

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

**With Independent Auditors' Review Report
For the Six Months Ended June 30, 2020 and 2019**

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

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Independent Auditors' Review Report

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

Introduction

We have reviewed the accompanying consolidated balance sheets of SCI Pharmtech, Inc. and its subsidiaries as of June 30, 2020 and 2019, and the related consolidated statements of comprehensive income for the three months and six months ended June 30, 2020 and 2019, and changes in equity and cash flows for the six months ended June 30, 2020 and 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the SCI Pharmtech, Inc. and its subsidiaries as of June 30, 2020 and 2019, and of its consolidated financial performance for the three months and six months ended June 30, 2020 and 2019, and its consolidated cash flows for the six months ended June 30, 2020 and 2019 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

KPMG

Taipei, Taiwan (Republic of China)
August 6, 2020

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Reviewed only, not audited in accordance with generally accepted auditing standards as of June 30, 2020 and 2019

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2020, December 31, 2019, and June 30, 2019
(expressed in thousands of New Taiwan dollars)

		June 30, 2020		December 31, 2019		June 30, 2019											
		Amount	%	Amount	%	Amount	%										
Current assets:																	
1100	Cash and cash equivalents (note 6(a))	\$	778,055	17	553,555	13	571,922	14	2170	Notes and accounts payable	\$	119,258	3	94,302	2	105,081	3
1110	Financial assets at fair value through profit or loss (note 6(b))		661,063	14	466,025	11	473,979	11	2130	Current contract liabilities (note 6(p))		57,371	1	59,092	2	41,606	1
1170	Notes and accounts receivable, net (notes 6(d) and 6(p))		494,115	11	352,404	9	459,668	11	2200	Other payables (note 6(i))		741,232	16	229,830	6	557,391	13
1310	Inventories, net (note 6(e))		523,808	11	527,081	13	519,388	13	2213	Payables on contractors and equipment		48,654	1	16,605	-	46,806	1
1470	Other current assets		24,712	-	36,953	1	18,319	-	2230	Current tax liabilities		113,886	3	96,671	2	83,479	2
			2,481,753	53	1,936,018	47	2,043,276	49	2250	Current provisions (note 6(k))		91,720	2	83,957	2	83,664	2
Non-current assets:									2280	Current lease liabilities (note 6(j))		1,378	-	1,795	-	1,838	-
1518	Non-current financial assets at fair value through other comprehensive income (note 6(e))		113,534	3	137,329	3	85,312	2	2300	Other current liabilities		3,903	-	2,012	-	2,151	-
Property, plant and equipment (notes 6(f) and 8)			1,896,374	41	1,876,999	46	1,872,843	46	Non-Current liabilities:								
1755	Right-of-use assets (note 6(g))		1,980	-	2,974	-	3,169	-	2570	Deferred tax liabilities		-	-	-	-	47	-
1780	Intangible assets		44,179	1	47,661	1	49,541	1	2580	Non-current lease liabilities (note 6(j))		620	-	1,197	-	1,343	-
1840	Deferred tax assets		55,752	1	57,243	2	51,232	1	2640	Provisions for employee benefits, non-current		20,963	-	21,376	1	21,802	1
1900	Other non-current assets		45,245	1	23,253	1	33,025	1	Total liabilities			21,583	-	22,573	1	23,192	1
			2,157,064	47	2,145,459	53	2,095,122	51	Equity attributable to owners of parent (note 6(n)):			1,198,985	26	606,837	15	945,208	23
									3100	Ordinary Share		794,853	17	794,853	19	794,853	19
									3200	Capital surplus		1,348,339	29	1,348,339	33	1,348,339	33
									3310	Legal reserve		390,081	8	332,971	8	332,971	8
									3320	Special reserve		-	-	4,788	-	4,788	-
									3350	Unappropriated retained earnings		908,100	20	971,435	24	722,005	17
									3400	Other components of equity		(1,541)	-	22,254	1	(9,766)	-
Total assets		\$	4,638,817	100	4,081,477	100	4,138,398	100	Total equity			3,439,832	74	3,474,640	85	3,193,190	77
									Total liabilities and equity				100	4,081,477	100	4,138,398	100

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

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months and six months ended June 30, 2020 and 2019

