

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT ACCOUNTANTS
DECEMBER 31, 2019 AND 2018

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

SCINOPHARM TAIWAN, LTD.

Declaration of Consolidated Financial Statements of Affiliated Enterprises

For the year ended December 31, 2019, pursuant to “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises,” the entities that are required to be included in the consolidated financial statements of affiliates, are the same as the entities required to be included in the consolidated financial statements under International Financial Reporting Standards 10. In addition, information required to be disclosed in the consolidated financial statements of affiliates is included in the aforementioned consolidated financial statements. Accordingly, it is not required to prepare a separate set of consolidated financial statements of affiliates.

Hereby declare,

SCINOPHARM TAIWAN, LTD.

By Alex Lo

Chairman

March 20, 2020

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of ScinoPharm Taiwan, Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of ScinoPharm Taiwan, Ltd. and subsidiaries (the “Group”) as at December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group’s consolidated financial statements of 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The key audit matters for the Group's consolidated financial statements of the current period are stated as follows:

Cutoff of export revenue from Taiwan

Description

Refer to Note 4(28) for accounting policies on revenue recognition and Note 6(20) for accounting items on operating revenue.

The Group's sales revenue mainly arise from the manufacture and sales of Active Pharmaceutical Ingredient ("API"), which primarily consists of export sales. The Group recognises export sales revenue based on the terms and conditions of transactions which vary with different customers. As revenue recognition involves manual processes and is material to the financial statements, we consider the cutoff of export revenue from Taiwan a key audit matter.

How our audit addressed the matter

We performed the following key audit procedures in respect of the above key audit matter:

1. Understood and assessed the effectiveness of internal controls over cutoff of sales revenue and tested the effectiveness of internal controls over shipping and billing.
2. Checked the completeness of the export sales details for a certain period around balance sheet date and performed cutoff tests on a random basis, which included checking the terms and conditions of transactions, verifying against supporting documents, and checking whether inventory movements and costs of sales were recognised in the appropriate period.

Inventory valuation

Description

Refer to Note 4(13) for accounting policies on inventory valuation, Note 5(2)1 for the uncertainty of accounting estimates and assumptions applied on inventory valuation, and Note 6(5) for details of inventories. As of December 31, 2019, the balances of inventory and allowance for inventory valuation losses were \$1,595,450 thousand and \$471,118 thousand, respectively.

The Group is primarily engaged in the manufacture and sales of API. As the manufacturing process is relatively complicated and time consuming, materials require longer lead time, the waiting period for product registration is long, and the timing of the product launch may be deferred, there is higher risk of

incurring loss on inventory valuation. For inventories sold under normal terms, the Group measures inventories at the lower of cost and net realisable value. For inventories aging over a certain period of time and are individually identified as obsolete inventories, the net realisable value is calculated based on the historical information of inventory turnover. Since the calculation of net realisable value involves subjective judgement and the ending balance of inventory is material to the financial statements, we consider the valuation of inventory a key audit matter.

How our audit addressed the matter

We performed the following key audit procedures in respect of the above key audit matter:

1. Evaluated the reasonableness of provision policies and procedures on allowance for inventory valuation losses, including the historical data of inventory turnover and judgement of obsolete inventory.
2. Verified whether the dates used in the inventory aging reports that the Group applied to value inventories were accurate. Recalculated and evaluated the reasonableness of allowance for inventory valuation losses in order to confirm whether the reported information was in line with the Group's policies.
3. Selected samples from inventory items by each sequence number to verify its realisable value and to evaluate the reasonableness of allowance for inventory valuation loss.

Other matter – Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of ScinoPharm Taiwan, Ltd. as at and for the years ended December 31, 2019 and 2018.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including audit committee, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s 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.

Lin, Yung-Chih

Independent Accountants

Liu, Tzu-Meng

PricewaterhouseCoopers, Taiwan

Republic of China

March 20, 2020

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Assets	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 3,304,978	28	\$ 4,203,338	34
1110	Financial assets at fair value through profit or loss - current	6(2)	2,920	-	409	-
1136	Financial assets at amortised cost - current	6(3)	172,220	1	178,615	1
1170	Accounts receivable, net	6(4) and 12	590,336	5	558,950	4
1200	Other receivables		71,149	1	104,021	1
1220	Current income tax assets	6(26)	8,968	-	-	-
130X	Inventories	5 and 6(5)	1,124,332	10	1,363,797	11
1410	Prepayments		131,681	1	97,037	1
11XX	Total current assets		<u>5,406,584</u>	<u>46</u>	<u>6,506,167</u>	<u>52</u>
Non-current assets						
1517	Financial assets at fair value through other comprehensive income - non-current	6(6)	415,210	4	468,117	4
1600	Property, plant and equipment	6(7)(10)	4,433,860	38	4,758,846	38
1755	Right-of-use assets	3(1) and 6(8)	673,087	6	-	-
1780	Intangible assets		14,068	-	16,753	-
1840	Deferred income tax assets	5 and 6(26)	606,123	5	593,103	5
1915	Prepayments for equipment		85,361	1	108,869	1
1920	Guarantee deposits paid		11,001	-	6,885	-
1980	Other financial assets - non-current	8	29,270	-	29,270	-
1985	Long-term prepaid rents	3(1) and 6(9)	-	-	75,318	-
15XX	Total non-current assets		<u>6,267,980</u>	<u>54</u>	<u>6,057,161</u>	<u>48</u>
1XXX	Total assets		<u>\$ 11,674,564</u>	<u>100</u>	<u>\$ 12,563,328</u>	<u>100</u>

(Continued)

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity	Notes	December 31, 2019		December 31, 2018		
		AMOUNT	%	AMOUNT	%	
Current liabilities						
2100	Short-term borrowings	6(11)	\$ 89,766	1	\$ 233,290	2
2130	Contract liabilities - current	6(20)	55,985	-	30,617	-
2150	Notes payable		1,353	-	1,148	-
2170	Accounts payable		101,018	1	89,393	1
2200	Other payables	6(12)	333,376	3	347,319	3
2230	Current income tax liabilities	6(26)	1	-	65,374	-
2280	Lease liabilities - current	3(1)	16,014	-	-	-
2320	Long-term liabilities, current portion	6(13) and 9	144,234	1	1,178,503	9
21XX	Total current liabilities		<u>741,747</u>	<u>6</u>	<u>1,945,644</u>	<u>15</u>
Non-current liabilities						
2570	Deferred income tax liabilities	6(26)	584	-	81	-
2580	Lease liabilities - non-current	3(1)	590,020	5	-	-
2640	Net defined benefit liabilities	6(14)	82,182	1	76,863	1
2645	Guarantee deposits received		87	-	1,708	-
25XX	Total non-current liabilities		<u>672,873</u>	<u>6</u>	<u>78,652</u>	<u>1</u>
2XXX	Total liabilities		<u>1,414,620</u>	<u>12</u>	<u>2,024,296</u>	<u>16</u>
Equity attributable to owners of parent						
Share capital						
3110	Share capital - common stock	6(15)	7,907,392	68	7,907,392	63
3200	Capital surplus	6(16)(17)	1,294,605	12	1,292,555	10
Retained earnings						
		6(6)(18)				
3310	Legal reserve		612,600	5	568,302	4
3320	Special reserve		22,829	-	22,829	-
3350	Unappropriated earnings		490,344	4	708,338	6
3400	Other equity interest	6(19)	(67,826)	(1)	39,616	1
3XXX	Total equity		<u>10,259,944</u>	<u>88</u>	<u>10,539,032</u>	<u>84</u>
Significant contingent liabilities and unrecognised contract commitments						
Significant events after the balance sheet date						
3X2X	Total liabilities and equity		<u>\$ 11,674,564</u>	<u>100</u>	<u>\$ 12,563,328</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

	Items	Notes	Year ended December 31			
			2019		2018	
			AMOUNT	%	AMOUNT	%
4000	Operating revenue	6(20)	\$ 2,892,783	100	\$ 3,524,263	100
5000	Operating costs	6(5)(24)(25) and 9	(1,716,378)	(59)	(1,981,749)	(56)
5900	Net operating margin		<u>1,176,405</u>	<u>41</u>	<u>1,542,514</u>	<u>44</u>
	Operating expenses	6(9)(24)(25), 7, 9 and 12				
6100	Selling expenses		(157,168)	(6)	(146,931)	(4)
6200	General and administrative expenses		(513,796)	(18)	(524,047)	(15)
6300	Research and development expenses		(238,373)	(8)	(313,208)	(9)
6450	Gain on reversal of (expected credit losses)		(214)	-	84	-
6000	Total operating expenses		<u>(909,551)</u>	<u>(32)</u>	<u>(984,102)</u>	<u>(28)</u>
6900	Operating profit		<u>266,854</u>	<u>9</u>	<u>558,412</u>	<u>16</u>
	Non-operating income and expenses					
7010	Other income	6(3)(21)	91,850	3	48,597	1
7020	Other gains and losses	6(2)(10)(22)	(37,961)	(1)	(36,299)	(1)
7050	Finance costs	6(23)	(55,689)	(2)	(80,169)	(2)
7000	Total non-operating income and expenses		<u>(1,800)</u>	<u>-</u>	<u>(67,871)</u>	<u>(2)</u>
7900	Profit before income tax		<u>265,054</u>	<u>9</u>	<u>490,541</u>	<u>14</u>
7950	Income tax expense	6(26)	(48,398)	(1)	(47,563)	(1)
8200	Profit for the year		<u>\$ 216,656</u>	<u>8</u>	<u>\$ 442,978</u>	<u>13</u>
	Other comprehensive income					
	Components of other comprehensive (loss) income that will not be reclassified to profit or loss					
8311	Actuarial losses on defined benefit plans	6(14)	(\$ 5,936)	-	(\$ 8,328)	-
8316	Unrealised losses from equity instrument measured at fair value through other comprehensive income	6(6)(19)	(48,718)	(2)	(67,722)	(2)
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(26)	1,187	-	1,763	-
	Components of other comprehensive loss that will be reclassified to profit or loss					
8361	Financial statements translation differences of foreign operations	6(19)	(56,865)	(2)	(21,487)	(1)
8300	Total other comprehensive loss for the year		<u>(\$ 110,332)</u>	<u>(4)</u>	<u>(\$ 95,774)</u>	<u>(3)</u>
8500	Total comprehensive income for the year		<u>\$ 106,324</u>	<u>4</u>	<u>\$ 347,204</u>	<u>10</u>
	Profit attributable to:					
8610	Owners of the parent		<u>\$ 216,656</u>	<u>8</u>	<u>\$ 442,978</u>	<u>13</u>
	Comprehensive income attributable to:					
8710	Owners of the parent		<u>\$ 106,324</u>	<u>4</u>	<u>\$ 347,204</u>	<u>10</u>
	Earnings per share (in dollars)	6(27)				
9750	Basic		<u>\$ 0.27</u>		<u>\$ 0.56</u>	
9850	Diluted		<u>\$ 0.27</u>		<u>\$ 0.56</u>	

The accompanying notes are an integral part of these consolidated financial statements.

