Lotus Pharmaceutical Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Nine Months Ended September 30, 2019 and 2018 and Independent Auditors' Review Report

Deloitte.

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INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Lotus Pharmaceutical Co., Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheets of Lotus Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") as of September 30, 2019 and 2018 and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2019 and 2018, the consolidated statements of changes in equity and cash flows for the nine months then ended, and related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as 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 International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in Note 10 to the consolidated financial statements, the financial statements of non-significant subsidiaries included in the consolidated financial statements referred to in the first paragraph were not reviewed. As of September 30, 2019 and 2018, combined total assets of these non-significant subsidiaries were NT$236,275 thousand and NT$180,996 thousand, respectively, representing 1% and 1%, respectively, of the consolidated total assets, and combined total liabilities of these subsidiaries were NT$95,363 thousand and NT$104,976 thousand, respectively, representing 1% and 1%, respectively, of the consolidated total liabilities; for the three months and nine months ended September 30, 2019 and 2018, the amounts of combined comprehensive income (loss) of these subsidiaries were NT$512 thousand, NT$(6,013) thousand, NT$(26,609) thousand and NT$(13,435) thousand, respectively, representing (10%), (5%), (36%) and 61%, respectively, of the consolidated total comprehensive income (loss). In addition, as described in Note 11 to the consolidated financial statements, the investment accounted for using the equity method amounted to NT$8,586 thousand and NT$8,892 thousand as of September 30, 2019 and 2018, respectively, and the share of total comprehensive (loss) income amounted to NT$(120) thousand, NT$(869)

thousand, NT$(449) thousand and NT$140 thousand for the three months and nine months ended September 30, 2019 and 2018, respectively; the information for investees as described in Note 11 to the consolidated financial statements was based on the financial statements that have not also been reviewed.

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and associate that was accounted for using the equity method as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of September 30, 2019 and 2018, its consolidated financial performance for the three months ended September 30, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the nine months ended September 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Shiow-Ming Shue and Chih-Ming Shao.

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 13, 2019

<u>*Notice to Readers*</u>

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2019 (Reviewed) Amount	%	December 31, 2018 (Audited) Amount	%	September 30, 2018 (Reviewed) Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 1,110,661	6	$ 1,023,232	7	$ 1,982,001	13
Contract assets - current (Note 19)	-	-	9,867	-	39,001	-
Notes and trade receivables, net (Notes 8 and 19)	1,070,534	6	1,063,287	7	1,097,526	7
Trade receivables from related parties (Notes 19 and 26)	634,610	4	84,095	1	77,440	1
Other receivables	40,775	-	6,219	-	6,928	-
Other receivables from related parties (Note 26)	97,552	1	36,098	-	46,835	-
Current tax assets	5,733	-	14,332	-	-	-
Inventories (Note 9)	2,156,836	12	1,160,853	8	957,910	6
Other current assets (Note 27)	933,787	5	161,971	1	136,048	1
Total current assets	6,050,488	34	3,559,954	24	4,343,689	28
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income - non-current (Note 7)	460,508	2	-	-	-	-
Investment accounted for by using the equity method (Note 11)	8,586	-	9,035	-	8,892	-
Property, plant and equipment (Notes 12 and 27)	1,786,889	10	1,814,951	12	1,864,450	12
Right-of-use assets (Note 13)	183,248	1	-	-	-	-
Goodwill (Note 15)	5,898,473	33	6,083,453	41	6,091,966	39
Other intangible assets (Note 14)	2,735,730	15	2,185,186	15	2,305,106	14
Deferred tax assets	390,668	2	486,720	3	470,772	3
Other non-current assets (Notes 26 and 27)	537,898	3	714,384	5	586,916	4
Total non-current assets	12,002,000	66	11,293,729	76	11,328,102	72
TOTAL	$ 18,052,488	100	$ 14,853,683	100	$ 15,671,791	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 16)	$ 440,000	2	$ 310,000	2	$ 310,000	2
Contract liabilities - current (Notes 19 and 26)	27,304	-	65,344	-	128,324	1
Notes and trade payables	689,734	4	577,507	4	523,750	3
Trade payables to related parties (Note 26)	981,805	6	150,064	1	14,044	-
Lease liabilities - current (Note 13)	56,284	-	-	-	-	-
Other payables	303,818	2	386,803	3	354,631	2
Other payables to related parties (Note 26)	158,400	1	89,271	1	134,477	1
Current tax liabilities	23,213	-	76,576	-	61,402	1
Provisions - current (Note 22)	43,953	-	50,406	-	57,992	-
Current portion of long-term borrowings (Note 16)	208,719	1	300,000	2	810,396	5
Other current liabilities - others (Note 26)	122,577	1	97,648	1	114,639	1
Total current liabilities	3,055,807	17	2,103,619	14	2,509,655	16
NON-CURRENT LIABILITIES						
Contract liabilities - non-current (Note 19)	101,013	1	106,580	1	93,327	1
Lease liabilities - non-current (Note 13)	130,954	1	-	-	-	-
Provisions - non-current (Note 22)	29,406	-	32,411	-	34,069	-
Long-term borrowings, net of current portion (Note 16)	4,031,603	22	1,461,604	10	1,976,645	13
Deferred tax liabilities	192,208	1	197,211	1	233,969	1
Net defined benefit liabilities (Note 17)	525,797	3	571,156	4	648,420	4
Loan payables to related parties - non-current (Note 26)	2,326,125	13	2,700,068	18	2,542,807	16
Other non-current liabilities	714	-	312	-	438	-
Total non-current liabilities	7,337,820	41	5,069,342	34	5,529,675	35
Total liabilities	10,393,627	58	7,172,961	48	8,039,330	51
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY						
Share capital (Note 18)	2,431,140	13	2,382,007	16	2,382,007	15
Capital surplus (Note 18)	6,588,034	37	6,020,558	41	6,020,558	38
Accumulated deficits	(712,216)	(4)	(995,135)	(7)	(1,025,383)	(6)
Other equity	(650,105)	(4)	(181,735)	(1)	(171,922)	(1)
Total equity attributable to owners of the Company	7,656,853	42	7,225,695	49	7,205,260	46
NON-CONTROLLING INTERESTS (Note 18)	2,008	-	455,027	3	427,201	3
Total equity	7,658,861	42	7,680,722	52	7,632,461	49
TOTAL	$ 18,052,488	100	$ 14,853,683	100	$ 15,671,791	100