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

	For the three months ended June 30				For the six months ended June 30			
	2020		2019		2020		2019	
	Amount	%	Amount	%	Amount	%	Amount	%
4110 Sales revenue (note 6(p))	\$ 727,922	100	604,287	100	1,512,250	100	1,207,974	100
5110 Cost of sales (notes 6(e), 6(l) and 12)	346,449	48	359,053	59	772,360	51	697,426	58
5900 Gross profit	<u>381,473</u>	<u>52</u>	<u>245,234</u>	<u>41</u>	<u>739,890</u>	<u>49</u>	<u>510,548</u>	<u>42</u>
Operating expenses (notes 6(l) and 12):								
6100 Selling expenses	37,624	5	23,828	4	67,979	5	56,394	5
6200 Administrative expenses	38,039	5	23,502	4	75,667	5	52,733	4
6300 Research and development expenses	10,610	1	9,761	2	20,842	1	19,510	1
	<u>86,273</u>	<u>11</u>	<u>57,091</u>	<u>10</u>	<u>164,488</u>	<u>11</u>	<u>128,637</u>	<u>10</u>
6900 Net operating income	<u>295,200</u>	<u>41</u>	<u>188,143</u>	<u>31</u>	<u>575,402</u>	<u>38</u>	<u>381,911</u>	<u>32</u>
Non-operating income and expenses:								
7190 Other income	847	-	1,908	-	2,077	-	4,043	-
7101 Interest income from bank deposits	1,648	-	1,753	-	3,111	-	2,567	-
7235 Gains on financial assets (liabilities) at fair value through profit or loss	13,896	2	1,471	-	(7,710)	-	6,238	1
7510 Interest expense (note 6(j))	(9)	-	(13)	-	(19)	-	(28)	-
7590 Miscellaneous disbursements	(129)	-	(133)	-	(257)	-	(226)	-
7610 Gains (losses) on disposals of property, plant and equipment	29	-	(1,623)	-	29	-	(1,623)	-
7630 Foreign exchange gains (losses)	(14,108)	(2)	10,096	2	(9,444)	(1)	12,586	1
	<u>2,174</u>	<u>-</u>	<u>13,459</u>	<u>2</u>	<u>(12,213)</u>	<u>(1)</u>	<u>23,557</u>	<u>2</u>
7900 Profit before tax	<u>297,374</u>	<u>41</u>	<u>201,602</u>	<u>33</u>	<u>563,189</u>	<u>37</u>	<u>405,468</u>	<u>34</u>
7950 Less: Income tax expenses (note 6(m))	55,704	8	43,873	6	113,188	7	83,693	7
8200 Profit	<u>241,670</u>	<u>33</u>	<u>157,729</u>	<u>27</u>	<u>450,001</u>	<u>30</u>	<u>321,775</u>	<u>27</u>
8300 Other comprehensive income:								
8310 Items that may not be reclassified subsequently to profit or loss:								
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	10,806	2	2,099	-	(23,795)	(2)	(4,978)	-
8349 Less: Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-	-	-	-
8300 Other comprehensive income, net	<u>10,806</u>	<u>2</u>	<u>2,099</u>	<u>-</u>	<u>(23,795)</u>	<u>(2)</u>	<u>(4,978)</u>	<u>-</u>
8500 Total comprehensive income	<u>\$ 252,476</u>	<u>35</u>	<u>159,828</u>	<u>27</u>	<u>426,206</u>	<u>28</u>	<u>316,797</u>	<u>27</u>
Earnings per share (note 6(o)):								
9750 Basic earnings per share	<u>\$ 3.04</u>		<u>1.98</u>		<u>5.66</u>		<u>4.05</u>	
9850 Diluted earnings per share	<u>\$ 3.03</u>		<u>1.97</u>		<u>5.62</u>		<u>4.02</u>	

See accompanying notes to consolidated financial statements.

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

SCI PHARMTECH, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

For the six months ended June 30, 2020 and 2019

(expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent					Other equity interest	
	Ordinary shares	Capital surplus	Legal reserve	Retained earnings		Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Total equity
				Special reserve	Unappropriated retained earnings		
Balance at January 1, 2019	\$ 794,853	1,348,339	288,248	7,727	775,852	(4,788)	3,210,231
Profit for the six months ended June 30, 2019	-	-	-	-	321,775	-	321,775
Other comprehensive income for the six months ended June 30, 2019	-	-	-	-	-	(4,978)	(4,978)
Total comprehensive income for the six months ended June 30, 2019	-	-	-	-	321,775	(4,978)	316,797
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 June 30, 2019	\$ 794,853	1,348,339	332,971	4,788	722,005	(9,766)	3,193,190
Balance at January 1, 2020	\$ 794,853	1,348,339	332,971	4,788	971,435	22,254	3,474,640
Profit for the six months ended June 30, 2020	-	-	-	-	450,001	-	450,001
Other comprehensive income for the six months ended June 30, 2020	-	-	-	-	-	(23,795)	(23,795)
Total comprehensive income for the six months ended June 30, 2020	-	-	-	-	450,001	(23,795)	426,206
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 June 30, 2020	\$ 794,853	1,348,339	390,081	-	908,100	(1,541)	3,439,832

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the six months ended June 30, 2020 and 2019

(expressed in Thousands of New Taiwan Dollars)

	For the six months ended June 30	
	2020	2019
Cash flows from (used in) operating activities:		
Profit before tax	\$ 563,189	405,468
Adjustments for:		
Adjustments to reconcile profit (loss):		
Depreciation expense	66,338	65,122
Amortization expense	2,905	2,733
Net loss (gain) on financial assets or liabilities at fair value through profit or loss	7,710	(6,238)
Interest expense	19	28
Interest income	(3,111)	(2,567)
Others	(29)	1,674
	<u>73,832</u>	<u>60,752</u>
Changes in operating assets and liabilities:		
Decrease (increase) in notes and accounts receivable	(141,711)	(68,751)
Decrease (increase) in inventories	3,273	(16,316)
Decrease (increase) in other current assets	12,241	3,324
Increase (decrease) in notes and accounts payable	24,956	15,925
Increase (decrease) in contract liabilities	(1,721)	11,203
Increase (decrease) in other payable	50,388	26,984
Increase (decrease) in provisions	7,763	7,163
Increase (decrease) in other current liabilities	1,891	(821)
Increase (decrease) in provision for employee benefits, non-current	(413)	(288)
	<u>30,499</u>	<u>39,175</u>
Cash flow from (used in) operations	593,688	444,643
Interest received	3,111	2,567
Interest paid	(19)	(28)
Income taxes paid	(94,482)	(73,277)
Net cash flows from (used in) operating activities	<u>502,298</u>	<u>373,905</u>
Cash flows from (used in) investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	-	(14,994)
Acquisition of financial assets at fair value through profit or loss	(202,748)	(37,635)
Acquisition of property, plant and equipment	(39,688)	(95,168)
Proceeds from disposal of property, plant and equipment	29	-
Acquisition of intangible assets	-	(4,877)
Increase in prepayments of property, plant and equipment	(40,670)	(15,571)
Decrease (increase) in refunded deposits	6,273	6,013
Net cash flows from (used in) investing activities	<u>(276,804)</u>	<u>(162,232)</u>
Cash flows from (used in) financing activities:		
Payment of lease liabilities	(994)	(932)
Net cash flows from (used in) financing activities	<u>(994)</u>	<u>(932)</u>
Net increase in cash and cash equivalents	224,500	210,741
Cash and cash equivalents at beginning of period	553,555	361,181
Cash and cash equivalents at end of period	<u>\$ 778,055</u>	<u>571,922</u>

See accompanying notes to consolidated financial statements.