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

	Notes	Equity attributable to owners of the parent						Other Equity Interest	Total equity	
		Share capital - common stock	Capital reserve	Legal reserve	Special reserve	Unappropriated earnings	Retained Earnings			
							Financial statements translation differences of foreign operations			Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income
For the year ended December 31, 2018										
Balance at January 1, 2018		\$ 7,907,392	\$ 1,286,872	\$ 526,065	\$ 22,829	\$ 693,832	(\$ 19,765)	\$ -	\$ 10,417,225	
Effect on retrospective application and restatement	6(19)	-	-	-	-	-	-	148,475	148,475	
Balance after restatement on January 1, 2018		<u>7,907,392</u>	<u>1,286,872</u>	<u>526,065</u>	<u>22,829</u>	<u>693,832</u>	<u>(19,765)</u>	<u>148,475</u>	<u>10,565,700</u>	
Net income for the year ended December 31, 2018		-	-	-	-	442,978	-	-	442,978	
Other comprehensive loss for the year ended December 31, 2018	6(6)(19)	-	-	-	-	(6,565)	(21,487)	(67,722)	(95,774)	
Total comprehensive income (loss) for the year ended December 31, 2018		-	-	-	-	436,413	(21,487)	(67,722)	347,204	
Distribution of 2017 net income:										
Legal reserve		-	-	42,237	-	(42,237)	-	-	-	
Cash dividends	6(18)	-	-	-	-	(379,555)	-	-	(379,555)	
Employee stock option compensation cost	6(16)(17)	-	5,683	-	-	-	-	-	5,683	
Disposal of equity instruments at fair value through other comprehensive income	6(6)(19)	-	-	-	-	(115)	-	115	-	
Balance at December 31, 2018		<u>\$ 7,907,392</u>	<u>\$ 1,292,555</u>	<u>\$ 568,302</u>	<u>\$ 22,829</u>	<u>\$ 708,338</u>	<u>(\$ 41,252)</u>	<u>\$ 80,868</u>	<u>\$ 10,539,032</u>	
For the year ended December 31, 2019										
Balance at January 1, 2019		\$ 7,907,392	\$ 1,292,555	\$ 568,302	\$ 22,829	\$ 708,338	(\$ 41,252)	\$ 80,868	\$ 10,539,032	
Net income for the year ended December 31, 2019		-	-	-	-	216,656	-	-	216,656	
Other comprehensive loss for the year ended December 31, 2019	6(6)(19)	-	-	-	-	(4,749)	(56,865)	(48,718)	(110,332)	
Total comprehensive income (loss) for the year ended December 31, 2019		-	-	-	-	211,907	(56,865)	(48,718)	106,324	
Distribution of 2018 net income:										
Legal reserve		-	-	44,298	-	(44,298)	-	-	-	
Cash dividends	6(18)	-	-	-	-	(387,462)	-	-	(387,462)	
Employee stock option compensation cost	6(16)(17)	-	2,050	-	-	-	-	-	2,050	
Disposal of equity instruments at fair value through other comprehensive income	6(6)(19)	-	-	-	-	1,859	-	(1,859)	-	
Balance at December 31, 2019		<u>\$ 7,907,392</u>	<u>\$ 1,294,605</u>	<u>\$ 612,600</u>	<u>\$ 22,829</u>	<u>\$ 490,344</u>	<u>(\$ 98,117)</u>	<u>\$ 30,291</u>	<u>\$ 10,259,944</u>	

The accompanying notes are an integral part of these consolidated financial statements.

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	For the years ended December 31,	
		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 265,054	\$ 490,541
Adjustments			
Adjustments to reconcile profit (loss)			
Gain on valuation of financial assets and liabilities		(2,511)	(409)
(Gain on reversal of) expected credit losses	12	214	(84)
Reversal of allowance for loss on inventory market price decline	6(5)	(51,413)	(28,851)
Provision for obsolescence of supplies		8,006	8,980
Depreciation of property, plant and equipment	6(7)(24)	379,537	395,379
Depreciation of right-of-use assets	6(8)(24)	16,972	-
Property, plant and equipment transferred to loss	6(7)		
		22,726	14,349
Loss on disposal of property, plant and equipment	6(22)	39	75
(Gain on reversal of) impairment loss	6(7)(10)(22)	707	(2,273)
Amortisation	6(24)	12,206	10,442
Prepayments for equipment transferred to loss		1,967	-
Amortisation of long-term prepaid rent	6(9)	-	1,858
Employee stock option compensation cost	6(16)(17)	2,050	5,683
Interest income	6(21)	(37,976)	(33,234)
Interest expense	6(23)	55,689	80,169
Changes in operating assets and liabilities			
Changes in operating assets			
Accounts receivable		(31,599)	8,453
Other receivables		33,791	92,033
Inventories		293,845	340,142
Prepayments		(43,565)	7,320
Changes in operating liabilities			
Contract liabilities - current		25,368	1,721
Notes payable		205	(13)
Accounts payable		11,625	(1,391)
Other payables		(12,793)	6,429
Net defined benefit liabilities - non-current		(617)	(777)
Cash inflow generated from operations		949,527	1,396,542
Interest received		37,057	31,668
Interest paid		(63,570)	(76,487)
Income tax paid		(134,069)	(120,129)
Net cash flows from operating activities		<u>788,945</u>	<u>1,231,594</u>

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SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of New Taiwan dollars)

	Notes	For the years ended December 31,	
		2019	2018
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in financial assets at amortised cost - current		(\$ 710,890)	(\$ 1,214,112)
Proceeds from disposal of financial assets at amortised cost - current		717,940	1,035,497
Proceeds from disposal of financial assets at fair value through other comprehensive income	6(6)	4,189	3,733
Cash paid for acquisition of property, plant and equipment	6(28)	(21,351)	(51,290)
Proceeds from disposal of property, plant and equipment		188	79
Acquisition of intangible assets		(3,185)	(4,076)
Increase in prepayment for equipment		(81,164)	(71,681)
(Increase) decrease in guarantee deposits paid		(4,116)	2,294
Increase in other financial assets - non-current		-	(439)
Net cash flows used in investing activities		(98,389)	(299,995)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in short-term borrowings	6(29)	(140,356)	(137,723)
Repayment of the principal portion of lease liabilities	6(29)	(11,335)	-
Increase in long-term borrowings	6(29)	185,704	163,736
Decrease in long-term borrowings	6(29)	(1,216,792)	(273,493)
Decrease in guarantee deposits received	6(29)	(1,618)	(2)
Payment of cash dividends	6(18)	(387,462)	(379,555)
Net cash flows used in financing activities		(1,571,859)	(627,037)
Effect of foreign exchange rate changes		(17,057)	(12,015)
Net (decrease) increase in cash and cash equivalents		(898,360)	292,547
Cash and cash equivalents at beginning of year	6(1)	4,203,338	3,910,791
Cash and cash equivalents at end of year	6(1)	\$ 3,304,978	\$ 4,203,338

The accompanying notes are an integral part of these consolidated financial statements.

SCINOPHARM TAIWAN, LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

- (1) ScinoPharm Taiwan, Ltd. (the Company) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.) on November 11, 1997. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in the manufacture of western medicines and other chemical materials, biological technology services, intellectual property rights, international trade and research, development and manufacture of Active Pharmaceutical Ingredients (“API”), albumin medicines, oligonucleotide medicines, peptide medicines, injections and new small molecule drugs, as well as the provision of related consulting and technical services.
- (2) The common shares of the Company have been listed on the Taiwan Stock Exchange since September 2011.
- (3) Uni-President Enterprises Corp., the Company’s ultimate parent company, holds 37.94% equity interest in the Company.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on March 20, 2020.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

- (1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board ("IASB")</u>
Amendments to IFRS 9, ‘Prepayment features with negative compensation’	January 1, 2019
IFRS 16, ‘Leases’	January 1, 2019
Amendments to IAS 19, ‘Plan amendment, curtailment or settlement’	January 1, 2019
Amendments to IAS 28, ‘Long-term interests in associates and joint ventures’	January 1, 2019
IFRIC 23, ‘Uncertainty over income tax treatments’	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

IFRS 16, ‘Leases’

- A. IFRS 16, ‘Leases’, replaces IAS 17, ‘Leases’ and related interpretations and SICs. The standard requires lessees to recognise a ‘right-of-use asset’ and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.
- B. The Group has elected to apply IFRS 16 by not restating the comparative information (referred herein as the ‘modified retrospective approach’) when applying International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations (collectively referred herein as the “IFRSs”) effective in 2019 as endorsed by the FSC. Accordingly, the Group increased ‘right-of-use assets’ by \$975,606, increased ‘lease liabilities’ by \$900,288 and decreased ‘long-term prepaid rents’ by \$75,318 with respect to the lease contracts of lessees on January 1, 2019.
- C. The Group has used the following practical expedients permitted by the standard at the date of initial application of IFRS 16:
 - i. The use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
 - ii. The exclusion of initial direct costs for the measurement of ‘right-of-use asset’.
 - iii. The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- D. The Group calculated the present value of lease liabilities by using the weighted average incremental borrowing interest rate of 1.13%.
- E. The Group recognised lease liabilities which had previously been classified as ‘operating leases’ under the principles of IAS 17, ‘Leases’. The reconciliation between operating lease commitments under IAS 17 measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate and lease liabilities recognised as of January 1, 2019 is as follows:

Operating lease commitments disclosed by applying IAS 17 as at	
December 31, 2018	\$ 457,057
Add: Adjustment as a result of a different treatment of extension	726,960
Less: Short-term leases	(2,397)
Low-value assets	<u>(2,765)</u>
Total lease contracts amount recognised as lease liabilities by applying	
IFRS 16 on January 1, 2019	<u>\$ 1,178,855</u>
Incremental borrowing interest rate at the date of initial application	<u>1.13%</u>
Lease liabilities recognised as at January 1, 2019 by applying IFRS 16	<u>\$ 900,288</u>

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2020 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Amendments to IAS 1 and IAS 8, ‘Disclosure Initiative-Definition of Material’	January 1, 2020
Amendments to IFRS 3, ‘Definition of a business’	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, ‘Interest rate benchmark reform’	January 1, 2020

The above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’	To be determined by IASB
IFRS 17, ‘Insurance contracts’	January 1, 2021
Amendments to IAS 1, ‘Classification of liabilities as current or non-current’	January 1, 2022

The above standards and interpretations have no significant impact to the Group’s financial condition and financial performance based on the Group’s assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretation as endorsed by the FSC (collectively referred herein as the “IFRSs”).

(2) Basis of preparation

A. Except for the following items, these consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
 - (b) Financial assets at fair value through other comprehensive income.
 - (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.
- (d) Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- (e) When the Group loses control of a subsidiary, the Group remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Group loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary

should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

B. Subsidiaries included in the consolidated financial statements:

Name of Investors	Name of Subsidiaries	Business activities	Percentage owned by the Company		Note
			December 31, 2019	December 31, 2018	
ScinoPharm Taiwan, Ltd.	SPT International, Ltd.	Professional investment	100.00	100.00	—
ScinoPharm Taiwan, Ltd.	ScinoPharm Singapore Pte Ltd.	Professional investment	100.00	100.00	—
SPT International, Ltd.	SciAnda (Kunshan) Biochemical Technology Ltd.	Research, development and manufacture of API and new drug, etc.	100.00	100.00	—
SPT International, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	Research, development and manufacture of API and new drug, sale of self-produced products, etc.	100.00	100.00	—
SPT International, Ltd.	SciAnda Shanghai Biochemical Technology, Ltd.	Import, export and sales of API and intermediates, etc.	100.00	100.00	—

C. Subsidiaries not included in the consolidated financial statements: None.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in NTD, which is the Company's functional and the Group's presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are

recognised in profit or loss in the period in which they arise.

- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All other foreign exchange gains and losses are presented in the statement of comprehensive income within “other gains and losses”.

B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, if the Group retains partial interest in the former foreign subsidiary after losing control of the former foreign subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(5) Classification of current and non-current items

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- (a) Liabilities that are expected to be paid off within the normal operating cycle;
- (b) Liabilities arising mainly from trading activities;
- (c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(6) Cash equivalents

- A. Cash equivalents refer to short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value.
- B. Time deposits and bills under repurchase agreements that meet the above criteria and are held for the purpose of meeting short-term cash commitment in operations are classified as cash equivalents.

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.
- D. The Group recognises the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(8) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value. The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of

the dividend can be measured reliably.

(9) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
 - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's structured deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(10) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(11) Impairment of financial assets

For financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable or contract assets that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(12) Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to cash flows from the financial asset expire.

(13) Inventories

The standard cost method is applied, and cost is determined using the weighted-average cost method. The cost of finished goods and work in process comprises raw materials, direct labor, other direct costs and related production overheads (allocated based on normal operating capacity). It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses. When the cost of inventories exceeds the realisable value, the amount of any write-down of inventories is recognised as cost of

sales during the period and the amount of any reversal of inventory write-down is recognised as a reduction in the cost sales during the period.

(14) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Except for land, other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. If each component of property, plant and equipment is significant, it is depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

<u>Assets</u>	<u>Estimated useful lives</u>
Buildings and structures	2 ~ 35 years
Machinery and equipment	2 ~ 12 years
Transportation equipment	2 ~ 5 years
Office equipment	2 ~ 9 years
Other equipment	2 ~ 19 years

(15) Intangible assets

Professional skills and computer software, etc. are stated at cost and amortised on a straight-line basis over their estimated useful lives of 3 ~ 5 years.

(16) Leasing arrangements (lessee) – right-of-use assets/ lease liabilities (Effective 2019)

- A. Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. For short-term leases or leases of low-value assets, lease payments are recognised as an expense on a straight-line basis over the lease term.
- B. Lease liabilities include the net present value of the remaining lease payments at the commencement date, discounted using the incremental borrowing interest rate. Lease payments are fixed payments less any lease incentives receivable. The Group subsequently measures the lease liabilities at amortised cost using the interest method and recognises interest expense over

the lease term. The lease liability is remeasured and the amount of remeasurement is recognised as an adjustment to the right-of-use asset when there are changes in the lease term or lease payments and such changes do not arise from contract modifications.