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

(With Deloitte & Touche review report dated November 13, 2019)

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
NET OPERATING REVENUE (Notes 19 and 26)	$ 1,969,931	100	$ 1,581,233	100	$ 6,046,466	100	$ 4,706,299	100
OPERATING COSTS (Notes 9, 20 and 26)	938,727	48	765,335	48	2,972,709	49	2,424,236	51
GROSS PROFIT	1,031,204	52	815,898	52	3,073,757	51	2,282,063	49
OPERATING EXPENSES (Notes 20 and 26)								
Selling and marketing expenses	406,372	20	384,115	24	1,303,515	22	1,188,836	25
General and administrative expenses	197,876	10	174,733	11	559,650	9	505,927	11
Research and development expenses	135,298	7	75,751	5	346,713	6	236,998	5
Total operating expenses	739,546	37	634,599	40	2,209,878	37	1,931,761	41
INCOME FROM OPERATIONS	291,658	15	181,299	12	863,879	14	350,302	8
NON-OPERATING INCOME AND EXPENSES								
Other income (Notes 20 and 26)	2,904	-	3,916	-	8,942	-	20,743	-
Other gains and losses (Note 20)	20,242	1	8,531	-	54,996	1	(16,148)	-
Finance costs (Notes 20 and 26)	(90,736)	(5)	(69,820)	(4)	(242,795)	(4)	(222,292)	(5)
Share of profits or losses of associate (Note 11)	(120)	-	(869)	-	(449)	-	140	-
Total non-operating expenses, net	(67,710)	(4)	(58,242)	(4)	(179,306)	(3)	(217,557)	(5)
INCOME BEFORE INCOME TAX	223,948	11	123,057	8	684,573	11	132,745	3
INCOME TAX EXPENSE (Note 21)	(23,930)	(1)	(48,038)	(3)	(145,535)	(2)	(81,541)	(2)
NET INCOME FOR THE PERIOD	200,018	10	75,019	5	539,038	9	51,204	1
OTHER COMPREHENSIVE INCOME (LOSS), NET								
Items that will not be reclassified subsequently to profit or loss:								
Remeasurement of defined benefit plans	-	-	-	-	20,516	-	(6,596)	-
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(24,811)	(1)	-	-	(177,630)	(3)	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	-	(4,514)	-	1,845	-