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

SCI PHARMTECH, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

June 30, 2020 and 2019

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

(1) Company history

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

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

These consolidated financial statements were authorized for issuance by the Board of Directors on August 6, 2020.

(3) New standards, amendments and interpretations adopted:

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

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2020.

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020
Amendments to IFRS 16 “Covid-19-Related Rent Concessions”	June 1, 2020

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

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB
IFRS 17 “Insurance Contracts”	January 1, 2023

(Continued)

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

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”	January 1, 2023
Amendments to IAS 16 “Property, Plant and Equipment—Proceeds before Intended Use”	January 1, 2022
Amendments to IAS 37 “Onerous Contracts—Cost of Fulfilling a Contract”	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022
Amendments to IFRS 17 “Insurance Contracts”	January 1, 2023

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

(4) Summary of significant accounting policies:

(a) Statement of compliance

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

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

(b) Basis of Consolidation

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

Name of investor	Name of subsidiary	Principal activity	Shareholding						
			June 30, 2020		December 31, 2019		June 30, 2019		Note
The Company	Yushan Holding Universal Ltd.	Investment	-	%	-	%	-	%	
The Company	Yushan Pharmaceuticals Inc. (Yushan)	The research and development, manufacture and sale of API	100.00	%	100.00	%	100.00	%	Note 2
Yushan Holding Universal Ltd.	Yushan	The research and development, manufacture and sale of API	-	%	-	%	-	%	Note 2

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

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

(Continued)

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

(c) Income taxes

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

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

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

(d) Employee benefits

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

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

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

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

(6) Explanation of significant accounts:

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

(a) Cash and cash equivalents

	June 30, 2020	December 31, 2019	June 30, 2019
Cash on hand	\$ 531	535	429
Checking accounts and demand deposits	186,500	223,273	145,087
Time deposits	220,270	207,580	111,010
Bills sold under repurchase agreements	370,754	122,167	315,396
	<u>\$ 778,055</u>	<u>553,555</u>	<u>571,922</u>

(Continued)

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

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

	June 30, 2020	December 31, 2019	June 30, 2019
Mandatorily measured at fair value through profit or loss:			
Non-derivative financial assets			
Beneficiary certificate	\$ 416,788	237,529	279,995
Stocks listed on domestic markets	<u>244,275</u>	<u>228,496</u>	<u>193,984</u>
Total	<u>\$ 661,063</u>	<u>466,025</u>	<u>473,979</u>

The Group did not provide any aforementioned financial assets as collateral for its loans as of June 30, 2020, December 31, 2019 and June 30, 2019, respectively.

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

	June 30, 2020	December 31, 2019	June 30, 2019
Financial assets at fair value through other comprehensive income:			
Unlisted stocks on domestic markets	<u>\$ 113,534</u>	<u>137,329</u>	<u>85,312</u>

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

In June 2019, the Group participated in the capital increase by cash of Energenesis Biomedical Co., Ltd. (Energenesis) with the amount of \$14,994. Furthermore, the Group purchased Energenesis' privately placed common shares amounting to \$19,997 in November 2019, resulting in the Group to obtain Energenesis' ownership interest of 2.48% as of December 31, 2019.

No strategic investments were disposed as of June 30, 2020 and 2019, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

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

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group did not provide any aforementioned financial assets as collateral for its loans.

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

(d) Notes and accounts receivable

	June 30, 2020	December 31, 2019	June 30, 2019
Notes receivable	\$ 1,956	19	359
Accounts receivable	493,338	353,564	460,488
Less: Loss allowance	(1,179)	(1,179)	(1,179)
	<u>\$ 494,115</u>	<u>352,404</u>	<u>459,668</u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information, including the reasonable prediction of historical credit loss experience and future economic situation (macroeconomic and relevant industry information). The loss allowance provision was determined as follows:

	June 30, 2020		
	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	\$ 348,892	-	-
1 to 30 days past due	133,007	-	-
31 to 60 days past due	7,242	-	-
61 to 90 days past due	2,383	-	-
91 to 180 days past due	2,591	-	-
181 to 270 days past due	-	-	-
271 to 360 days past due	-	-	-
More than 360 days past due	1,179	100 %	1,179
	<u>\$ 495,294</u>		<u>1,179</u>

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

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

	June 30, 2019		
	Gross carrying amount	Rate of loss allowance provision	Loss allowance provision
Current	\$ 369,485	-	-
1 to 30 days past due	54,247	-	-
31 to 60 days past due	35,903	-	-
61 to 90 days past due	-	-	-
91 to 180 days past due	33	-	-
181 to 270 days past due	-	-	-
271 to 360 days past due	-	-	-
More than 360 days past due	<u>1,179</u>	100 %	<u>1,179</u>
	<u><u>\$ 460,847</u></u>		<u><u>1,179</u></u>

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

	For the six months ended June 30,	
	2020	2019
Balance on January 1 (Balance on June 30)	<u>\$ 1,179</u>	<u>1,179</u>

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group did not provide any aforementioned notes and accounts receivable as collaterals for its loans.

(e) Inventories

	June 30, 2020	December 31, 2019	June 30, 2019
Raw materials	\$ 143,287	106,971	137,739
Work in progress	95,988	103,055	70,587
Finished goods	<u>284,533</u>	<u>317,055</u>	<u>311,062</u>
	<u><u>\$ 523,808</u></u>	<u><u>527,081</u></u>	<u><u>519,388</u></u>

For the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019, inventory cost recognized as cost of sales amounting to \$357,309, \$353,393, \$783,859 and \$689,433, respectively.

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
The write-downs (reversals)	\$ <u>(10,860)</u>	<u>5,660</u>	<u>(11,499)</u>	<u>7,993</u>

As of June 30, 2020, December 31, 2019 and June 30, 2019, the Group did not provide any inventories as collaterals for its loans.