C. At the commencement date, the right-of-use asset is stated at cost under the amount of the initial measurement of lease liability. The right-of-use asset is measured subsequently using the cost model and is depreciated from the commencement date to the earlier of the end of the asset's useful life or the end of the lease term. When the lease liability is remeasured, the amount of remeasurement is recognised as an adjustment to the right-of-use asset.

(17) Operating leases (lessee) (Prior to 2019)

Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(18) Impairment of non-financial assets

The Group assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognising impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed to the extent of the loss previously recognised in profit or loss. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(19) Borrowings

Borrowings comprise long-term and short-term bank borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

(20) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(21) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged, cancelled or expires.

(22) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(23) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expenses in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expenses when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Group in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest of government bonds (at the balance sheet date) of a currency and term consistent with the currency and term of the employment benefit obligations.

ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise, and recorded as retained earnings.

C. Employees' compensation and directors' remuneration

Employees' compensation and directors' remuneration are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employees' compensation is distributed by shares, the Group calculates the number of shares based on the closing market price at the previous day of the board meeting resolution.

(24) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity

instruments that eventually vest.

(25) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(26) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.

(27) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(28) Revenue recognition

A. Sales of goods

- (a) The Group manufactures and sells API, intermediates, etc. Sales are recognised when control of the products has transferred, 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, or the Group has objective evidence that all criteria for acceptance have been satisfied.
- (b) Revenue is recognised based on the price specified in the contract, net of the sales returns and discounts. Accumulated experience is used to estimate and provide for the sales returns and discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. The estimation is subject to an assessment at each reporting date. As the time interval between the transfer of committed goods or service and the payment of customer does not exceed one year, the Group does not adjust the transaction price to reflect the time value of money.
- (c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

B. Sales of services

- (a) The Group provides technology development and consultation services. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the service rendered up to the end of the reporting period as a proportion of the total services to be provided. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.
- (b) The Group's estimate about revenue, costs and progress towards complete satisfaction of a performance obligation is subject to a revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to an estimate revision is reflected in profit or loss during the period when the management becomes aware of the changes in circumstances.

C. Incremental costs of obtaining a contract

Given that the contractual period lasts less than one year, the Group recognises the incremental costs (mainly comprised of sales commissions) of obtaining a contract as an expense when incurred although the Group expects to recover those costs.

(29) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and the related information is addressed below:

(1) Critical judgments in applying the Group's accounting policies

None.

(2) Critical accounting estimates and assumptions

A. Evaluation of inventories

(a) As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. As the manufacturing process is relatively complicated and time consuming, materials require longer lead time, the waiting period for product registration is long, and the timing of product launch may be deferred, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Since the calculation of net realisable value involves subjective judgement and the ending balance of inventory is material to the financial statements, there might be material changes to the evaluation.

(b) As of December 31, 2019, the carrying amount of inventories was \$1,124,332.

B. Realisability of deferred income tax assets

(a) Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Assessment of the realisability of deferred income tax assets involves critical accounting judgments and estimates of the management, including the assumptions of expected future sales revenue growth rate and profit rate, tax exempt duration, available tax credits, tax planning, etc. Any variations in global economic environment, industrial environment, and laws and regulations might cause material adjustments to deferred income

tax assets.

(b) As of December 31, 2019, the Group recognised deferred income tax assets amounting to \$606,123.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Cash:		
Cash on hand	\$ 159	\$ 138
Checking accounts and demand deposits	<u>414,571</u>	<u>289,723</u>
	<u>414,730</u>	<u>289,861</u>
Cash equivalents:		
Time deposits	2,620,500	3,633,833
Bill under repurchase agreements	<u>269,748</u>	<u>279,644</u>
	<u>2,890,248</u>	<u>3,913,477</u>
	<u>\$ 3,304,978</u>	<u>\$ 4,203,338</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. Details of the Group's time deposits pledged to others as collateral (listed as "Other financial assets - non-current") as of December 31, 2019 and 2018 are provided in Note 8.

(2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Derivatives	<u>\$ 2,920</u>	<u>\$ 409</u>
Non-current items:		
Financial assets mandatorily measured at fair value through profit or loss		
Unlisted stocks	\$ 4,620	\$ 4,620
Valuation adjustment	<u>(4,620)</u>	<u>(4,620)</u>
	<u>\$ -</u>	<u>\$ -</u>

A. The Group recognised net loss of \$2,552 and \$18,000 on financial assets at fair value through profit or loss (listed as "Other gains and losses") for the years ended December 31, 2019 and 2018, respectively.

B. The Group entered into contracts relating to derivative financial liabilities which were not accounted for under hedge accounting. The information is listed below (Units in thousands of currencies indicated):

<u>Items</u>	<u>December 31, 2019</u>	
	<u>Contract amount</u>	<u>Contract period</u>
Forward foreign exchange contracts	USD 13,553	10.2019~3.2020

<u>Items</u>	<u>December 31, 2018</u>	
	<u>Contract amount</u>	<u>Contract period</u>
Forward foreign exchange contracts	USD 8,870	11.2018~2.2019

The Group entered into forward foreign exchange contracts to hedge exchange rate risk of operating activities. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

C. The Group has no financial assets at fair value through profit or loss pledged to others as of December 31, 2019 and 2018.

(3) FINANCIAL ASSETS AT AMORTISED COST - CURRENT

<u>Items</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Structured deposits	\$ 172,220	\$ 178,615

A. The Group entered into structured deposits, which are guaranteed yield financial products, with financial institutions.

B. The Group recognised interest income of \$7,317 and \$10,166 from financial assets at amortised cost for the years ended December 31, 2019 and 2018, respectively.

C. The Group has no financial assets at amortised cost pledged to others as of December 31, 2019 and 2018.

D. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

(4) ACCOUNTS RECEIVABLE, NET

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accounts receivable	\$ 590,594	\$ 558,995
Less: Loss allowance	(258)	(45)
	<u>\$ 590,336</u>	<u>\$ 558,950</u>

A. The ageing analysis of accounts receivable is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Not past due	\$ 456,776	\$ 520,461
Less than 30 days	82,787	34,841
Between 31 to 90 days	51,031	3,693
	<u>\$ 590,594</u>	<u>\$ 558,995</u>

The above ageing analysis is based on past due date.

B. As of December 31, 2019 and 2018, accounts receivable arose from contracts with customers. As of January 1, 2018, the balance of receivables from contracts with customers amounted to \$567,448.

C. As of December 31, 2019 and 2018, the Group does not hold any collateral as security.

D. As at December 31, 2019 and 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the Group's accounts receivable is the book value.

E. Information relating to credit risk of accounts receivable is provided in Note 12(2).

(5) INVENTORIES

	December 31, 2019		
	Cost	Allowance for	
		market price decline	Book value
Raw materials	\$ 330,368	(\$ 62,829)	\$ 267,539
Supplies	29,009	(3,347)	25,662
Work in process	355,393	(77,847)	277,546
Finished goods	880,680	(327,095)	553,585
	<u>\$ 1,595,450</u>	<u>(\$ 471,118)</u>	<u>\$ 1,124,332</u>
	December 31, 2018		
	Cost	Allowance for	
		market price decline	Book value
Raw materials	\$ 291,883	(\$ 73,595)	\$ 218,288
Supplies	40,159	(3,790)	36,369
Work in process	689,639	(160,350)	529,289
Finished goods	867,614	(287,763)	579,851
	<u>\$ 1,889,295</u>	<u>(\$ 525,498)</u>	<u>\$ 1,363,797</u>

The Group recognised expense and loss of inventories for the year:

	For the years ended December 31,	
	2019	2018
Cost of goods sold	\$ 1,337,537	\$ 1,682,408
Loss on physical inventory	3,170	4,018
Loss on inventory scrap	25,263	4,952
Under applied manufacturing overhead	319,876	246,150
Reversal of allowance for inventory market price decline (Note)	(51,413)	(28,851)
Revenue from sale of scraps	(8,472)	-
Total cost of goods sold	<u>\$ 1,625,961</u>	<u>\$ 1,908,677</u>

Note: The Group reversed from a previous inventory write-down which was accounted for as reduction of cost of goods sold because certain inventory which were previously provided with allowance were again utilised in production.

(6) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT

Items	December 31, 2019	December 31, 2018
Equity instruments		
Listed stocks	\$ 217,246	\$ 219,576
Unlisted stocks	<u>167,673</u>	<u>167,673</u>
	384,919	387,249
Valuation adjustment	<u>30,291</u>	<u>80,868</u>
	<u>\$ 415,210</u>	<u>\$ 468,117</u>

- A. The Group has elected to classify investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments is the book value as at December 31, 2019 and 2018.
- B. As the change in investment strategies and the underlying share price of investment target is higher than the underwriting price of the over-allotment, the over-allotment shares was fully refunded. The Group sold \$4,189 and \$3,733 of equity instruments at fair value and resulted in cumulative gain (loss) on disposal of \$1,859 and (\$115) which was reclassified to retained earnings during the years ended December 31, 2019 and 2018, respectively.
- C. Amounts recognised in other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

Equity instruments at fair value through other comprehensive income	For the years ended December 31,	
	2019	2018
Fair value change recognised in other comprehensive income	(\$ <u>48,718</u>)	(\$ <u>67,722</u>)
Cumulative (gains) losses reclassified to retained earnings due to derecognition	(\$ <u>1,859</u>)	<u>\$ 115</u>

- D. The Group has no financial assets at fair value through other comprehensive income pledged to others as of December 31, 2019 and 2018.

(7) PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>January 1, 2019</u>							
Cost	\$ 3,521,175	\$ 5,147,057	\$ 26,668	\$ 219,135	\$ 152,211	\$ 1,056,179	\$ 10,122,425
Accumulated depreciation	(1,103,014)	(3,922,795)	(24,393)	(186,675)	(118,076)	-	(5,354,953)
Accumulated impairment	-	(8,577)	-	(34)	(15)	-	(8,626)
	<u>\$ 2,418,161</u>	<u>\$ 1,215,685</u>	<u>\$ 2,275</u>	<u>\$ 32,426</u>	<u>\$ 34,120</u>	<u>\$ 1,056,179</u>	<u>\$ 4,758,846</u>
<u>For the year ended December 31, 2019</u>							
At January 1	\$ 2,418,161	\$ 1,215,685	\$ 2,275	\$ 32,426	\$ 34,120	\$ 1,056,179	\$ 4,758,846
Additions	1,421	3,029	-	907	-	22,725	28,082
Reclassified from prepayments for equipment	-	-	-	-	-	102,546	102,546
Reclassified upon completion	9,629	104,201	-	23,795	872	(138,497)	-
Transferred to intangible assets	-	-	-	-	-	(6,500)	(6,500)
Transferred to loss (Note)	-	-	-	-	-	(22,726)	(22,726)
Depreciation charge	(146,639)	(211,033)	(1,065)	(14,297)	(6,503)	-	(379,537)
Disposals – Cost	(161)	(44,398)	(918)	(12,641)	(53)	-	(58,171)
– Accumulated depreciation	48	44,398	826	12,606	48	-	57,926
– Accumulated impairment	-	-	-	18	-	-	18
Impairment loss	-	(707)	-	-	-	-	(707)
Net currency exchange differences	(30,097)	(14,508)	(25)	(324)	(944)	(19)	(45,917)
At December 31	<u>\$ 2,252,362</u>	<u>\$ 1,096,667</u>	<u>\$ 1,093</u>	<u>\$ 42,490</u>	<u>\$ 27,540</u>	<u>\$ 1,013,708</u>	<u>\$ 4,433,860</u>
<u>December 31, 2019</u>							
Cost	\$ 3,495,743	\$ 5,186,449	\$ 25,505	\$ 229,037	\$ 147,692	\$ 1,013,708	\$ 10,098,134
Accumulated depreciation	(1,243,381)	(4,080,498)	(24,412)	(186,532)	(120,138)	-	(5,654,961)
Accumulated impairment	-	(9,284)	-	(15)	(14)	-	(9,313)
	<u>\$ 2,252,362</u>	<u>\$ 1,096,667</u>	<u>\$ 1,093</u>	<u>\$ 42,490</u>	<u>\$ 27,540</u>	<u>\$ 1,013,708</u>	<u>\$ 4,433,860</u>