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LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	$ (180,131)	(9)	$ 48,130	3	$ (303,670)	(5)	$ (67,827)	(1)
Income tax relating to items that may be reclassified subsequently to profit or loss	-	-	-	-	-	-	(586)	-
Other comprehensive income for the period, net of income tax	(204,942)	(10)	48,130	3	(465,298)	(8)	(73,164)	(1)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ (4,924)	-	$ 123,149	8	$ 73,740	1	$ (21,960)	-
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Company	$ 199,602	10	$ 67,381	4	$ 523,485	9	$ 27,383	1
Non-controlling interests	416	-	7,638	1	15,553	-	23,821	-
	$ 200,018	10	$ 75,019	5	$ 539,038	9	$ 51,204	1
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:								
Owners of the Company	$ (5,292)	-	$ 111,669	7	$ 71,117	1	$ (40,639)	(1)
Non-controlling interests	368	-	11,480	1	2,623	-	18,679	1
	$ (4,924)	-	$ 123,149	8	$ 73,740	1	$ (21,960)	-
EARNINGS PER SHARE (Note 23)								
Basic	$ 0.82		$ 0.28		$ 2.17		$ 0.11	

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

(With Deloitte & Touche review report dated November 13, 2019) (Concluded)

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company										
	Share Capital - Ordinary Shares				Other Equity						
	Shares (Thousand)	Amounts	Capital Surplus	Accumulated Deficits	Unrealized Gain on Available-for-sale Financial Assets	Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income	Exchange Differences on Translating Foreign Operations	Treasury Shares	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2018	238,492	$ 2,384,917	$ 6,020,558	$ (1,026,890)	$ (995)	$ -	$ (108,793)	$ (22,888)	$ 7,245,909	$ 408,522	$ 7,654,431
Effect of retrospective application	-	-	-	(1,005)	995	-	-	-	(10)	-	(10)
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	238,492	2,384,917	6,020,558	(1,027,895)	-	-	(108,793)	(22,888)	7,245,899	408,522	7,654,421
Net income for the nine months ended September 30, 2018	-	-	-	27,383	-	-	-	-	27,383	23,821	51,204
Other comprehensive loss for the nine months ended September 30, 2018, net of income tax	-	-	-	(4,893)	-	-	(63,129)	-	(68,022)	(5,142)	(73,164)
Total comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	22,490	-	-	(63,129)	-	(40,639)	18,679	(21,960)
Cancelation of treasury shares	(291)	(2,910)	-	(19,978)	-	-	-	22,888	-	-	-
BALANCE AT SEPTEMBER 30, 2018	238,201	$ 2,382,007	$ 6,020,558	$ (1,025,383)	$ -	$ -	$ (171,922)	$ -	$ 7,205,260	$ 427,201	$ 7,632,461
BALANCE AT JANUARY 1, 2019	238,201	$ 2,382,007	$ 6,020,558	$ (995,135)	$ -	$ -	$ (181,735)	$ -	$ 7,225,695	$ 455,027	$ 7,680,722
Net income for the nine months ended September 30, 2019	-	-	-	523,485	-	-	-	-	523,485	15,553	539,038
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of income tax	-	-	-	16,002	-	(177,630)	(290,740)	-	(452,368)	(12,930)	(465,298)
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	539,487	-	(177,630)	(290,740)	-	71,117	2,623	73,740
Issuance of ordinary shares for cash	4,913	49,133	567,476	-	-	-	-	-	616,609	-	616,609
Acquisition of non-controlling interests	-	-	-	(256,568)	-	-	-	-	(256,568)	(455,642)	(712,210)
BALANCE AT SEPTEMBER 30, 2019	243,114	$ 2,431,140	$ 6,588,034	$ (712,216)	$ -	$ (177,630)	$ (472,475)	$ -	$ 7,656,853	$ 2,008	$ 7,658,861

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

(With Deloitte & Touche review report dated November 13, 2019)