(f) Property, plant and equipment

	Land	Buildings and construction	Machinery and equipment	Office equipment	Others equipment	Prepayment for equipment and construction in progress	Total
Cost:							
Balance on January 1, 2020	\$ 825,680	737,842	1,667,500	40,656	18,720	168,428	3,458,826
Additions	-	-	10,916	519	-	60,302	71,737
Transferred (out) in	-	-	17,374	(1,444)	-	(5,000)	10,930
Disposal and derecognitions	-	(1,051)	(8,179)	(24)	-	-	(9,254)
Balance on June 30, 2020	<u>\$ 825,680</u>	<u>736,791</u>	<u>1,687,611</u>	<u>39,707</u>	<u>18,720</u>	<u>223,730</u>	<u>3,532,239</u>
Balance on January 1, 2019	\$ 825,680	700,219	1,683,172	42,658	16,149	138,178	3,406,056
Additions	-	2,520	16,548	142	-	34,717	53,927
Transferred (out) in	-	3,780	604	-	-	(3,831)	553
Disposal and derecognitions	-	(10,897)	(57,590)	(2,353)	-	-	(70,840)
Balance on June 30, 2019	<u>\$ 825,680</u>	<u>695,622</u>	<u>1,642,734</u>	<u>40,447</u>	<u>16,149</u>	<u>169,064</u>	<u>3,389,696</u>
Depreciation and impairments loss:							
Balance on January 1, 2020	\$ -	334,054	1,219,926	20,099	7,748	-	1,581,827
Depreciation for the period	-	15,923	46,602	2,023	796	-	65,344
Transferred (out) in	-	-	-	(2,052)	-	-	(2,052)
Disposals and derecognitions	-	(1,051)	(8,179)	(24)	-	-	(9,254)
Balance on June 30, 2020	<u>\$ -</u>	<u>348,926</u>	<u>1,258,349</u>	<u>20,046</u>	<u>8,544</u>	<u>-</u>	<u>1,635,865</u>
Balance on January 1, 2019	\$ -	314,702	1,182,640	18,474	6,076	-	1,521,892
Depreciation for the period	-	14,871	46,495	2,000	812	-	64,178
Disposals and derecognitions	-	(10,897)	(55,967)	(2,353)	-	-	(69,217)
Balance on June 30, 2019	<u>\$ -</u>	<u>318,676</u>	<u>1,173,168</u>	<u>18,121</u>	<u>6,888</u>	<u>-</u>	<u>1,516,853</u>

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

	<u>Land</u>	<u>Buildings and construction</u>	<u>Machinery and equipment</u>	<u>Office equipment</u>	<u>Others equipment</u>	<u>Prepayment for equipment and construction in progress</u>	<u>Total</u>
Carrying amounts:							
Balance on January 1, 2020	\$ 825,680	403,788	447,574	20,557	10,972	168,428	1,876,999
Balance on June 30, 2020	\$ 825,680	387,865	429,262	19,661	10,176	223,730	1,896,374
Balance on January 1, 2019	\$ 825,680	385,517	500,532	24,184	10,073	138,178	1,884,164
Balance on June 30, 2019	\$ 825,680	376,946	469,566	22,326	9,261	169,064	1,872,843

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

As of June 30, 2020, December 31, 2019 and June 30, 2019, part of the property, plant and equipment the Group had provided at collateral for its loans. Please refer to note 8 for details.

(g) Right-of-use assets

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

	<u>Right-of-use assets</u>
Cost:	
Balance on January 1, 2020 (Balance on June 30, 2020)	\$ 4,747
Balance on January 1, 2019 (Balance on June 30, 2019)	\$ 4,113
Accumulated depreciation:	
Balance on January 1, 2020	\$ 1,773
Depreciation for the period	994
Balance on June 30, 2020	\$ 2,767
Balance on January 1, 2019	\$ -
Depreciation for the period	944
Balance on June 30, 2019	\$ 944
Carrying amount:	
Balance on January 1, 2020	\$ 2,974
Balance on June 30, 2020	\$ 1,980
Balance on January 1, 2019	\$ 4,113
Balance on June 30, 2019	\$ 3,169

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

The details of short-term borrowings were as following:

	June 30, 2020	December 31, 2019	June 30, 2019
Unsecured bank loans	\$ -	-	-
Unused credit line for short-term borrowings	\$ 337,439	341,212	339,966
Range of interest rates	-	-	-

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

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

(i) Other payables

	June 30, 2020	December 31, 2019	June 30, 2019
Salaries payable	\$ 195,652	152,767	165,369
Dividend payable	461,014	-	333,838
Others	84,566	77,063	58,184
	\$ 741,232	229,830	557,391

(j) Lease liabilities

The carrying amount of lease liabilities was as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Current	\$ 1,378	1,795	1,838
Non-current	\$ 620	1,197	1,343

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
The amounts recognized in profit or loss were as follows:				
Interest on lease liabilities	\$ 9	13	19	28
Expenses relating to short-term leases	\$ 252	424	792	830
Variable lease payments not included in the measurement of lease liabilities	\$ 96	92	249	143

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2020	2019	2020	2019
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	\$ <u>76</u>	<u>-</u>	<u>144</u>	<u>10</u>

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

Total cash outflow for leases	\$ <u>2,198</u>	<u>1,943</u>
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The Group leases company cars and copy machines: The leases typically run for a period of three to six years.

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

(k) Provisions

There were no significant changes in provisions for the six months ended June 30, 2020 and 2019. Please refer to note 6(k) of the consolidated financial statements for the year ended December 31, 2019 for other related information.