	Buildings	Machinery and equipment	Transportation equipment	Office equipment	Other equipment	Construction in progress and equipment before acceptance inspection	Total
<u>January 1, 2018</u>							
Cost	\$ 3,535,840	\$ 5,084,982	\$ 27,185	\$ 214,262	\$ 154,389	\$ 1,059,356	\$ 10,076,014
Accumulated depreciation	(958,306)	(3,710,632)	(23,896)	(171,582)	(111,986)	-	(4,976,402)
Accumulated impairment	-	(10,899)	-	-	-	-	(10,899)
	<u>\$ 2,577,534</u>	<u>\$ 1,363,451</u>	<u>\$ 3,289</u>	<u>\$ 42,680</u>	<u>\$ 42,403</u>	<u>\$ 1,059,356</u>	<u>\$ 5,088,713</u>
<u>For the year ended December 31, 2018</u>							
At January 1	\$ 2,577,534	\$ 1,363,451	\$ 3,289	\$ 42,680	\$ 42,403	\$ 1,059,356	\$ 5,088,713
Additions	-	6,287	-	-	-	32,094	38,381
Reclassified from prepayments for equipment	-	-	-	-	-	72,851	72,851
Reclassified upon completion	9,858	73,691	732	6,995	2,496	(93,772)	-
Transferred to loss (Note)	-	-	-	-	-	(14,349)	(14,349)
Depreciation charge	(147,766)	(219,079)	(1,727)	(16,956)	(9,851)	-	(395,379)
Disposals – Cost	-	(2,551)	(1,059)	(721)	(1,083)	-	(5,414)
– Accumulated depreciation	-	2,551	1,059	676	974	-	5,260
Reversal of impairment loss	-	2,322	-	(34)	(15)	-	2,273
Net currency exchange differences	(21,465)	(10,987)	(19)	(214)	(804)	(1)	(33,490)
At December 31	<u>\$ 2,418,161</u>	<u>\$ 1,215,685</u>	<u>\$ 2,275</u>	<u>\$ 32,426</u>	<u>\$ 34,120</u>	<u>\$ 1,056,179</u>	<u>\$ 4,758,846</u>
<u>December 31, 2018</u>							
Cost	\$ 3,521,175	\$ 5,147,057	\$ 26,668	\$ 219,135	\$ 152,211	\$ 1,056,179	\$ 10,122,425
Accumulated depreciation	(1,103,014)	(3,922,795)	(24,393)	(186,675)	(118,076)	-	(5,354,953)
Accumulated impairment	-	(8,577)	-	(34)	(15)	-	(8,626)
	<u>\$ 2,418,161</u>	<u>\$ 1,215,685</u>	<u>\$ 2,275</u>	<u>\$ 32,426</u>	<u>\$ 34,120</u>	<u>\$ 1,056,179</u>	<u>\$ 4,758,846</u>

Note : The Group did not accept the customized equipment ordered from the vendor as its format and efficiency did not meet expectations. In April 2019, both parties reached a consensus. The vendor refunded and terminated the purchase of equipment and the Group transferred the balance of the related construction in progress and equipment before acceptance inspection to loss.

- A. The Group has not capitalised borrowing costs as part of property, plant and equipment for the years ended December 31, 2019 and 2018.
- B. The Group's property, plant and equipment were owner-occupied for the years ended December 31, 2019 and 2018.
- C. Information about impairment loss and reversal of impairment on property, plant and equipment is provided in Note 6(10).
- D. As of December 31, 2019 and 2018, the Group has not pledged any property, plant and equipment as collateral.

(8) Leasing arrangements – lessee (Effective 2019)

- A. The Group leases land. Rental contracts are typically made for periods of 50 years (including the option to extend the leases). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose covenants, but leased assets may not be used as security for borrowing purposes.
- B. Short-term leases with a lease term of 12 months or less pertain to office premises and low-value assets pertain to computers.
- C. The carrying amount of right-of-use assets and the depreciation charge are as follows:

	<u>December 31, 2019</u>	<u>For the year ended December 31, 2019</u>
	Carrying amount	Depreciation charge
Land	\$ 673,087	\$ 16,972

- D. The information on income and expense accounts relating to lease contracts is as follows:

	<u>For the year ended December 31, 2019</u>
<u>Items affecting profit or loss</u>	
Interest expense on lease liabilities	\$ 8,510
Expense on short-term lease contracts	4,120
Expense on leases of low-value assets	877

- F. For the year ended December 31, 2019, the Group's total cash outflow for leases was \$24,842.

(9) LONG-TERM PREPAID RENT (Prior to 2019)

	<u>December 31, 2018</u>
Land use right	\$ 75,318

In 2008, the Group's Mainland China subsidiary entered into a land use right contract with the local government relating to the acquisition of the right to use the land located in Changshu, Jiangsu province, with a lease term of 50 years. The subsidiary had prepaid all rental expenses on the contract date, and recognised rental expense of \$1,858 for the year ended December 31, 2018 (listed as "General and administrative expenses").

(10) IMPAIRMENT OF NON-FINANCIAL ASSETS

A. The Group recognised impairment loss for the years ended December 31, 2019 and 2018 in the amount of \$707 and \$—, respectively, and reversed the impairment loss amounting to \$— and \$2,273 for the years ended December 31, 2019 and 2018, respectively (listed as "Other gains and losses") as some of the idle machineries were again utilised in production. For details of accumulated impairment, please refer to Note 6(7).

B. The gain on reversal of (impairment loss) reported by operating segments is as follows:

<u>Segments</u>	<u>For the years ended December 31,</u>			
	<u>2019</u>		<u>2018</u>	
	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>	<u>Recognised in profit or loss</u>	<u>Recognised in other comprehensive income</u>
ScinoPharm Taiwan	(\$ 707)	\$ -	\$ 2,322	\$ -
SciAnda (Changshu)	-	-	(49)	-
	<u>(\$ 707)</u>	<u>\$ -</u>	<u>\$ 2,273</u>	<u>\$ -</u>

(11) SHORT-TERM BORROWINGS

<u>Type of borrowings</u>	<u>December 31, 2019</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank loans			
Unsecured loans	<u>\$ 89,766</u>	4.35%	None

<u>Type of borrowings</u>	<u>December 31, 2018</u>	<u>Interest rate range</u>	<u>Collateral</u>
Bank loans			
Unsecured loans	<u>\$ 233,290</u>	3.17% ~ 4.35%	None

Please refer to Note 6(23) for interest expense recognised in profit or loss for the years ended December 31, 2019 and 2018.

(12) OTHER PAYABLES

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accrued salaries and bonuses	\$ 75,963	\$ 79,971
Accrued employees' compensation and directors' remuneration	28,493	54,605
Payables on equipment	48,148	41,417
Others	180,772	171,326
	<u>\$ 333,376</u>	<u>\$ 347,319</u>

(13) LONG-TERM BORROWINGS

<u>Type of borrowings</u>	<u>Borrowing period</u>	<u>December 31, 2019</u>	<u>Interest rate</u>	<u>Collateral</u>
Long-term bank loans				
Secured bank loans	CNY 33,500 thousand 9.30.2019~ 10.29.2020	\$ 144,234	4.25%	Guaranteed by the Company
Less: Current portion		(144,234)		
		<u>\$ -</u>		

<u>Type of borrowings</u>	<u>Borrowing period</u>	<u>December 31, 2018</u>	<u>Interest rate</u>	<u>Collateral</u>
Long-term bank loans				
Secured bank loans	CNY 263,921 thousand 6.14.2016~ 12.7.2019	\$ 1,178,503	4.60%~4.85%	Guaranteed by the Company
Less: Current portion		(1,178,503)		
		<u>\$ -</u>		

Please refer to Note 6(23) for interest expense recognised in profit or loss for the years ended December 31, 2019 and 2018.

(14) PENSIONS

A. The Company has set up a defined benefit pension plan in accordance with the Labor Standards Law, which applies to all regular employees' service years prior to the enforcement of the Labor Pension Act (the "Act") on July 1, 2005 and service years thereafter of employees who chose to continue to be covered under the pension scheme of the Labor Standards Law after the enforcement of the Act. In accordance with the Company's retirement plan, an employee may retire when the employee either (i) attains the age of 55 with 15 years of service, (ii) has more than 25 years of service, (iii) has reached the age of 65, or (iv) is incapacitated to work (compulsory retirement). The employees earn two units for each year of service for the first 15 years, and one unit for each additional year thereafter up to a maximum of 45 units. Any fraction of a year equal to or more than six months shall be counted as one year of service, and any fraction of a year less than six months shall be counted as half a year. According to the provisions, employees who retired due to their duties shall get additional 20%. Pension payments are based on the number of units earned and the average salary of the last six months prior to retirement. Calculation of average salary is in accordance with the Labor Standards Law of the R.O.C. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account

balance is not enough to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company will make contribution for the deficit by end of March next year.

(a) The amounts recognised in the balance sheet are as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Present value of defined benefit obligations	\$ 127,729	\$ 121,105
Fair value of plan assets	(45,547)	(44,242)
Net defined benefit liability	<u>\$ 82,182</u>	<u>\$ 76,863</u>

(b) Movements in net defined benefit liabilities are as follows:

<u>For the year ended December 31, 2019</u>	<u>Present value of defined benefit obligations</u>	<u>Fair value of plan assets</u>	<u>Net defined benefit liability</u>
At January 1	\$ 121,105	(\$ 44,242)	\$ 76,863
Current service cost	1,579	-	1,579
Interest expense (income)	<u>1,211</u>	<u>(442)</u>	<u>769</u>
	<u>123,895</u>	<u>(44,684)</u>	<u>79,211</u>
Remeasurements:			
Return on plan assets	-	(1,976)	(1,976)
Change in financial assumptions	3,927	-	3,927
Experience adjustments	<u>3,985</u>	<u>-</u>	<u>3,985</u>
	<u>7,912</u>	<u>(1,976)</u>	<u>5,936</u>
Pension fund contribution	<u>-</u>	<u>(2,965)</u>	<u>(2,965)</u>
Paid pension	<u>(4,078)</u>	<u>4,078</u>	<u>-</u>
At December 31	<u>\$ 127,729</u>	<u>(\$ 45,547)</u>	<u>\$ 82,182</u>

For the year ended December 31, 2018	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
At January 1	\$ 119,272	(\$ 49,960)	\$ 69,312
Current service cost	1,425	-	1,425
Interest expense (income)	1,431	(600)	831
	<u>122,128</u>	<u>(50,560)</u>	<u>71,568</u>
Remeasurements:			
Return on plan assets	-	(1,417)	(1,417)
Change in financial assumptions	2,606	-	2,606
Experience adjustments	7,139	-	7,139
	<u>9,745</u>	<u>(1,417)</u>	<u>8,328</u>
Pension fund contribution	-	(3,033)	(3,033)
Paid pension	(10,768)	10,768	-
At December 31	<u>\$ 121,105</u>	<u>(\$ 44,242)</u>	<u>\$ 76,863</u>

(c) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorised by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2019 and 2018 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

(d) The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2019	2018
Discount rate	<u>0.70%</u>	<u>1.00%</u>
Future salary increases	<u>3.00%</u>	<u>3.00%</u>

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics and experience according to Taiwan Life Insurance Industry 5th Mortality Table for the years ended December 31, 2019 and 2018.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	<u>Discount rate</u>		<u>Future salary increases</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
<u>December 31, 2019</u>				
Effect on present value of defined benefit obligation	(\$ <u>3,284</u>)	\$ <u>3,403</u>	\$ <u>3,000</u>	(\$ <u>2,916</u>)
<u>December 31, 2018</u>				
Effect on present value of defined benefit obligation	(\$ <u>3,246</u>)	\$ <u>3,367</u>	\$ <u>2,991</u>	(\$ <u>2,905</u>)

The sensitivity analysis above was based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(f) Expected contributions to the defined benefit pension plan of the Company for 2020 amount to \$2,890.

(g) As of December 31, 2019, the weighted average duration of that retirement plan is 11 years.

The analysis of timing of the future pension payment was as follows:

Within 1 year	\$	3,902
2~5 years		22,017
Over 6 years		<u>119,194</u>
	\$	<u>145,113</u>

B. As a result of the enforcement of the Act, the Company set up a defined contribution pension plan which took effect on July 1, 2005. The local employees are eligible for the defined contribution plan. For employees who choose to be covered under the pension scheme of the Act, the Company contributes monthly an amount of not less than 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. Pensions are paid by monthly installments or in lump sum based on the accumulated balances of the employees' individual pension accounts. The subsidiaries in Mainland China (SciAnda (Kunshan) Biochemical Technology, Ltd., SciAnda (Changshu) Pharmaceuticals, Ltd., and SciAnda Shanghai Biochemical Technology, Ltd.) are subject to a government sponsored defined contribution plan. In accordance with the related Laws of the People's Republic of China, the subsidiaries in Mainland China contribute monthly 18% of the employees' monthly salaries and

wages to an independent fund administered by the government. Other than the monthly contributions, these subsidiaries do not have further obligations. The other subsidiaries, SPT International, Ltd. and ScinoPharm Singapore Pte Ltd., had no employees. For the years ended December 31, 2019 and 2018, the pension costs recognised under the aforementioned defined contribution pension plans were \$30,712 and \$30,958, respectively.