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 684,573	$ 132,745
Adjustments for:		
Expected credit loss reversed on trade receivables	(733)	(1,696)
Depreciation expenses	191,164	139,571
Amortization expenses	238,430	158,180
Write-down of inventories	53,524	91,944
Impairment loss on intangible assets	13,019	6,539
Loss on disposal of property, plant and equipment	2,878	1,207
Loss on disposal of intangible assets	-	109
Interest income	(6,180)	(10,120)
Finance costs	242,795	222,292
Share of loss (gain) of associate	449	(140)
Unrealized foreign exchange loss	9,158	14,847
Changes in operating assets and liabilities		
Contract assets	9,867	81,600
Notes and trade receivables	(51,956)	(41,759)
Trade receivables from related parties	(674,133)	2,335
Other receivables	(35,700)	(5,032)
Other receivables from related parties	(64,754)	173,063
Inventories	(1,096,086)	(120,756)
Other current assets	(231,941)	(36,339)
Other non-current assets	-	(4)
Contract liabilities	(37,247)	(7,973)
Notes and trade payables	143,477	123,492
Trade payables to related parties	958,900	4,770
Other payables	(80,780)	(83,685)
Other payables to related parties	92,937	19,497
Net defined benefit liabilities	5,263	130,003
Provisions	(5,022)	(18,596)
Other current liabilities - others	29,714	932
Cash generated from operations	391,616	977,026
Interest received	8,941	7,772
Interest paid	(241,467)	(151,758)
Income tax paid	(104,356)	(171,227)
Net cash generated from operating activities	54,734	661,813

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LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	$ (616,498)	$ -
Purchase of property, plant and equipment	(167,742)	(142,423)
Proceeds from disposal of property, plant and equipment	2,252	501
Purchase of intangible assets (including capitalized development expenses)	(556,000)	(191,070)
Proceeds from disposal of intangible assets	-	4,976
Decrease in refundable deposits	5,155	25,271
Increase in other current assets	(568,811)	-
Increase in other non-current assets	(170,338)	(3,826)
Net cash used in investing activities	(2,071,982)	(306,571)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	150,000	50,000
Repayments of short-term borrowings	(20,000)	-
Proceeds from long-term borrowings	3,007,683	-
Repayments of long-term borrowings	(400,000)	(1,825,331)
Increase in guarantee deposits received	402	126
Net (decrease) increase from loan payables to related parties	(434,329)	1,721,560
Decrease in lease payables	-	(2)
Repayments of the principal portion of lease liabilities	(51,544)	-
Proceeds from issuance of ordinary shares	616,609	-
Acquisition of non-controlling interests	(712,210)	-
Net cash generated from (used in) financing activities	2,156,611	(53,647)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(51,934)	(93,766)
NET INCREASE IN CASH AND CASH EQUIVALENTS	87,429	207,829
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,023,232	1,774,172
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 1,110,661	$ 1,982,001

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

(With Deloitte & Touche review report dated November 13, 2019) (Concluded)

1. GENERAL INFORMATION

Lotus Pharmaceutical Co., Ltd. (the "Company") was incorporated in the Republic of China (ROC) on June 30, 1966. The Company's shares started to be traded on the Taipei Exchange on January 29, 2010.

The Company completed a stock swap with its investor, Alvogen Emerging Markets Holdings Limited ("Alvogen EMH", formerly "Alvogen Asia Pacific Holdings Limited"), in which the Company privately placed its newly issued 151,100,000 shares and acquired on August 11, 2014 equity in some subsidiaries of Alvogen EMH (collectively, the "legal subsidiaries"), as follows: 100% of Alvogen Korea Holdings Ltd. ("Alvogen Korea Holdings", formerly "Alvogen Korea Ltd.") and its subsidiary, Alvogen Korea Co., Ltd. ("Alvogen Korea", formerly "Kunwha Pharmaceutical Co., Ltd."); 98% of Alvogen Pharma India Pvt Ltd. and its subsidiary, Norwich Clinical Services Private Limited; and 100% of Taiwan Alvogen Ltd. This was a reverse acquisition; thus, the consolidated financial statements prepared following this reverse acquisition have been issued in the name of the legal parent (the Company) and presented as a continuation of the financial statements of the legal subsidiaries (Alvogen Korea Holdings and its subsidiary, Alvogen Pharma India Pvt Ltd. and its subsidiary, and Taiwan Alvogen Ltd.). In addition, the Company also acquired two high-value abbreviated new drug application (ANDA) filings for Buprenorphine/Naloxone and Budesonide from the Alvogen Group. Further, the Company acquired distribution rights from the Alvogen Group to sell some monoclonal antibody molecules to Asian markets, excluding Japan.