(l) Employee benefits

(i) Defined benefit plans

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Operating cost	\$ 393	394	780	779
Operating expenses	(63)	(3)	(120)	3
	\$ <u>330</u>	<u>391</u>	<u>660</u>	<u>782</u>

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

The Group's expenses under the pension plan cost to the Bureau of Labor Insurance for the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Operating cost	\$ 1,325	1,266	2,630	2,514
Selling expenses	66	66	131	132
Administration expenses	166	160	327	317
Research expenses	194	195	384	376
	<u>\$ 1,751</u>	<u>1,687</u>	<u>3,472</u>	<u>3,339</u>

(m) Income taxes

- (i) The income tax expense in the interim financial statements is measured and disclosed accordance to paragraph B12 of IAS 34 "International Financial Reporting".
- (ii) The income tax expenses for the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019 were calculated as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Current income tax expense				
Recognized during the				
period	\$ 56,696	43,873	114,180	83,693
Adjustment for prior periods	(2,483)	-	(2,483)	-
	<u>54,213</u>	<u>43,873</u>	<u>111,697</u>	<u>83,693</u>
Deferred income tax expense				
Income tax overestimate				
(underestimate) for prior				
periods	1,491	-	1,491	-
Income tax expense	<u>\$ 55,704</u>	<u>43,873</u>	<u>113,188</u>	<u>83,693</u>

(iii) Examination and approval

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

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

(n) Capital and other equity

Except for the following disclosure, there was no significant change for capital and other equity for the periods from January 1 to June 30, 2020 and 2019. For the related information, please refer to note 6(n) of the consolidated financial statements for the year ended December 31, 2019.

(i) Retained Earnings

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

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

(ii) Earnings distribution

Based on the resolutions of 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	<u>\$ 5.80</u>	<u>461,014</u>	<u>4.20</u>	<u>333,838</u>

(iii) Other equity (net of tax)

	Financial assets measured at fair value through other comprehensive income
Balance at January 1, 2020	\$ 22,254
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(23,795)
Balance at June 30, 2020	<u>\$ (1,541)</u>

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

	Financial assets measured at fair value through other comprehensive income
Balance at January 1, 2019	\$ (4,788)
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	(4,978)
Balance at June 30, 2019	<u>\$ (9,766)</u>

(o) Earnings per share

For the three months ended June 30, 2020 and 2019 and the six months ended June 30, 2020 and 2019, the Company's earnings per share were calculated as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Basic earnings per share				
Profit attributable to ordinary shareholders of the Company	\$ <u>241,670</u>	<u>157,729</u>	<u>450,001</u>	<u>321,775</u>
Weighted-average number of ordinary shares (thousand shares)	<u>79,485</u>	<u>79,485</u>	<u>79,485</u>	<u>79,485</u>
	<u>\$ 3.04</u>	<u>1.98</u>	<u>5.66</u>	<u>4.05</u>
Diluted earnings per share				
Profit attributable to ordinary shareholders of the Company	\$ <u>241,670</u>	<u>157,729</u>	<u>450,001</u>	<u>321,775</u>
Weighted-average number of ordinary shares (thousand shares)	79,485	79,485	79,485	79,485
Effect of potentially dilutive ordinary shares:				
Effect of employee compensation	390	409	650	636
Weighted-average number of ordinary shares (thousand shares) (diluted)	<u>79,875</u>	<u>79,894</u>	<u>80,135</u>	<u>80,121</u>
	<u>\$ 3.03</u>	<u>1.97</u>	<u>5.62</u>	<u>4.02</u>

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

(p) Revenue from contracts with customers

(i) Disaggregation of revenue

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Primary geographical markets:				
United States	\$ 136,986	132,776	254,710	211,645
Italy	100,357	110,265	250,408	188,908
Spain	68,613	74,187	222,555	204,027
Japan	75,592	98,338	142,542	167,239
Taiwan	84,574	57,167	130,650	104,873
India	57,488	2,311	89,529	24,650
Netherlands	14,941	16,189	79,382	50,120
Switzerland	37,214	39,063	59,265	113,301
Others	152,157	73,991	283,209	143,211
	<u>\$ 727,922</u>	<u>604,287</u>	<u>1,512,250</u>	<u>1,207,974</u>
Major products				
Active Pharmaceutical Ingredients	\$ 555,831	383,058	1,090,374	766,824
Intermediates	138,452	153,150	357,973	332,122
Specialty Chemical	33,639	68,079	63,903	109,028
	<u>\$ 727,922</u>	<u>604,287</u>	<u>1,512,250</u>	<u>1,207,974</u>

(ii) Contract balances

	June 30, 2020	December 31, 2019	June 30, 2019
Notes and accounts receivable	\$ 495,294	353,583	460,847
Less: allowance for impairment	(1,179)	(1,179)	(1,179)
Total	<u>\$ 494,115</u>	<u>352,404</u>	<u>459,668</u>
Contract liabilities (sales received in advance)	<u>\$ 57,371</u>	<u>59,092</u>	<u>41,606</u>

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

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

(q) **Remuneration to employees and directors**

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

For the three months and six months ended June 30, 2020 and 2019, the remunerations to employees amounted to \$29,130, \$19,922, \$55,350 and \$39,837, respectively, and the remunerations to directors amounted to \$3,966, \$2,688, \$7,541 and \$5,404, respectively. These amounts were calculated using the Company's net income before tax without the remunerations to employees and directors for each period, multiplied by the proposed percentage which is stated under the Company's proposed Article of Incorporation. These remunerations were expensed under operating costs or expenses for each period. Shares distributed to employees as employees' remuneration are calculated based on the closing price of the Company's shares on the day before the approval by the Board of Directors.

For the years ended December 31, 2019 and 2018, the remunerations to employees amounted to \$69,459 and \$53,166, respectively, and the remunerations to directors amounted to \$9,301 and \$7,204, respectively. The remunerations above are identical to those of the actual distributions. The information is available on the Market Observation Post System website.

(r) **Financial Instruments**

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

(i) **Credit risk**

1) **Credit risk exposure**

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

2) **Concentration of credit risk**

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

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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3) Receivables and debt securities

- a) For credit risk exposure of notes and trade receivables, please refer to note 6(d).
- b) Other financial assets at amortized cost include other receivables and time deposits. The counterparties of the time deposits held by the Group are the financial institutions with investment grade credit ratings. Therefore, the credit risk is considered to be low.