(15) SHARE CAPITAL

A. Movements in the number of the Company's ordinary shares outstanding are as follows (in thousands of shares):

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
At January 1 and December 31	<u>790,739</u>	<u>790,739</u>

B. As of December 31, 2019, the Company's authorised capital was \$10,000,000 and the paid-in capital was \$7,907,392 (790,739 thousand shares) with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.

(16) CAPITAL RESERVES

A. Pursuant to the R.O.C. Company Act, capital reserve arising from paid-in capital in excess of par value on issuance of common stocks and donations shall be exclusively used to cover accumulated deficit or, distribute cash or stocks in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the capital reserve to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital reserve should not be used to cover accumulated deficit unless the legal reserve is insufficient.

B. Movements on the Company's capital reserve are as follows:

	<u>For the year ended December 31, 2019</u>		
	<u>Share premium</u>	<u>Stock options</u>	<u>Total</u>
At January 1	\$ 1,237,787	\$ 54,768	\$ 1,292,555
Employee stock options compensation cost			
- Company	-	2,050	2,050
Employee stock options forfeited			
- Company	7,686	(7,686)	-
- Subsidiaries	209	(209)	-
At December 31	<u>\$ 1,245,682</u>	<u>\$ 48,923</u>	<u>\$ 1,294,605</u>

	<u>For the year ended December 31, 2018</u>		
	<u>Share premium</u>	<u>Stock options</u>	<u>Total</u>
At January 1	\$ 1,235,148	\$ 51,724	\$ 1,286,872
Employee stock options compensation cost			
- Company	-	5,683	5,683
Employee stock options forfeited			
- Company	2,249	(2,249)	-
- Subsidiaries	390	(390)	-
At December 31	<u>\$ 1,237,787</u>	<u>\$ 54,768</u>	<u>\$ 1,292,555</u>

(17) SHARE-BASED PAYMENT

- A. The Company issued 1 million units, 1.5 million units and 1.5 million units of employee stock options on December 3, 2013, November 6, 2015 and October 14, 2016, respectively (the 'Grant Date'). The exercise price of the options was set at \$91.70 (in dollars), \$41.65 (in dollars) and \$40.55 (in dollars), respectively, which was based on the closing market price of the Company's common shares on the Grant Dates. Each option was granted the right to purchase one share of the Company's common stocks. The exercise price is subject to further adjustments when there is change in the number of shares of the Company's common stocks after the Grant Date. (As of December 31, 2019, for the issued 1 million units, 1.5 million units and 1.5 million units of employee stock options, the exercise price was adjusted based on the specific formula to \$74.50 (in dollars) per share, \$37.20 (in dollars) per share and \$37.70 (in dollars) per share, respectively.) Contract period of the employee stock option plans is 10 years, and options are exercisable in 2 years after the Grant Date. The Group recognised compensation costs relating to the employee stock options plan of \$2,050 and \$5,683 for the years ended December 31, 2019 and 2018, respectively.
- B. Details of the share-based payment arrangements are as follows:

	<u>For the year ended December 31, 2019</u>	
	<u>Number of options</u>	<u>Weighted-average</u>
	<u>(in thousand units)</u>	<u>exercise price</u>
		<u>(in dollars)</u>
Options outstanding at beginning of the year	2,725	\$ 46.08
Options forfeited	(520)	46.89
Options outstanding at end of the year	<u>2,205</u>	45.05
Options exercisable at end of the year	<u>1,967</u>	45.93

	For the year ended December 31, 2018	
	Number of options (in thousand units)	Weighted-average exercise price (in dollars)
Options outstanding at beginning of the year	3,075	\$ 46.53
Options forfeited	(350)	44.56
Options outstanding at end of the year	2,725	46.08
Options exercisable at end of the year	1,908	54.00

C. The expiry date and exercise prices of the employee stock options outstanding at balance sheet date are as follows:

Grant date	Expiry date	December 31, 2019		December 31, 2018	
		No. of stocks (unit in thousands)	Exercise price (in dollars)	No. of stocks (unit in thousands)	Exercise price (in dollars)
12.3.2013	12.2.2023	451	\$ 74.50	572	\$ 75.90
11.6.2015	11.5.2025	802	37.20	1,037	37.90
10.14.2016	10.13.2026	952	37.70	1,116	38.40

D. The fair value of the Group's employee stock options on Grant Date was evaluated using the combination of Hull & White and the Ritchken trinomial option valuation model. Related information is as follows:

Type of arrangement	Grant date	Stock price (in dollars)	Exercise price (in dollars)	Price volatility	Option life	Expected dividends	Interest rate	Fair value per unit (in dollars)
Employee stock options	12.3.2013	\$ 91.70	\$ 91.70	28.50% (Note)	10 years	1.5%	1.7145%	\$ 26.045
Employee stock options	11.6.2015	41.65	41.65	37.63% (Note)	10 years	1.5%	1.2936%	13.799
Employee stock options	10.14.2016	40.55	40.55	37.20% (Note)	10 years	1.5%	0.9223%	13.171

Note: According to daily returns of the Company's stock for the previous year, the annualized volatility is 28.50%, 37.63% and 37.20%, respectively.

(18) RETAINED EARNINGS

A. Pursuant to the amended R.O.C. Company Act, the current year's after-tax earnings should be used initially to cover any accumulated deficit; thereafter 10% of the remaining earnings should be set aside as legal reserve until the balance of legal reserve is equal to that of paid-in capital. The legal reserve shall be exclusively used to cover accumulated deficit, to issue new stocks, or to distribute cash to shareholders in proportion to their share ownership. The use of legal reserve for the issuance of stocks or cash dividends to shareholders in proportion to their share ownership is permitted provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.

- B. Since the Company is in a changeable industry environment and the life cycle of the Company is in a stable growth, the appropriation of earnings should consider fund requirements and capital budget to decide how much earnings will be kept or distributed and how much cash dividends will be distributed. According to the Company's Articles of Incorporation, 10% of the annual net income, after offsetting any loss of prior years and paying all taxes and dues, shall be set aside as legal reserve. The remaining net income and the unappropriated retained earnings from prior years can be distributed in accordance with a resolution passed during a meeting of the Board of Directors and approved at the stockholders' meeting. Of the amount to be distributed by the Company, stockholders' dividends shall comprise 50% to 100% of the unappropriated retained earnings, and the percentage of cash dividends shall not be less than 30% of dividends distributed.
- C. In accordance with the regulations, the Company shall set aside special reserve for the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings. The amounts previously set aside by the Company as special reserve on initial application of IFRSs in accordance with Jin-Guan-Zheng-Fa-Zi Letter No. 1010012865, dated April 6, 2012, shall be reversed proportionately when the relevant assets are used, disposed of or reclassified subsequently.
- D. The Company recognised cash dividends distributed to owners amounting to \$387,462 (\$0.49 (in dollars) per share) and \$379,555 (\$0.48 (in dollars) per share) for the years ended December 31, 2019 and 2018, respectively. On March 20, 2020, the Board of Directors proposed for the distribution of cash dividends of \$213,500 (\$0.27 (in dollars) per share) from 2019 earnings.

(19) OTHER EQUITY ITEMS

	<u>For the year ended December 31, 2019</u>		
		Unrealised gain (loss)	
	<u>Currency translation</u>	<u>on valuation</u>	<u>Total</u>
At January 1	(\$ 41,252)	\$ 80,868	\$ 39,616
Revaluation	-	(48,718)	(48,718)
Revaluation transferred to retained earnings	-	(1,859)	(1,859)
Currency translation differences			
- Group	(56,865)	-	(56,865)
At December 31	<u>(\$ 98,117)</u>	<u>\$ 30,291</u>	<u>(\$ 67,826)</u>

	For the year ended December 31, 2018		
	Unrealised gain (loss)		
	Currency translation	on valuation	Total
At January 1	(\$ 19,765)	\$ -	(\$ 19,765)
Effect on retrospective application and restatement	-	148,475	148,475
Balance after restatement on January 1	(19,765)	148,475	128,710
Revaluation	-	(67,722)	(67,722)
Revaluation transferred to retained earnings	-	115	115
Currency translation differences - Group	(21,487)	-	(21,487)
At December 31	(\$ 41,252)	\$ 80,868	\$ 39,616

(20) OPERATING REVENUE

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

For the year ended December 31, 2019	API Revenue	Injection Product Revenue	Technical Servical Revenue	Other Operating Revenue	Total
Timing of revenue recognition:					
At a point in time	\$ 2,593,217	\$ 138,202	\$ -	\$ -	\$ 2,731,419
Over time	-	-	116,760	44,604	161,364
	<u>\$ 2,593,217</u>	<u>\$ 138,202</u>	<u>\$ 116,760</u>	<u>\$ 44,604</u>	<u>\$ 2,892,783</u>

For the year ended December 31, 2018	API Revenue	Technical Servical Revenue	Other Operating Revenue	Total
Timing of revenue recognition:				
At a point in time	\$ 3,332,373	\$ -	\$ -	\$ 3,332,373
Over time	-	152,220	39,670	191,890
	<u>\$ 3,332,373</u>	<u>\$ 152,220</u>	<u>\$ 39,670</u>	<u>\$ 3,524,263</u>

- B. The Group has recognised contract liabilities related to the contract revenue from advance customer payment of \$55,985, \$30,617 and \$28,896 on December 31, 2019, December 31, 2018 and January 1, 2018, respectively.

C. The revenue recognised that was included in the contract liability balance at the beginning of the period amounted to \$29,695 and \$9,657 for the years ended December 31, 2019 and 2018, respectively.

(21) OTHER INCOME

	For the years ended December 31,	
	2019	2018
Interest income	\$ 37,976	\$ 33,234
Compensation revenue	37,999	9,051
Government subsidy revenue	8,963	-
Others	6,912	6,312
	<u>\$ 91,850</u>	<u>\$ 48,597</u>

(22) OTHER GAINS AND LOSSES

	For the years ended December 31,	
	2019	2018
Net loss on financial assets/liabilities at fair value through profit or loss	(\$ 2,552)	(\$ 18,000)
Loss on disposal of property, plant and equipment	(39)	(75)
Gain on reversal of (impairment loss)	(707)	2,273
Net currency exchange gain	5,700	8,029
Miscellaneous	(40,363)	(28,526)
	<u>(\$ 37,961)</u>	<u>(\$ 36,299)</u>

(23) FINANCE COSTS

	For the years ended December 31,	
	2019	2018
Interest expense:		
Bank loans	\$ 47,179	\$ 80,169
Interest on lease liabilities	8,510	-
	<u>\$ 55,689</u>	<u>\$ 80,169</u>

(24) EXPENSES BY NATURE

	For the year ended December 31, 2019		
	Operating costs	Operating expenses	Total
Employee benefit expenses	\$ 420,528	\$ 327,503	\$ 748,031
Depreciation of property, plant and equipment	271,897	107,640	379,537
Depreciation of right-of-use assets	-	16,972	16,972
Amortisation	4,307	7,899	12,206
	<u>\$ 696,732</u>	<u>\$ 460,014</u>	<u>\$ 1,156,746</u>

	For the year ended December 31, 2018		
	Operating costs	Operating expenses	Total
Employee benefit expenses	\$ 414,290	\$ 348,215	\$ 762,505
Depreciation of property, plant and equipment	278,559	116,820	395,379
Amortisation	3,932	6,510	10,442
	<u>\$ 696,781</u>	<u>\$ 471,545</u>	<u>\$ 1,168,326</u>

(25) EMPLOYEE BENEFIT EXPENSES

	For the year ended December 31, 2019		
	Operating costs	Operating expenses	Total
Salaries and wages	\$ 352,944	\$ 275,393	\$ 628,337
Labor and health insurance expenses	31,246	19,813	51,059
Pension costs	20,407	12,653	33,060
Other personnel expenses	15,931	19,644	35,575
	<u>\$ 420,528</u>	<u>\$ 327,503</u>	<u>\$ 748,031</u>

	For the year ended December 31, 2018		
	Operating costs	Operating expenses	Total
Salaries and wages	\$ 349,562	\$ 295,511	\$ 645,073
Labor and health insurance expenses	29,327	20,796	50,123
Pension costs	19,979	13,235	33,214
Other personnel expenses	15,422	18,673	34,095
	<u>\$ 414,290</u>	<u>\$ 348,215</u>	<u>\$ 762,505</u>

- A. According to the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' remuneration. The ratio shall not be lower than 2% for employees' compensation and shall not be higher than 2% for directors' remuneration.
- B. For the years ended December 31, 2019 and 2018, the employees' compensation was accrued at \$24,651 and \$46,765, respectively, while the directors' remuneration was accrued at \$3,842 and \$7,840, respectively. The aforementioned amounts were recognised in salary expenses. The expenses recognised for each year was accrued based on the earnings of current year and the percentage specified in the Articles of Incorporation of the Company. On March 20, 2020, the Board of Directors resolved to distribute employees' compensation and directors' remuneration of \$24,651 and \$2,942, respectively, and the employees' compensation will be distributed in the form of cash.