The consolidated financial statements comprise the Company and its subsidiaries as described in Note 10 (hereinafter referred to collectively as "the Group").

The Group is engaged mainly in the pharmaceutical research and development, manufacturing and sales of medicine, and drug consulting services.

The consolidated financial statements are presented in the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on November 13, 2019.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group's accounting policies:

- IFRS 16"Leases"

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets are measured at an amount equal to the lease liabilities. The Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.

4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 5.05%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	$ 225,254
Less: Recognition exemption for short-term leases	(1,398)
Less: Recognition exemption for leases of low-value assets	(158)
Undiscounted amounts on January 1, 2019	$ 223,698
Discounted amounts using the incremental borrowing rate on January 1, 2019	$ 167,960
Add: Adjustments as a result of a different treatment of extension and termination options	17,090
Lease liabilities recognized on January 1, 2019	$ 185,050

The impact on assets and liabilities as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	**Adjustments Arising from Initial Application**	**Restated on January 1, 2019**
Right-of-use assets	$ -	$ 185,050	$ 185,050
Total effect on assets	$ -	$ 185,050	$ 185,050
Lease liabilities - current	$ -	$ 58,803	$ 58,803
Lease liabilities - non-current	-	126,247	126,247
Total effect on liabilities	$ -	$ 185,050	$ 185,050

b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	**Effective Date Announced by IASB**
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 2)

Note 1: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020
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

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation

See Note 10 for the detailed information of subsidiaries (including the percentage of ownership and main business).

d. Other significant accounting policies

Except for the following, please refer to the significant accounting policies summary of the consolidated financial statements for the year ended December 31, 2018.

1) Lease

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments and in-substance fixed payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

2) Employee benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

3) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistently with the accounting for the transaction itself which gives rise to the tax consequence, and this is recognized in profit or loss and other comprehensive income (loss).

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2018.

6. CASH AND CASH EQUIVALENTS

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	$ 424	$ 396	$ 421
Bank deposits	1,110,237	1,022,836	1,981,580
	$ 1,110,661	$ 1,023,232	$ 1,982,001

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON CURRENT

Investments in equity instruments

	September 30, 2019
Non-current	
Foreign investments	
Listed shares - Fuji Pharma Co., Ltd.	$ 460,508

Management elected to measure this investment at FVTOCI as recognizing short-term fluctuation in the investee's share prices in profit or loss would not be consistent with management's intention to hold this investment for medium to long-term strategic purpose.

8. NOTES AND TRADE RECEIVABLES, NET

	September 30, 2019	December 31, 2018	September 30, 2018
Notes receivable			
Notes receivable - operating	$ 30,778	$ 27,189	$ 31,122
Trade receivables			
At amortized cost			
Gross carrying amount	1,057,168	1,054,853	1,087,977
Less: Allowance for impairment loss	(17,412)	(18,755)	(21,573)
	1,039,756	1,036,098	1,066,404
	$ 1,070,534	$ 1,063,287	$ 1,097,526

The average credit period of sales of goods was 30 to 120 days. No interest was charged on trade receivables. In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk was significantly reduced.

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The expected credit losses on trade receivables are estimated by reference to past default experience of the debtor and an analysis of the debtor's current financial position and the collaterals. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished according to the Group's different customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of notes and trade receivables based on the Group's provision matrix.

September 30, 2019

	Gross Carrying Amount	Loss Allowance (Lifetime ECL)	Amortized Cost
Less than 60 days	$ 960,785	$ (7,688)	$ 953,097
61-90 days	57,813	(742)	57,071
91-120 days	29,907	(699)	29,208
121-150 days	7,779	(301)	7,478
151-180 days	6,041	(501)	5,540
181-360 days	17,494	(2,195)	15,299
More than 360 days	8,127	(5,286)	2,841
	$ 1,087,946	$ (17,412)	$ 1,070,534

December 31, 2018

	Gross Carrying Amount	Loss Allowance (Lifetime ECL)	Amortized Cost
Less than 60 days	$ 946,736	$ (3,898)	$ 942,838
61-90 days	62,003	(320)	61,683
91-120 days	28,608	(1,099)	27,509
121-150 days	9,168	(690)	8,478
151-180 days	7,416	(293)	7,123
181-360 days	16,921	(3,577)	13,344
More than 360 days	11,190	(8,878)	2,312
	$ 1,082,042	$ (18,755)	$ 1,063,287