(ii) Liquidity Risk

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

	<u>Carrying Amount</u>	<u>Contractual cash flows</u>	<u>Within a year</u>	<u>1 ~ 2 years</u>	<u>Over 2 years</u>
June 30, 2020					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 119,258	(119,258)	(119,258)	-	-
Lease liabilities (including current and non-current)	1,998	(2,025)	(1,397)	(434)	(194)
Other payables	537,274	(537,274)	(537,274)	-	-
Payables on contractors and equipment	<u>48,654</u>	<u>(48,654)</u>	<u>(48,654)</u>	<u>-</u>	<u>-</u>
	<u>\$ 707,184</u>	<u>(707,211)</u>	<u>(706,583)</u>	<u>(434)</u>	<u>(194)</u>
December 31, 2019					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 94,302	(94,302)	(94,302)	-	-
Lease liabilities (including current and non-current)	2,992	(3,038)	(1,826)	(801)	(411)
Other payables	67,732	(67,732)	(67,732)	-	-
Payables on contractors and equipment	<u>16,605</u>	<u>(16,605)</u>	<u>(16,605)</u>	<u>-</u>	<u>-</u>
	<u>\$ 181,631</u>	<u>(181,677)</u>	<u>(180,465)</u>	<u>(801)</u>	<u>(411)</u>
June 30, 2019					
Non-derivative financial liabilities:					
Notes and accounts payable	\$ 105,081	(105,081)	(105,081)	-	-
Lease liabilities (including current and non-current)	3,181	(3,231)	(1,873)	(1,101)	(257)
Other payables	383,550	(383,550)	(383,550)	-	-
Payables on contractors and equipment	<u>46,806</u>	<u>(46,806)</u>	<u>(46,806)</u>	<u>-</u>	<u>-</u>
	<u>\$ 538,618</u>	<u>(538,668)</u>	<u>(537,310)</u>	<u>(1,101)</u>	<u>(257)</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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The Group is not expecting that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amount.

(iii) Currency risk

1) Exposure to foreign currency risk

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

Foreign currency: in thousands of dollars

	June 30, 2020				December 31, 2019			June 30, 2019		
	Foreign currency	Exchange rate	TWD		Foreign currency	Exchange rate	TWD	Foreign currency	Exchange rate	TWD
Financial assets										
Monetary items										
USD to TWD	\$	22,974	29.58	679,571	19,088	29.93	571,304	17,982	31.01	557,622
EUR to TWD		2,126	33.07	70,307	2,124	33.39	70,920	606	35.18	21,319
Financial liabilities										
Monetary items										
USD to TWD		2,976	29.58	88,030	1,830	29.93	54,772	2,221	31.01	68,873

2) Sensitivity analysis

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

The analysis assumes that all other variables remain constant. A strengthening (weakening) 1% of the functional currency against each foreign currency for the six months ended June 30, 2020 and 2019 would have affected the net profit before tax increased or decreased \$6,618 and \$5,101, respectively. The analysis is performed on the same basis for both periods.

3) Foreign exchange gain and loss on monetary items

The exchange gains and losses of monetary items, including realized and unrealized, are changed into functional currency, which is the Group's presentation currency. For the three months and six months ended June 30, 2020 and 2019, the exchange gains (losses), including realized and unrealized, are \$(14,108), \$10,096, \$(9,444) and \$12,586, respectively.

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(iv) Interest rate analysis

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

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

	Carrying amount	
	June 30, 2020	June 30, 2019
Variable rate instruments:		
Financial assets	\$ 186,192	144,840
Financial liabilities	-	-

The following sensitivity analysis is based on the exposure to the interest rate risk of derivative and non-derivative financial instruments on the reporting date. Regarding assets with variable interest rates, the analysis is based on the assumption that the amount of assets outstanding at the reporting date was outstanding throughout the year. The rate of change is expressed as the interest rate increases or decreases by 0.25% when reporting to management internally, which also represents the Group management's assessment of the reasonably possible interest rate change.

If the interest rate had increased or decreased by 0.25%, the Group's net profit before tax would have increased or decreased by \$233 and \$181, respectively, for the six months ended June 30, 2020 and 2019, with all other variable factors remaining constant. This is mainly due to the Group's bank savings with variable interest rates.

(v) Fair value

1) Fair value hierarchy

The fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income are measured on a recurring basis. The carrying amount and fair value of the Group's financial assets and liabilities, including the information on fair value hierarchy were as follows; however, except as described in the following paragraphs, for financial instruments not measured at fair value whose carrying amount is reasonably close to the fair value, and lease liabilities, disclosure of fair value information is not required:

	June 30, 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	\$ 661,063	661,063	-	-	661,063
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	113,534	25,968	-	87,566	113,534

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June 30, 2020					
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets measured at amortized cost					
Cash and cash equivalents	778,055	-	-	-	-
Notes and accounts receivable	494,115	-	-	-	-
Other receivables	599	-	-	-	-
Refunded deposits (recognized as other non-current assets)	1,210	-	-	-	-
Subtotal	1,273,979				
Total	<u>\$ 2,048,576</u>				
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 119,258	-	-	-	-
Lease liabilities (including current and non-current)	1,998	-	-	-	-
Other payables	537,274	-	-	-	-
Payables on contractors and equipment	48,654	-	-	-	-
Total	<u>\$ 707,184</u>				
December 31, 2019					
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Non-derivative financial assets mandatorily measured at fair value through profit or loss	\$ 466,025	466,025	-	-	466,025
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	137,329	28,710	-	108,619	137,329
Financial assets measured at amortized cost					
Cash and cash equivalents	553,555	-	-	-	-
Notes and accounts receivable	352,404	-	-	-	-
Other receivables	4,516	-	-	-	-
Refunded deposits (recognized as other non-current assets)	7,483	-	-	-	-
Subtotal	917,958				
Total	<u>\$ 1,521,312</u>				
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 94,302	-	-	-	-
Lease liabilities (including current and non-current)	2,992	-	-	-	-
Other payables	67,732	-	-	-	-
Payables on contractors and equipment	16,605	-	-	-	-
Total	<u>\$ 181,631</u>				