The actual amounts approved at the Board of Directors' meeting for employees' compensation and directors' remuneration for 2018 were the same as the estimated amounts recognised in the 2018 financial statements. Information about the appropriation of employees' compensation and directors' remuneration by the Company as resolved by the Board of Directors will be posted in

the “Market Observation Post System” at the website of the Taiwan Stock Exchange.

(26) INCOME TAX

A. Income tax expense

(a) Components of income tax expense:

	For the years ended December 31,	
	2019	2018
Current income tax:		
Income tax in current year	\$ 58,521	\$ 135,808
Tax on unappropriated retained earnings	227	84
Over provision of prior year's income tax	980	(640)
Total current tax	<u>59,728</u>	<u>135,252</u>
Deferred income tax:		
Origination and reversal of temporary differences	(11,330)	(25,072)
Impact of change in tax rate	-	(62,617)
Total deferred tax	<u>(11,330)</u>	<u>(87,689)</u>
Income tax expense	<u>\$ 48,398</u>	<u>\$ 47,563</u>

(b) The income tax relating to components of other comprehensive income is as follows:

	For the years ended December 31,	
	2019	2018
Remeasurement of defined benefit obligations plan	(\$ 1,187)	(\$ 1,667)
Impact of change in tax rate	-	(96)
	<u>(\$ 1,187)</u>	<u>(\$ 1,763)</u>

B. Reconciliation between income tax expense and accounting profit:

	For the years ended December 31,	
	2019	2018
Income tax at statutory tax rate	\$ 50,178	\$ 89,887
Effect of items disallowed by tax regulation	20,395	49,474
Impact of change in tax rate	-	(62,617)
Effect of net operating loss carryforward	(21,604)	(25,413)
Effect of investment tax credits	(1,778)	(3,212)
Tax on unappropriated retained earnings	227	84
Under (over) provision of prior year's income tax	980	(640)
Income tax expense	<u>\$ 48,398</u>	<u>\$ 47,563</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences and loss carryforward are as follows:

	For the year ended December 31, 2019			
	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:				
Temporary differences				
Unrealised loss on inventory market value decline	\$ 78,206	(\$ 518)	\$ -	\$ 77,688
Unrealised loss on components and spare parts market value decline	-	16,203	-	16,203
Investment loss	354,208	23,545	-	377,753
Technology know-how	12,326	(4,350)	-	7,976
Pensions	15,373	(124)	1,187	16,436
Employee benefits - unused compensated absences	4,812	(153)	-	4,659
Impairment of assets	1,716	141	-	1,857
Unrealised exchange loss	811	613	-	1,424
Unrealised loss	2,870	(2,683)	-	187
Rent expenses	-	763	-	763
Loss carryforward	<u>122,781</u>	<u>(21,604)</u>	<u>-</u>	<u>101,177</u>
	<u>\$ 593,103</u>	<u>\$ 11,833</u>	<u>\$ 1,187</u>	<u>\$ 606,123</u>
Deferred tax liabilities:				
Temporary differences				
Unrealised gain on financial instruments	<u>(\$ 81)</u>	<u>(\$ 503)</u>	<u>\$ -</u>	<u>(\$ 584)</u>
	<u>\$ 593,022</u>	<u>\$ 11,330</u>	<u>\$ 1,187</u>	<u>\$ 605,539</u>

For the year ended December 31, 2018

	January 1	Recognised in profit or loss	Recognised in other comprehensive income	December 31
Deferred tax assets:				
Temporary differences				
Unrealised loss on inventory				
market value decline	\$ 73,417	\$ 4,789	\$ -	\$ 78,206
Investment loss	249,018	105,190	-	354,208
Technology know-how	14,174	(1,848)	-	12,326
Pensions	11,783	1,827	1,763	15,373
Employee benefits - unused				
compensated absences	3,996	816	-	4,812
Impairment of assets	1,853	(137)	-	1,716
Unrealised exchange loss	1,135	(324)	-	811
Unrealised equipment loss	-	2,870	-	2,870
Loss carryforward	148,194	(25,413)	-	122,781
	<u>\$ 503,570</u>	<u>\$ 87,770</u>	<u>\$ 1,763</u>	<u>\$ 593,103</u>
Deferred tax liabilities:				
Temporary differences				
Unrealised gain on financial instruments	\$ -	(\$ 81)	\$ -	(\$ 81)
	<u>\$ 503,570</u>	<u>\$ 87,689</u>	<u>\$ 1,763</u>	<u>\$ 593,022</u>

D. Expiration dates of unused operating loss carryforward and amounts of unrecognised deferred tax assets are as follows:

December 31, 2019				
Year incurred	Amount filed /assessed	Unused tax credits	Unrecognised deferred tax assets	Expiry year
2015~2019	\$ 1,160,244	\$ 1,031,674	\$ 626,968	2020~2024
December 31, 2018				
Year incurred	Amount filed /assessed	Unused tax credits	Unrecognised deferred tax assets	Expiry year
2014~2018	\$ 1,250,193	\$ 1,245,459	\$ 754,334	2019~2023

E. The Company's income tax returns through 2017 have been assessed and approved by the Tax Authority, and there were no disputes existing between the Company and the Authority as of March 20, 2020.

F. The amendments to the Income Tax Act were promulgated and became effective on February 7, 2018. Under the amendments, the corporate income tax rate will be raised from 17% to 20% retroactively effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate and recognised in profit or loss or other comprehensive income based on the nature of temporary differences.

(27) EARNINGS PER SHARE (“EPS”)

	<u>For the year ended December 31, 2019</u>		
	<u>Amount after tax</u>	<u>Weighted average number of shares outstanding (shares in thousands)</u>	<u>EPS (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 216,656	790,739	\$ 0.27
<u>Diluted earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 216,656	790,739	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	-	
Employees' compensation	-	1,336	
Profit attributable to ordinary stockholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 216,656</u>	<u>792,075</u>	<u>\$ 0.27</u>

For the year ended December 31, 2018			
	<u>Amount after tax</u>	<u>Weighted average number of shares outstanding (shares in thousands)</u>	<u>EPS (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 442,978	790,739	\$ 0.56
<u>Diluted earnings per share</u>			
Profit attributable to ordinary stockholders of the parent	\$ 442,978	790,739	
Assumed conversion of all dilutive potential ordinary shares			
Employees' stock options	-	-	
Employees' compensation	-	2,343	
Profit attributable to ordinary stockholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 442,978</u>	<u>793,082</u>	<u>\$ 0.56</u>

For the years ended December 31, 2019 and 2018, some abovementioned stock options issued are anti-dilutive; therefore they were not included in the EPS calculation.

(28) SUPPLEMENTAL CASH FLOW INFORMATION

A. Investing activities with partial cash payments:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Purchase of property, plant and equipment	\$ 28,082	\$ 38,381
Add: Beginning balance of payable on equipment (listed as "Other payables")	41,417	54,326
Less: Ending balance of payable on equipment (listed as "Other payables")	(48,148)	(41,417)
Cash paid for acquisition of property, plant and equipment	<u>\$ 21,351</u>	<u>\$ 51,290</u>

B. Investing activities and financing activities with no cash flow effects:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
(a) Prepayments for equipment reclassified to property, plant and equipment	<u>\$ 102,546</u>	<u>\$ 72,851</u>
(b) Property, plant and equipment reclassified to intangible assets	<u>\$ 6,500</u>	<u>\$ -</u>

(29) CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

	Short-term borrowings	Lease liabilities	Long-term borrowings	Guarantee deposits received	Liabilities from financing activities-gross
At January 1, 2019	\$ 233,290	\$ -	\$ 1,178,503	\$ 1,708	\$ 1,413,501
Effect on retrospective application and restatement	-	900,288	-	-	900,288
Changes in cash flow from financing activities	(140,356)	(11,335)	(1,031,088)	(1,618)	(1,184,397)
Impact of changes in foreign exchange rate	(3,168)	-	(3,181)	-	(6,349)
Changes in other non-cash items	-	(282,919)	-	(3)	(282,922)
At December 31, 2019	<u>\$ 89,766</u>	<u>\$606,034</u>	<u>\$ 144,234</u>	<u>\$ 87</u>	<u>\$ 840,121</u>

	Short-term borrowings	Lease liabilities	Long-term borrowings	Guarantee deposits received	Liabilities from financing activities-gross
At January 1, 2018	\$ 374,713	\$ -	\$ 1,317,218	\$ 1,712	\$ 1,693,643
Changes in cash flow from financing activities	(137,723)	-	(109,757)	(2)	(247,482)
Impact of changes in foreign exchange rate	(3,700)	-	(28,958)	(2)	(32,660)
At December 31, 2018	<u>\$ 233,290</u>	<u>\$ -</u>	<u>\$ 1,178,503</u>	<u>\$ 1,708</u>	<u>\$ 1,413,501</u>

7. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The ultimate parent and ultimate controlling party of the Company is Uni-President Enterprises Corp.

(2) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Uni-President Enterprises Corp.	Ultimate parent company
President Securities Corp.	Associate of ultimate parent company

(3) Significant transactions and balances with related parties

Other expenses

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Management service fees:		
— Ultimate parent company	\$ 6,935	\$ 5,138
— Associate of ultimate parent company	2,091	2,115
	<u>\$ 9,026</u>	<u>\$ 7,253</u>

(4) Key management compensation

	For the years ended December 31,	
	2019	2018
Salaries and other short-term employee benefits	\$ 44,185	\$ 48,946
Share-based payments	542	2,794
Post-employment benefits	692	581
Termination benefits	1,470	1,746
	<u>\$ 46,889</u>	<u>\$ 54,067</u>

8. PLEDGED ASSETS

Details of the Group's assets pledged as collateral are as follows:

Assets	December 31, 2019	December 31, 2018	Purpose of collateral
Time deposits (Note)	<u>\$ 29,270</u>	<u>\$ 29,270</u>	Customs duty and performance guarantee

Note: Listed as "Other financial assets - non-current".

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) As of December 31, 2019 and 2018, the Group's unused letters of credit amounted to \$7,707 and \$3,571, respectively.

(2) As of December 31, 2019 and 2018, the Group's remaining balance due for construction in progress and prepayments for equipment was \$62,997 and \$102,016, respectively.

(3) The Company entered into a non-cancellable operating lease agreement for the period from June 1, 2011 to February 28, 2018 for the land in Tainan Science Park, and the new lease agreement has been signed in March covering a period from March 1, 2018 to February 28, 2038. The lease period of the lease agreement cannot be over 20 years and is renewable at the end of the lease term. The Company pays monthly rent. If the announced land values, state-owned land rent rate, or other factors change, the monthly rent paid by the Company will be adjusted accordingly on the following month. In addition, the Group entered into operating lease agreement for the office and personal computers in 1~4 years. The Company may have to pay additional rent or get a refund on its last rental payment because of such adjustment. The rent expense of \$39,871 (listed as "operating costs" and "operating expenses") was recognised in profit or loss for the year ended December 31, 2018. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	December 31, 2018
Within one year	\$ 27,704
Later than one year but not exceeding five years	95,325
Later than five years	334,028
	<u>\$ 457,057</u>

(4)The amounts of endorsements and guarantees for subsidiaries were as follows:

	Nature	December 31, 2019	December 31, 2018
SciAnda (Changshu) Pharmaceuticals, Ltd.	Guarantee for financing amount	\$ 2,063,467	\$ 2,499,643

As of December 31, 2019 and 2018, the actual amount drawn down for endorsements and guarantees to subsidiaries was \$144,234 and \$1,178,503, respectively.

10. SIGNIFICANT DISASTER LOSS: None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In order to integrate the Group's resources and improve management efficiency, on November 1, 2019, the Company's Board of Directors has resolved to conduct an organisational restructuring through the short form merger of SciAnda (Changshu) Pharmaceuticals, Ltd. and SciAnda (Kunshan) Biochemical Technology, Ltd., with SciAnda (Changshu) Pharmaceuticals, Ltd. as the surviving company, and SciAnda (Kunshan) Biochemical Technology, Ltd. as the dissolved company. The scheduled completion date is subject to approval by the competent authority.