September 30, 2018

	Gross Carrying Amount	Loss Allowance (Lifetime ECL)	Amortized Cost
Less than 60 days	$ 964,157	$ (4,096)	$ 960,061
61-90 days	84,229	(465)	83,764
91-120 days	30,913	(2,437)	28,476
121-150 days	10,046	(372)	9,674
151-180 days	4,881	(176)	4,705
181-360 days	12,538	(3,705)	8,833
More than 360 days	12,335	(10,322)	2,013
	$ 1,119,099	$ (21,573)	$ 1,097,526

The movements of the loss allowance of notes and trade receivables were as follows:

	For the Nine Months Ended September 30	
	2019	2018
Balance at January 1	$ 18,755	$ 23,475
Amounts written off	(24)	-
Reversal of impairment loss recognized	(733)	(1,696)
Foreign exchange gains and losses	(586)	(206)
Balance at September 30	$ 17,412	$ 21,573

9. INVENTORIES

	September 30, 2019	December 31, 2018	September 30, 2018
Merchandise	$ 1,422,937	$ 206,392	$ 207,124
Raw materials and supplies	192,693	182,685	200,924
Work in progress	178,295	170,664	188,832
Finished goods	300,299	389,426	304,554
Inventory in transit	62,612	211,686	56,476
	$ 2,156,836	$ 1,160,853	$ 957,910

Write-down of inventories to net realizable value at the amount of $24,863 thousand, $12,922 thousand, $53,524 thousand and $91,944 thousand for the three months and nine months ended September 30, 2019 and 2018, respectively, were included in the cost of goods sold.

10. SUBSIDIARIES

Details of the Group's subsidiaries included in the consolidated financial statements were as follows:

			% of Ownership			
Investor	Investee	Main Businesses	September 30, 2019	December 31, 2018	September 30, 2018	Remark
Lotus Pharmaceutical Co., Ltd.	Alvogen Korea Holdings Ltd. ("Alvogen Korea Holdings")	Investment business	100	100	100	
	Alvogen Pharma India Pvt Ltd.	Investment business	98	98	98	
	Taiwan Alvogen Ltd.	Sale of medicine	100	100	100	
	Lotus International Pte. Ltd.	Investment business	100	100	100	
	Lotus Lab, Ltd. (dissolved on October 15, 2019)	Data collection and agency affairs in Europe	100	100	100	
	Lotus Pharmaceutical, HK Ltd.	Data collection and agent services in Hong Kong	100	100	100	
	Lotus Jonson Biotech Limited	Cosmetics wholesale, medicine retail, clinical machine retail, international trade industry, biotech technological services, and related consulting services	100	100	100	
	Lotus Japan Holdings Co., Ltd.	Sale of medicine, clinical machine retail	100	-	-	Note a.
Alvogen Korea Holdings Ltd.	Alvogen Korea Co., Ltd. ("Alvogen Korea")	Manufactures and sells medicines	100	92	91	Note b.
Alvogen Pharma India Pvt Ltd.	Norwich Clinical Services Private Limited	Contract research organization	100	100	100	
Lotus Pharmaceutical, HK Ltd.	Lotus Pharmaceutical (Shanghai) Health Management Consulting Limited	Consulting on health management, trade information, marketing planning, and business information	100	100	100	

a. Lotus Japan Holdings Co., Ltd. was established during the first quarter of 2019.

b. On February 15, 2019, the Company's board of directors approved Alvogen Korea Holdings to acquire shares from the minority shareholders and Alvogen Korea Holdings bought all the remaining minority shares during the second quarter of 2019. Alvogen Korea was delisted from the Korea Exchange on May 20, 2019. As of September 30, 2019, the percentage of ownership was 100%.

The consolidated financial statements of Alvogen Korea Holdings were reviewed by the auditors, and the remains were the non-significant subsidiaries which were not reviewed. As of September 30, 2019 and 2018, combined total assets of these non-significant subsidiaries were $236,275 thousand and $180,996 thousand, respectively, representing 1% and 1%, respectively, of the consolidated total assets, and combined total liabilities of these subsidiaries were $95,363 thousand and $104,976 thousand, respectively, representing 1% and 1%, respectively, of the consolidated total liabilities; for the three months and nine months ended September 30, 2019 and 2018, the amounts of combined comprehensive income (loss) of these subsidiaries were $512 thousand, $(6,013) thousand, $(26,609) thousand and $(13,435) thousand, respectively, representing (10%), (5%), (36%) and 61% respectively, of the consolidated total comprehensive income (loss).