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	June 30, 2019				
	Book value	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through profit or loss					
Non-derivative financial assets mandatorily measured at fair value through profit or loss	\$ 473,979	473,979	-	-	473,979
Financial assets at fair value through other comprehensive income					
Unlisted stocks on domestic market	85,312	15,340	-	69,972	85,312
Financial assets measured at amortized cost					
Cash and cash equivalents	571,922	-	-	-	-
Notes and accounts receivable	459,668	-	-	-	-
Other receivables	3,891	-	-	-	-
Refunded deposits (recognized as other non-current assets)	5,758	-	-	-	-
Subtotal	1,041,239				
Total	<u>\$ 1,600,530</u>				
Financial liabilities measured at amortized cost					
Notes and accounts payable	\$ 105,081	-	-	-	-
Lease liabilities (including current and non-current)	3,181	-	-	-	-
Other payables	383,550	-	-	-	-
Payables on contractors and equipment	46,806	-	-	-	-
Total	<u>\$ 538,618</u>				

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

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

a) Financial assets and liabilities measured at amortized cost

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

3) Valuation techniques for financial instruments measured at fair value

a) Non-derivative financial instruments

Financial instruments trade in active markets is based on quoted market prices. The quoted price of a financial instrument obtained from main exchanges and on-the-run bonds from Taipei Exchange can be used as a base to determine the fair value of the listed companies' equity instrument and debt instrument of the quoted price in an active market.

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

Measurements of fair value of financial instruments without an active market are based on a valuation technique or quoted price from a competitor. Fair value measured by a valuation technique can be extrapolated from similar financial instruments, the discounted cash flow method, or other valuation technique including a model using observable market data at the reporting date.

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

4) Transfer from one level to another

For the six months ended June 30, 2020 and 2019, there was no transfer from one level to another.

5) Reconciliation of Level 3 fair values

	Fair value through other comprehensive income Unquoted equity instruments
January 1, 2020	\$ 108,619
Total gains and losses recognized:	
In other comprehensive income	(21,053)
June 30, 2020	<u>\$ 87,566</u>
January 1, 2019	\$ 75,296
Total gains and losses recognized:	
In other comprehensive income	(5,324)
June 30, 2019	<u>\$ 69,972</u>

For the three months and six months ended June 30, 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:

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	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	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”	\$ 4,520	1,753	(21,053)	(5,324)

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

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

Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Fair value through other comprehensive income—equity investments without an active market	Price-Book ratio method	The multiplier of Price-Book Ratio (As of June 30, 2020, December 31, 2019 and June 30, 2019 were 1.52, 1.91 and 2.09, respectively)	The higher the fair value is, the higher the multiplier will be.
//	//	- Lack-of-Marketability discount rate (As of June 30, 2020, December 31, 2019 and June 30, 2019 were 50%) - Lack-of-Marketability discount rate (As of June 30, 2020, December 31, 2019 and June 30, 2019 were 24.47%~31.76%, 19.03%~23.38% and 23.04%, respectively)	The higher the Lack-of-Marketability discount rate is, the lower the fair value will be.
Fair value through other comprehensive income—equity investments without an active market	Comparable transaction method		The higher the Lack-of-Marketability discount rate is, the lower the fair value will be.

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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- 7) Fair value measurements in Level 3 – sensitivity analysis of reasonably possible alternative assumptions

The Group's measurement on the fair value of financial instruments is deemed reasonable despite different valuation models or assumptions that may lead to various results. For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

		Move up or	Other comprehensive	
	Inputs	downs	Favorable	Unfavorable
June 30, 2020				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>1,439</u>	<u>1,439</u>
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ <u>2,504</u>	<u>2,504</u>
December 31, 2019				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>1,902</u>	<u>1,902</u>
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ <u>2,801</u>	<u>2,801</u>
June 30, 2019				
Financial assets at fair value through other comprehensive income	Price-Book ratio multiples	5%	\$ <u>2,227</u>	<u>2,196</u>
Financial assets at fair value through other comprehensive income	Lack-of Marketability discount rate	5%	\$ <u>3,515</u>	<u>3,484</u>

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

- (s) Financial risk management

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

- (t) Capital management

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

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

The Group's investing and financing activities which did not affect the current cash flow for the six months ended June 30, 2020 and 2019, were as follows:

- (i) There were no non-cash investing activities for the six months ended June 30, 2020 and 2019.
- (ii) Reconciliation of liabilities arising from financing activities for the six months ended June 30, 2020 and 2019, was as follows:

	January 1, 2020	Cash flows	Non-cash changes Foreign exchange movement	June 30, 2020
Lease liabilities	\$ <u>2,992</u>	<u>(994)</u>	<u>-</u>	<u>1,998</u>
	January 1, 2019	Cash flows	Non-cash changes Foreign exchange movement	June 30, 2019
Lease liabilities	\$ <u>4,113</u>	<u>(932)</u>	<u>-</u>	<u>3,181</u>

(7) Related-party transactions:

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Salary and short-term employee benefits	\$ <u>15,197</u>	<u>11,825</u>	<u>29,275</u>	<u>23,217</u>

(8) Pledged assets:

The carrying values of pledged assets were as follows:

Assets	Subject	June 30, 2020	December 31, 2019	June 30, 2019
Land	Pledged as collaterals	\$ 42,736	42,736	42,736
Building	"	4,504	4,842	5,294
		<u>\$ 47,240</u>	<u>47,578</u>	<u>48,030</u>

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(9) Commitments and contingencies:

- (a) As of June 30, 2020, December 31, 2019 and June 30, 2019, the unused balance of the Group's outstanding standby letters of credit amounted to \$12,561, \$8,788 and \$10,034, respectively.
- (b) The significant outstanding purchase commitments for property, plant and equipment was as follows:

	June 30, 2020	December 31, 2019	June 30, 2019
Acquisitions of property, plant and equipment	\$ <u><u>40,573</u></u>	<u><u>41,087</u></u>	<u><u>77,514</u></u>

(10) Losses Due to Major Disasters: None.