12. OTHERS

(1) Capital management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, to maintain an optimal capital structure, to reduce the cost of capital and to maintain an adequate capital structure to enable the expansion and enhancement of equipment. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return of capital to shareholders, and issue new shares or sell assets to reduce debts.

(2) Financial instruments

A. Financial instruments

For details of the Group's financial instruments by category, please refer to Note 6.

B. Risk management policies

(a)The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk.

(b)The Group's treasury identifies, evaluates and hedges financial risks closely with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as use of derivative financial instruments and investment of excess liquidity.

(c)Information about derivative financial instruments that are used to hedge financial risk are provided in Note 6(2).

C. Significant financial risks and degrees of financial risks

(a) Market risk

I. Foreign exchange rate risk

- (i) The Group operates internationally and is exposed to foreign exchange risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to USD. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities.
- (ii) To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group are required to hedge their foreign exchange risk exposure using forward foreign exchange contracts. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).
- (iii) The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other subsidiaries' functional currency: CNY). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

	December 31, 2019		
(Foreign currency: functional currency)	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 23,570	29.98	\$ 706,629
EUR:NTD	32	33.59	1,075
CNY:NTD	85	4.305	366
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	2,227	29.98	66,765
EUR:NTD	447	33.59	15,015
CNY:NTD	479	4.305	2,062

	December 31, 2018		
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 28,219	30.715	\$ 866,747
EUR:NTD	50	35.20	1,760
CNY:NTD	102	4.465	455
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	3,764	30.715	115,611
EUR:NTD	84	35.20	2,957
CNY:NTD	505	4.465	2,255

(iv) As of December 31, 2019 and 2018, if the NTD:USD exchange rate appreciates/depreciates by 5% with all other factors remaining constant, the Group's net profit after tax for the years ended December 31, 2019 and 2018 would increase/decrease by \$25,594 and \$30,045, respectively. If the NTD:EUR and NTD:CNY exchange rate appreciates/depreciates by 5% with all other factors remaining constant, the effect on the Group's net profit after tax for the years ended December 31, 2019 and 2018 is immaterial.

(v) Total exchange gain including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the years ended December 31, 2019 and 2018 amounted to \$5,700 and \$8,029, respectively.

II. Price risk

The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio and set stop-loss amounts for these instruments. The Group expects no significant market risk.

III. Cash flow and fair value interest rate risk

(i) The Group's main interest rate risk arises from short-term and long-term borrowings with variable rates and exposes the Group to cash flow interest rate risk. During the years ended December 31, 2019 and 2018, the Group's borrowings at variable rate were denominated in USD and CNY.

(ii) The Group's borrowings are measured at amortised cost. The borrowings are periodically contractually repriced and to that extent are also exposed to the risk of future changes in market interest rates.

(iii) If the borrowing interest rates had increased/decreased by 10% with all other variables held constant, post-tax profit for the years ended December 31, 2019 and 2018 is immaterial.

(b) Credit risk

- I. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- II. The Group manages their credit risk taking into consideration the entire group's concern. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- III. The Group adopts the following assumption under IFRS 9: If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- IV. The Group manages its credit risk, whereby if the contract payments are past due over 180 days based on the terms, there has been impairment.
- V. The Group classifies customers' accounts receivable in accordance with credit rating of customer and credit risk on trade. The Group applies the simplified approach using provision matrix to estimate expected credit loss, and use the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable. Movements in relation to the Group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	For the years ended December 31,	
	2019	2018
At January 1	\$ 45	\$ 130
(Gain on reversal of) expected credit losses	214	(84)
Impact of foreign exchange rate	(1)	(1)
At December 31	<u>\$ 258</u>	<u>\$ 45</u>

(c) Liquidity risk

- I. Cash flow forecasting is performed by the Group's treasury department which monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where

applicable) on any of its borrowing facilities.

II. The Group has undrawn borrowing facilities amounting to \$5,400,333 and \$5,519,200 as of December 31, 2019 and 2018, respectively.

III. The following table comprises the Group's non-derivative financial liabilities and derivative financial liabilities with gross-amount settlement that are grouped by their maturity. Non-derivative financial liabilities are analysed from the balance sheet date to the contract maturity date, and derivative financial liabilities are analysed from the balance sheet date to the expected maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

December 31, 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 90,312	\$ -	\$ -	\$ -
Notes payable	1,353	-	-	-
Accounts payable	101,018	-	-	-
Other payables	333,376	-	-	-
Long-term borrowings	149,342	-	-	-
Leased liabilities	16,112	16,112	48,337	708,937
Guarantee deposits received	-	87	-	-
December 31, 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
Non-derivative financial liabilities:				
Short-term borrowings	\$ 235,348	\$ -	\$ -	\$ -
Notes payable	1,148	-	-	-
Accounts payable	89,393	-	-	-
Other payables	347,319	-	-	-
Long-term borrowings	1,204,844	-	-	-
Guarantee deposits received	-	1,708	-	-

(3) Fair value information

A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks is included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of the Group's investment in foreign exchange contracts is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in equity investment without active market is included in Level 3.

B. Financial instruments not measured at fair value

The carrying amounts of cash and cash equivalents, financial assets at amortised cost - current, notes receivable, accounts receivable, other receivables, guarantee deposits paid, other financial assets - non-current, short-term borrowings, notes payable, accounts payable, other payables, long-term borrowings (including current portion) and guarantee deposits received are approximate to their fair values.

C. The related information of financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

<u>December 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities	\$ -	\$ 2,920	\$ -	\$ 2,920
Financial assets at fair value through other comprehensive income				
Equity securities	\$ 271,752	\$ -	\$ 143,458	\$ 415,210
<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
Derivative instruments	\$ -	\$ 409	\$ -	\$ 409
Financial assets at fair value through other comprehensive income				
Equity securities	\$ 268,071	\$ -	\$ 200,046	\$ 468,117

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as its fair values (that is, Level 1) is listed below by characteristics:

Market quoted price	<u>Listed shares</u> Closing price
---------------------	---------------------------------------

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date.
- (c) When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- (d) Forward foreign exchange contracts are usually valued based on the current forward exchange rate.
- E. Foresee Pharmaceuticals Co., Ltd. has been listed on the Taipei Exchange from June, 2018, therefore, the Company transferred the fair value from Level 2 to Level 1 at the end of the month when the event occurred. For the years ended December 31, 2019 and 2018, there was no transfer between Level 1 and Level 2.
- F. The following chart is the movement of Level 3 for the years ended December 31, 2019 and 2018:

	For the years ended December 31,	
	2019	2018
	Equity instrument	Equity instrument
At January 1	\$ 200,046	\$ -
Effect on retrospective application and restatement	-	242,355
Balance after restatement on January 1	200,046	242,355
Loss gain recognised in other comprehensive income	(56,588)	(42,309)
At December 31	\$ 143,458	\$ 200,046

- G. The Group's valuation procedures for fair value measurements is categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently assess to make any other necessary adjustments to the fair value.
- H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

	Fair value at December 31, 2019	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 143,458	Net asset value	Not applicable	—	The higher the net asset value, the higher the fair value
	Fair value at December 31, 2018	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Non-derivative equity instrument:					
Unlisted shares	\$ 200,046	Net asset value	Not applicable	—	The higher the net asset value, the higher the fair value

- I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. If the net assets value increased or decreased by 1% for Level 3, however, the effect on other comprehensive income for the years ended December 31, 2019 and 2018 is immaterial.

13. SUPPLEMENTARY DISCLOSURES

According to the current regulatory requirements, the Group is only required to disclose the information for the year ended December 31, 2019.

(1) Significant transactions information

- A. Loans to others: Please refer to table 1.
- B. Provision of endorsements and guarantees to others: Please refer to table 2.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 3.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: Please refer to table 4.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 5.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.
- I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Note 6(2).
- J. Significant inter-company transactions during the reporting periods: Please refer to table 6.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 7.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 8.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 2 and table 5.

14. SEGMENT INFORMATION

(1) General information

The management of the Group has identified the operating segments based on how the Company's Chief Operating Decision-Maker regularly reviews information in order to make decisions. The Chief Operating Decision-Maker manages the Group's business from geographical and functional perspectives. Geographically, the Group focuses on its sales business in the U.S., Europe and Asia. In addition, the Group categorized its business units into manufacture, sales, research and development and investment management functions, and combines its segments that meet the disclosure threshold as "Others".

(2) Measurement of segment information

The chief operating decision-maker evaluates the performance of operating segments based on pre-tax income excluding non-recurring income. For details of operating segments' accounting policies, please refer to Note 4.

(3) Segment information

The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

	For the year ended December 31, 2019			
	ScinoPharm	SciAnda (Changshu)		
	Taiwan, Ltd.	Pharmaceuticals Ltd.	Others	Total
Segment revenue	\$ 2,813,047	\$ 418,881	\$ 39,583	\$ 3,271,511
Revenue from internal customers	19,246	339,973	19,509	378,728
Revenue from external customers	2,793,801	78,908	20,074	2,892,783
Interest income	28,541	523	8,912	37,976
Depreciation and amortisation	295,548	113,102	65	408,715
Interest expense	8,532	47,157	-	55,689
Income (loss) from segment before income tax	364,239	(114,613)	14,646	264,272
Segment assets	9,658,129	1,775,266	441,628	11,875,023
Other acquisition of non-current assets	98,957	13,155	319	112,431
Segment liabilities	1,161,394	391,053	1,903	1,554,350

For the year ended December 31, 2018

	ScinoPharm Taiwan, Ltd.	SciAnda (Changshu) Pharmaceuticals Ltd.	Others	Total
Segment revenue	\$ 3,470,109	\$ 259,005	\$ 34,714	\$ 3,763,828
Revenue from internal customers	10,737	201,469	27,359	239,565
Revenue from external customers	3,459,372	57,536	7,355	3,524,263
Interest income	20,677	5,675	6,882	33,234
Depreciation and amortisation	289,601	116,217	3	405,821
Interest expense	4,456	75,713	-	80,169
Income (loss) from segment before income tax	773,883	(276,395)	12,928	510,416
Segment assets	10,429,274	1,976,417	445,674	12,851,365
Other acquisition of non-current assets	104,389	9,749	-	114,138
Segment liabilities	635,790	1,612,949	2,084	2,250,823

(4) Reconciliation for segment

- A. The sales between segments were at arms' length. The external revenues reported to the Chief Operating Decision-Maker adopt the same measurement basis for revenues in statement of comprehensive income. The reconciliations of pre-tax income between reportable segments and continuing operations were as follows:

	For the years ended December 31,	
	2019	2018
Reportable segments profit before income tax	\$ 249,626	\$ 497,488
Other segments income before income tax	14,646	12,928
Internal segments transaction elimination	782	(19,875)
Profit before income tax	<u>\$ 265,054</u>	<u>\$ 490,541</u>

- B. The amount of total assets provided to the Chief Operating Decision-Maker adopts the same measurement for assets in the Group's financial statements. A reconciliation of assets of reportable segments and total assets is as follows:

	December 31, 2019	December 31, 2018
Assets of reportable segments	\$ 11,433,395	\$ 12,405,691
Assets of other operating segments	441,628	445,674
Internal segment transaction elimination	(200,459)	(288,037)
Total assets	<u>\$ 11,674,564</u>	<u>\$ 12,563,328</u>

C. The amount of total liabilities provided to the Chief Operating Decision-Maker adopts the same measurement for liabilities in the Group's financial statements. A reconciliation of liabilities of reportable segments and total liabilities is as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Liabilities of reportable segments	\$ 1,552,447	\$ 2,248,739
Liabilities of other operating segments	1,903	2,084
Internal segment transaction elimination	(139,730)	(226,527)
Total liabilities	<u>\$ 1,414,620</u>	<u>\$ 2,024,296</u>

(5) Information on product and service

The Group is engaged in the research and development and manufacture of API, as well as the provision of related consulting and technical services. The reconciliations of total segment and operating revenue were as follows:

	<u>For the years ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Revenue from sales of products	\$ 2,593,217	\$ 3,332,373
Revenue from sales of injection products	138,202	\$ -
Revenue from technical services	116,760	152,220
Others	44,604	39,670
	<u>\$ 2,892,783</u>	<u>\$ 3,524,263</u>

(6) Geographical information

Geographical information for the years ended December 31, 2019 and 2018 is as follows:

