040	-	21,040	-
〃	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A)	-	〃	790	48,822	-	48,822	-
〃	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock B)	-	〃	33	2,077	-	2,077	-
〃	Stock (Cathay Financial Holding Co., Ltd. Common Stock)	-	〃	28	1,196	-	1,196	-
〃	Stock (Fubon S&P US Preferred Stock)	-	〃	2,350	39,644	-	39,644	-
〃	Stock (CTBC Financial Holding Co., Ltd. Preferred Shares B)	-	〃	685	43,429	-	43,429	-
〃	Stock (Shin Kong Financial Holding Co., Ltd. Preferred Shares A)	-	〃	642	28,088	-	28,088	-
〃	Stock (Chailese Holding Co., Ltd. Preferred Shares A)	-	〃	150	14,940	- %	14,940	
〃	Stock (Energenesis Biomedical Co., Ltd)	-	Financial assets at fair value through other comprehensive income	1,458	53,257	2.44 %	53,257	-
〃	Stock (Sunny Pharmtech Inc.)	-	〃	4,497	32,382	3.47 %	32,382	-

(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.

(Continued)

SCI PHARMTECH, INC.
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(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.

(b) Information on investees:

The following is the information on investees for the year ended December 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 December 31, 2020			Net income (losses) of investee	Share of profits/losses of investee	Note
				December 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 %	349,186	(537)	(537)	

(c) Information on investment in mainland China: None.

(d) Major shareholders:

Unit: shares

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

(14) Segment information:

Please refer to the consolidated financial statements for the year ended December 31, 2020.

SCI PHARMTECH, INC.

STATEMENT OF CASH AND CASH EQUIVALENTS

December 31, 2020

(Expressed in thousands of New Taiwan Dollars; in dollars of Foreign Currency)

Item	Description	Amount
Cash on hand		$ 580
Checking accounts		296
Time deposits	USD (Maturity date: 2021.1.19~2021.2.17)	99,505
Bill sold under repurchase agreements	TWD (Maturity date: 2021.1.25~2021.2.26)	221,641
Demand deposits	TWD	39,056
	Foreign currency (USD5,350,851.13, EUR2,229,617.64, GBP284,636.69, JPY2,487,938.00, CNY89,599.65, CHF5,211.43)	242,016
Total		**$ 603,094**

Note: The exchange rate at balance sheet date was as follows:

USD: 28.43

EUR: 34.82

GBP: 38.7

JPY: 0.2743

CNY: 4.352

CHF: 32.18

SCI PHARMTECH, INC.

STAEMENTS OF NOTES AND ACCOUNTS RECEIVABLE

December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Notes Receivable (Note)	Third parties operating income	$ 99
Accounts Receivable:		
Taiwan Pharmaceutical	〃	72,039
Sandoz Inc.	〃	58,869
Shin-Etsu	〃	30,723
AbbVie S.r.l.	〃	30,487
Produlab Pharma Production B.V.	〃	19,739
Taiwan Biotech Co., LTD.	〃	17,259
Others (Note)	〃	108,534
		337,749
Less: allowance for uncollectible accounts		-
Notes and accounts receivable, net		**$ 337,749**

Note: The amount of individual client included in others does not exceed 5% of the account balance.

SCI PHARMTECH, INC.

STATEMENTS OF INVENTORY

December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Item	Cost	Net Realizable Value
Finished goods	$ 247,573	480,846
Work in progress	16,322	53,532
Raw materials	116,984	129,019
Total	**$ 380,879**	**663,397**

STATEMENTS OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, NON-CURRENT

Please refer to note 13(a)(iii).

SCI PHARMTECH, INC.

CHANGES IN NON-CURRENT FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan Dollars; thousands of share)

	Beginning Balance		Transferred In		Increase		Decrease		Ending Balance		
Investee Company	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Collaterals or Pledged Assets
Sunny Pharmtech Inc.	4,497	$ 50,093	-	-	-	-	-	-	4,497	50,093	None
Energenesis Biomedical Co., Ltd.	1,458	64,982	-	-	-	-	-	-	1,458	64,982	〃
Less: valuation adjustment	-	22,254	-	-	-	-	-	51,632	-	(29,378)	〃
Total		**$ 137,329**		**-**		**-**		**51,632**		**85,697**	

SCI PHARMTECH, INC.

CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan Dollars; thousands of shares)

	Beginning Balance		Increase		Decrease			Ending Balance				
Investee Company	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Share of profit recognized	Number of shares	Amount	Percentage of ownership	Net value	Collaterals or Pledged Assets
Yushan Pharmaceuticals Inc.	35,190	$ 349,723	-	-	-	-	(537)	35,190	349,186	100 %	349,186	None

SCI PHARMTECH, INC.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Please refer to note 6(h).

Other Non-current Assets

December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Prepayments for equipments		$ 88,675
Others (Note)	Refundable deposits, and so on	1,215
		$ 89,890

Note: The amount of each item in others does not exceed 5% of the account balance.

SCI PHARMTECH, INC.

111STATEMENT OF NOTES AND ACCOUNTS PAYABLE

December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Vendor name	Description	Amount
Notes Payable:		
MSIG Mingtai Insurance	Third parties operating income	$ 195
Others (Note)	〃	2
		197
Accounts Payable:		
Trans Chief Chemical Industry Co., Ltd.	Third parties operating income	17,162
Allied Biotech Co., Ltd.	〃	6,930
Nantong Kaixin Pharma Chemical Co., Ltd.	〃	6,081
Air Products San fu Co., Ltd.	〃	5,939
All-in-line Chemicals Enterprise Co., Ltd.	〃	5,652
Takasago International Co., Ltd.	〃	5,274
Mitsubishi Corporation	〃	5,234
ChingTide Co., Ltd.	〃	4,448
Fenhe Chemical Co., Limit	〃	4,088
Others (Note)	〃	19,873
		80,681
		$ 80,878

Note: The amount of individual vendor included in others does not exceed 5% of the account balance.

SCI PHARMTECH, INC.

STATEMENT OF OTHER PAYABLES

December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Item	Description	Amount
Payroll payables and year-end bonuses payable	Payroll expenses for December 2020, estimated 2020 year-end bonuses, and employees and directors' remuneration	$ 118,602
Commission and Royalties Payable		11,064
Others (Note)	Utilities expense and freight	59,172
Total		**$ 188,838**

Note: The amount of each item in others does not exceed 5% of the account balance.

STATEMENT OF NET REVENUE

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Item	Quantity (thousand kilograms)	Amount
API	815	$ 1,962,646
Intermediates	188	597,497
Specialty Chemical	898	129,079
		$ 2,689,222

SCI PHARMTECH, INC.

OPERATING COSTS

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Item	Amount
Raw materials	
Raw materials, beginning of year	$ 135,016
Add: Purchases	790,413
Less: Raw materials, end of year (including raw materials in transit)	(144,010)
Transferred to manufacturing expenses	(50,040)
Transferred to operating expenses	(1,640)
Transferred to losses due to major disasters	(12,604)
Material consumption	717,135
Direct labor	106,140
Manufacturing expenses	608,186
Total Manufacturing costs	1,431,461
Add: Work in process, beginning of year	140,495
Finished good transferred in	1,024,148
Less: Work in process, end of year	(37,300)
Work in process used	(997)
Transferred to losses due to major disasters	(131,791)
Cost of finished goods	2,426,016
Add: Finished goods, beginning of year	404,882
Purchases	254
Less: Finished goods, end of year (including inventory in transit)	(328,666)
Remanufacture	(1,024,148)
Transferred to operating expenses	(729)
Finished good used	(1,881)
Write-downs	(5,604)
Transferred to losses due to major disasters	(31,170)
Costs of goods sold	1,438,954
Add: Allowance for inventory obsolescence (reversals)	(24,215)
The write-down of inventories	5,604
Others	(5,449)
Cost of sales	**$ 1,414,894**

SCI PHARMTECH, INC.

STATEMENT OF OPERATING EXPENSES

For the year ended December 31, 2020

(Expressed in thousands of New Taiwan Dollars)

Item	Selling expenses	Administrative expenses	Research and development expenses
Payroll expenses	$ 12,337	46,011	26,366
Freight	23,000	-	-
Commission expenses	24,295	-	-
Royalty	27,463	-	-
Professional service fees	-	11,013	2,848
Depreciation	439	16,896	2,606
Amortization	-	4,027	-
Packing expenses	-	3,801	-
Repair and maintenance	8	10,548	2,061
Import expenses	-	6,210	-
Miscellaneous purchase	9	7,602	545
Donation	-	4,025	-
Others (Note)	24,376	(42,158)	8,939
Total	**$ 111,927**	**67,975**	**43,365**

Note: The amount of each item in others does not exceed 5% of the account balance.