(11) Subsequent Events: None.

(12) Other:

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

By function	For the three months ended June 30, 2020			For the three months ended June 30, 2019		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
By item						
Employee benefits						
Salary	55,573	36,863	92,436	54,621	27,080	81,701
Labor and health insurance	3,298	961	4,259	3,183	948	4,131
Pension	1,718	363	2,081	1,660	418	2,078
Remuneration of directors	-	3,966	3,966	-	2,688	2,688
Others	972	2,318	3,290	814	2,423	3,237
Depreciation	28,289	4,979	33,268	27,803	4,782	32,585
Amortization	420	1,015	1,435	427	988	1,415

By function	For the six months ended June 30, 2020			For the six months ended June 30, 2019		
	Cost of sales	Operating expenses	Total	Cost of sales	Operating expenses	Total
By item						
Employee benefits						
Salary	109,457	77,170	186,627	106,382	58,762	165,144
Labor and health insurance	7,173	2,177	9,350	6,926	2,157	9,083
Pension	3,410	722	4,132	3,293	828	4,121
Remuneration of directors	-	7,541	7,541	-	5,404	5,404
Others	1,796	4,642	6,438	1,585	4,554	6,139
Depreciation	56,373	9,965	66,338	55,390	9,732	65,122
Amortization	888	2,017	2,905	801	1,932	2,733

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SCI PHARMTECH, INC. AND SUBSIDIARIES
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(b) Seasonality of operations

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

(13) Other disclosures:

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for the six months ended June 30, 2020:

(i) Loans to other parties: None.

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

(iii) Securities held as of June 30, 2020 (excluding investment in subsidiaries, associates and joint ventures):

Unit: thousand dollars

Name of holder	Category and name of security	Relationship with company	Account title	Ending balance				Note
				Shares/Units (thousands)	Carrying value	Percentage of ownership (%)	Fair value	
The Company	Beneficiary Certificate (UPAMC James Bond Money Market Fund)	-	Current Financial asset at fair value through profit or loss	2,760	46,407	-	46,407	-
"	Beneficiary Certificate (Cathay Taiwan Money Market Fund)	-	"	4,093	51,223	-	51,223	-
"	Beneficiary Certificate (Nomura Taiwan Money Market)	-	"	1,273	20,906	-	20,906	-
"	Beneficiary Certificate (Taishin 1699 Money Market Fund)	-	"	3,592	48,923	-	48,923	-
"	Beneficiary Certificate (Jih Sun Money Market Fund)	-	"	3,022	45,076	-	45,076	-
"	Beneficiary Certificate (Yuanta USD Money Market Fund-USD)	-	"	99	31,317	-	31,317	-
"	Beneficiary Certificate (Nomura Global Short Duration Bond Fund)	-	"	2,840	29,696	-	29,696	-
"	Beneficiary Certificate (CTBC Hua Win Money Market Fund)	-	"	4,064	45,071	-	45,071	-
"	Beneficiary Certificate (Fubon China Policy Bank Bond ETF)	-	"	420	8,093	-	8,093	-
"	Beneficiary Certificate (Yuanta De-Li Money Market Fund)	-	"	2,744	45,036	-	45,036	-
"	Beneficiary Certificate (Mega Diamond Money Market Fund)	-	"	3,568	45,040	-	45,040	-
"	Stock (Fubon S&P Preferred Shares A)	-	"	793	51,941	-	51,941	-
"	Stock (Fubon S&P Preferred Shares B)	-	"	36	2,333	-	2,333	-
"	Stock (TAISHIN FINANCIAL HOLDING CO., LTD. Preferred Stock E)	-	"	400	22,520	-	22,520	-
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock A)	-	"	790	51,034	-	51,034	-
"	Stock (Cathay Financial Holding Co., Ltd. Preferred Stock B)	-	"	33	2,117	-	2,117	-
"	Stock (Cathay Financial Holding Co., Ltd. Common Stock)	-	"	28	1,184	-	1,184	-
"	Stock (Fubon S&P US Preferred Stock)	-	"	2,350	38,352	-	38,352	-
"	Stock (CTBC Financial Holding Co., Ltd. Preferred Shares B)	-	"	685	46,032	-	46,032	-
"	Stock (Shin Kong Financial Holding Co., Ltd. Preferred Shares A)	-	"	642	28,762	-	28,762	-
"	Stock (Energenesis Biomedical Co., Ltd)	-	Financial assets at fair value through other comprehensive income	1,458	84,750	2.48 %	84,750	-
"	Stock (Sunny Pharmtech Inc.)	-	"	4,497	28,784	3.47 %	28,784	-

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- (iv) Individual securities acquired or disposed of with accumulated amount exceeding the lower of \$300 million or 20% of the capital stock: None.
 - (v) Acquisition of individual real estate with amount exceeding the lower of \$300 million or 20% of the capital stock: None.
 - (vi) Disposal of individual real estate with amount exceeding the lower of \$300 million or 20% of the capital stock: None.
 - (vii) Related-party transactions for purchases and sales with amounts exceeding the lower of \$100 million or 20% of the capital stock: None.
 - (viii) Receivables from related parties with amounts exceeding the lower of \$100 million or 20% of the capital stock: None.
 - (ix) Trading in derivative instruments: None.
 - (x) Business relationships and significant intercompany transactions: None.
- (b) Information on investees:

The following is the information on investees for the six months ended June 30, 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 June 30, 2020			Net income (losses) of investee	Share of profits/losses of investee	Note
				June 30, 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 %	349,507	(216)	(216)	Note 1

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

- (c) Information on investment in mainland China: None.
- (d) Major shareholders:

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

(14) Segment information:

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