	<u>For the year ended December 31, 2019</u>		<u>For the year ended December 31, 2018</u>	
	<u>Revenue</u>	<u>Non-current assets</u>	<u>Revenue</u>	<u>Non-current assets</u>
Taiwan	\$ 97,475	\$ 3,884,292	\$ 78,775	\$ 3,488,914
USA	568,124	-	1,488,676	-
India	390,446	-	348,813	-
Asia	885,048	1,322,084	367,880	1,470,872
Europe	881,330	-	1,201,155	-
Others	70,360	-	38,964	-
	<u>\$ 2,892,783</u>	<u>\$ 5,206,376</u>	<u>\$ 3,524,263</u>	<u>\$ 4,959,786</u>

(7) Major customer information

Major customer information of the Group for the years ended December 31, 2019 and 2018 is as follows:

	<u>For the year ended December 31, 2019</u>		<u>For the year ended December 31, 2018</u>	
	<u>Revenue</u>	<u>Segment</u>	<u>Revenue</u>	<u>Segment</u>
A	\$ 439,661	ScinoPharm Tawian, Ltd.	\$ 761,592	ScinoPharm Tawian, Ltd.
B	425,794	ScinoPharm Tawian, Ltd.	125,751	ScinoPharm Tawian, Ltd.
C	127,070	ScinoPharm Tawian, Ltd.	381,600	ScinoPharm Tawian, Ltd.
D	<u>3,250</u>	ScinoPharm Tawian, Ltd.	<u>482,593</u>	ScinoPharm Tawian, Ltd.
	<u>\$ 995,775</u>		<u>\$ 1,751,536</u>	

ScinoPharm Taiwan, Ltd. and Subsidiaries

Loans to others

For the year ended December 31, 2019

Table 1

Expressed in thousands of NTD

Number	Name	Name of counterparty	Account	Related parties	Maximum balance	Ending balance	Actual amount drawn down	Interest rate	Nature of financial activity (Note 1)	Total transaction amount	Reason for financing	Allowance for doubtful accounts		Assets pledged		Loan limit per entity (Note 2)	Maximum amount available for loan (Note 2)	Footnote
														Item	Value			
1	SciAnda (Kunshan) Biochemical Technology, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	Other receivables	Y	\$ 275,242	\$ 86,110	\$ 86,110	3.0%	2	\$ -	Additional operating capital and loan repayment	\$ -	-	\$ -	\$ -	\$ 420,121	\$ 420,121	-

Note 1: The code represents the nature of financing activities as follows:

- 1.Trading partner.
- 2.Short-term financing.

Note 2: (1) For trading partner: the maximum amount for individual trading partner shall not exceed the higher of purchase or sales amount of the most recent year or the current year, the maximum amount for total loan is 20% of its net worth.(2) For short-term financing: the maximum amount for individual is 20% of its net worth, the maximum amount for total loan is 40% of its net worth. If the Company loans to foreign subsidiaries, which the Company holds 100% ownership directly or indirectly, the maximum amount for the subsidiary is 100% of the Company's net worth.

Note 3: The numbers in the table that involves foreign currencies are expressed in New Taiwan Dollars according to the exchange rate posted on the date of the consolidated financial statements (CNY:NTD 1:4.305).

ScinoPharm Taiwan, Ltd. and Subsidiaries
Provision of endorsements and guarantees to others
For the year ended December 31, 2019

Table 2

Expressed in thousands of NTD

Number	Endorser/ guarantor	Party being endorsed/guaranteed Company name	Relationship with the endorser/ guarantor (Note 1)	Limit on endorsements/ guarantees provided for a single party (Note 2)	Maximum outstanding endorsement/ guarantee amount during the year	Outstanding endorsement/ guarantee amount at December 31, 2019	Actual amount drawn down	Amount of endorsements/ guarantees secured with collateral	Ratio of	Ceiling on total amount of endorsements/ guarantees provided (Note 2)	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China	Footnote
									accumulated endorsement/ guarantee amount to net asset value of the endorser/ guarantor company					
0	ScinoPharm Taiwan, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	1	\$ 10,259,944	\$ 5,489,008	\$ 2,063,467	\$ 144,234	\$ -	20.11%	\$ 10,259,944	Y	N	Y	—

Note 1: The following code represents the relationship with the Company:

1. A company in which the Company directly and indirectly holds 50% of the voting shares.

Note 2: 1. The limit of total amount of endorsement is 50% of the Company's net worth, for 100% directly or indirectly owned subsidiaries, the maximum amount is 100% of its net worth.

The limit of total amount of the Group's endorsement and guarantee is 100% of the Group's net worth.

2. For any endorsement or guarantee provided by the Company due to business dealings, the amount of endorsement or guarantees shall be limited to the business dealing amount of the most recent year or the current year.

The business dealing amount is product purchase or sale amount between the entities, whichever is higher.

Note 3: The numbers in the table that involves foreign currencies are expressed in New Taiwan Dollars according to the exchange rate posted on the date of the consolidated financial statements (CNY:NTD 1:4.305 ; USD:NTD 1:29.98).

ScinoPharm Taiwan, Ltd. and Subsidiaries

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

December 31, 2019

Table 3

Expressed in thousands of NTD

Securities held by	Marketable securities	Relationship with the securities issuer	General ledger account	As of December 31, 2019				Footnote
				Number of shares	Book value	Ownership (%)	Fair value	
	Stocks:							
ScinoPharm Taiwan, Ltd.	Tanvex Biologics, Inc.	The Company is a director of Tanvex Biologics, Inc.	Financial assets at fair value through other comprehensive income - non-current	28,800,000	\$ 143,458	16.84%	\$ 143,458	—
	Foresee Pharmaceuticals Co., Ltd.	—	Financial assets at fair value through other comprehensive income - non-current	4,661,269	271,752	4.65%	271,752	—
	SYNGEN, INC.	—	Financial assets at fair value through profit or loss - non-current	245,000	-	7.40%	-	—
	Structured Products:							
SciAnda (Kunshan) Biochemical Technology, Ltd.	Fubon Bank (China) Co., Ltd. Structured Products	—	Financial assets at amortised cost - current	-	172,220	-	-	—

ScinoPharm Taiwan, Ltd. and Subsidiaries

Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital

For the year ended December 31, 2019

Table 4

Expressed in thousands of NTD

Investor	Type of securities	General ledger account	Name of the counterparty	Relationship	Beginning balance		Addition		Disposal			Other increase (decrease)		Ending balance		
					Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Sale price	Book value	Gain on disposal	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount
Stocks:																
ScinoPharm Taiwan, Ltd.	SPT International, Ltd.	Investment accounted for under the equity method	Cash capital increase	—	80,525	\$ 745,452	38,000	\$ 1,139,240	-	\$ -	\$ -	\$ -	-	(\$ 121,595)	118,525	\$ 1,763,097
SPT International, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	Investment accounted for under the equity method	Cash capital increase	—	-	363,468	-	1,139,240	-	-	-	-	-	(118,495)	-	1,384,213
Structured Products:																
SciAnda (Kunshan) Biochemical Technology, Ltd.	Fubon Bank (China) Co., Ltd. Structured Products	Financial assets at amortised cost - current	—	—	-	178,615	-	710,890	-	723,754	(717,940)	5,814	-	655	-	172,220

ScinoPharm Taiwan, Ltd. and Subsidiaries

Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more

For the year ended December 31, 2019

Table 5

Expressed in thousands of NTD

Purchaser/seller	Counterparty	Relationship with the counterparty	Transaction				Differences in transaction terms compared to third party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	Percentage of total purchases (sales)	Credit term	Unit price	Credit term	Balance	Percentage of total notes/accounts receivable (payable)	
ScinoPharmTaiwan, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	Subsidiary	Purchases	\$ 335,838	39%	Closes its accounts 90 days from the end of each month	\$ -	-	(\$ 43,725)	(31%)	-
SciAnda (Changshu) Pharmaceuticals, Ltd.	ScinoPharm Taiwan, Ltd.	The Company	(Sales)	(335,838)	(80%)	Closes its accounts 90 days from the end of each month	-	-	43,725	61%	-

ScinoPharm Taiwan, Ltd. and Subsidiaries

Significant inter-company transactions during the reporting period

For the year ended December 31, 2019

Table 6

Expressed in thousands of NTD

Number (Note 2)	Company name	Counterparty	Relationship (Note 3)	Transactions			Percentage of consolidated total operating revenues or total assets (Note 4)
				General ledger account	Amount	Transaction terms	
0	ScinoPharm Taiwan, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	1	Purchases	\$ 335,838	Closes its accounts 90 days from the end of each month	12%
0	ScinoPharm Taiwan, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	1	Accounts payable	43,725	—	—
0	ScinoPharm Taiwan, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	1	Endorsements and guarantees	2,063,467	—	18%
1	SciAnda (Kunshan) Biochemical Technology, Ltd.	SciAnda (Changshu) Pharmaceuticals, Ltd.	3	Other receivables	86,189	—	1%

Note 1: Significant inter-company transactions during the reporting periods are not disclosed since these were corresponding transactions. Only transactions over NT\$10 million are material.

Note 2: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1) Parent company is '0'.

(2) The subsidiaries are numbered in order starting from '1'.

Note 3: Relationship between transaction company and counterparty is classified into the following three categories:

(1) Parent company to subsidiary.

(2) Subsidiary to parent company.

(3) Subsidiary to subsidiary.

Note 4: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 5: The numbers in the table that involves foreign currencies are expressed in New Taiwan Dollars according to the exchange rate posted on the date of the consolidated financial statements (CNY:NTD 1:4.305 ; USD:NTD 1:29.98).

ScinoPharm Taiwan, Ltd. and Subsidiaries

Names, locations and other information of investee companies (not including investees in Mainland China)

For the year ended December 31, 2019

Table 7

Expressed in thousands of NTD

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2019			Net profit (loss) of the investee for the year ended December 31, 2019	Investment income (loss) recognised by the Company for the year ended December 31, 2019	Footnote
				Balance as at December 31, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Book value			
ScinoPharm Taiwan, Ltd.	SPT International, Ltd.	Tortola, British Virgin Islands	Professional investment	\$ 3,553,369	\$ 2,414,129	118,524,644	100.00	\$ 1,763,097	(\$ 118,523)	(\$ 117,741)	Subsidiary
ScinoPharm Taiwan, Ltd.	ScinoPharm Singapore Pte Ltd.	Singapore	Professional investment	-	-	2	100.00	112	16	16	Subsidiary

Note : Initial investment amount in the table that involves foreign currencies are expressed in New Taiwan Dollars according to exchange rate posted on the date of consolidated financial statements (USD: NTD 1:29.98).

ScinoPharm Taiwan, Ltd. and Subsidiaries

Information on investments in Mainland China – Basic information

For the year ended December 31, 2019

Table 8

Expressed in thousands of NTD

Investee in Mainland China	Main business activities	Paid-in capital	Investment method	Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2019	Amount remitted from Taiwan to Mainland China/ Amount remitted back to Taiwan for the year ended December 31, 2019		Accumulated amount of remittance from Taiwan to Mainland China as of December 31, 2019	Net income of investee for the year ended December 31, 2019	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2019 (Note 2)	Book value of investments in Mainland China as of December 31, 2019	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan							
SciAnda (Kunshan) Biochemical Technology, Ltd.	Research, development, and manufacture of API and new drugs, etc.	\$ 119,920	(Note 1)	\$ 111,658	\$ -	\$ -	\$ 111,658	\$ 13,374	100%	\$ 13,374	\$ 420,169	\$ -	Subsidiary
SciAnda (Changshu) Pharmaceuticals, Ltd.	Research, development, and manufacture of API and new drugs, sale produced products, etc.	3,372,750	(Note 1)	2,233,510	1,139,240	-	3,372,750	(130,862)	100%	(130,862)	1,384,213	-	Subsidiary
SciAnda Shanghai Biochemical Technology, Ltd.	Import, export and sales of API and intermediates, etc.	35,976	(Note 1)	35,976	-	-	35,976	(755)	100%	(755)	15,956	-	Subsidiary
<u>Company name</u>	<u>as of December 31, 2019</u>	<u>Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)</u>	<u>Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA (Note 3)</u>										
ScinoPharm Taiwan, Ltd.	\$ 3,557,082	\$ 3,557,082	\$ 6,155,967										

Note 1: Indirect investment in Mainland China through company set up in a third region, SPT International, Ltd.

Note 2: The investment income (loss) recognised by the Company for the year ended December 31, 2019 was based on unreviewed financial statements of investee companies as of and for the year ended December 31, 2019.

Note 3: The ceiling amount is 60% of the higher of net worth or consolidated net worth.

Note 4: The numbers in the table that involves foreign currencies are expressed in New Taiwan Dollars according to the exchange rate posted on the date of the consolidated financial statements (USD:NTD 1:29.98).