11. INVESTMENT ACCOUNTED FOR BY USING THE EQUITY METHOD

Investment in an Associate

	September 30, 2019	December 31, 2018	September 30, 2018
Associate that is not individually material			
Heng Kang Bio Medi Co., Ltd.	$ 8,586	$ 9,035	$ 8,892

The summarized financial information of the Group's associate is set out below:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
The Group's share of				
Net (loss) income for the period	$ (120)	$ (869)	$ (449)	$ 140
Total comprehensive (loss) income for the period	$ (120)	$ (869)	$ (449)	$ 140

The investment accounted for by using equity method amounted to $8,586 thousand and $8,892 thousand as of September 30, 2019 and 2018, respectively; the share of total comprehensive (loss) income amounted to $(120) thousand, $(869) thousand, $(449) thousand and $140 thousand for the three months and nine months ended September 30, 2019 and 2018, respectively, were calculated and disclosed on the basis of financial statements that have not been reviewed.

12. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings, and Plant Equipment	Machinery	Experiment Equipment	Miscellaneous Equipment	Construction in Progress	Leasehold Improvements	Total
Cost								
Balance at January 1, 2018	$ 716,280	$ 965,253	$ 889,529	$ 97,933	$ 114,741	$ 135,825	$ 93,555	$ 3,013,116
Additions	-	863	14,743	4,504	58,369	60,264	3,680	142,423
Disposals	-	-	(25,038)	(7)	(2,156)	-	(825)	(28,026)
Reclassification	-	1,952	7,450	5,779	10,211	(35,128)	857	(8,879)
Effect of foreign currency exchange differences	(4,758)	(6,765)	(10,793)	-	(2,912)	(5)	(3,879)	(29,112)
Balance at September 30, 2018	$ 711,522	$ 961,303	$ 875,891	$ 108,209	$ 178,253	$ 160,956	$ 93,388	$ 3,089,522
Accumulated depreciation and impairment								
Balance at January 1, 2018	$ -	$ 394,363	$ 541,077	$ 54,853	$ 66,319	$ -	$ 71,363	$ 1,127,975
Depreciation	-	37,299	55,514	12,131	24,065	-	10,562	139,571
Disposals	-	-	(23,877)	(7)	(1,651)	-	(783)	(26,318)
Effect of foreign currency exchange differences	-	(3,235)	(7,687)	-	(2,218)	-	(3,016)	(16,156)
Balance at September 30, 2018	$ -	$ 428,427	$ 565,027	$ 66,977	$ 86,515	$ -	$ 78,126	$ 1,225,072
Carrying amounts at January 1, 2018	$ 716,280	$ 570,890	$ 348,452	$ 43,080	$ 48,422	$ 135,825	$ 22,192	$ 1,885,141
Carrying amounts at September 30, 2018	$ 711,522	$ 532,876	$ 310,864	$ 41,232	$ 91,738	$ 160,956	$ 15,262	$ 1,864,450
Cost								
Balance at January 1, 2019	$ 710,458	$ 998,078	$ 914,728	$ 113,495	$ 124,098	$ 125,342	$ 96,999	$ 3,083,198
Additions	-	2,594	10,468	538	7,917	144,948	1,277	167,742
Disposals	-	(400)	(20,521)	(334)	(9,210)	-	(9,453)	(39,918)
Reclassification	-	8,524	89,367	242	7,582	(108,436)	-	(2,721)
Effect of foreign currency exchange differences	(23,121)	(33,143)	(34,671)	-	(3,369)	(1,759)	(2,787)	(98,850)
Balance at September 30, 2019	$ 687,337	$ 975,653	$ 959,371	$ 113,941	$ 127,018	$ 160,095	$ 86,036	$ 3,109,451
Accumulated depreciation and impairment								
Balance at January 1, 2019	$ -	$ 440,498	$ 594,162	$ 71,521	$ 82,242	$ -	$ 79,824	$ 1,268,247
Depreciation	-	38,950	62,283	13,682	15,166	-	4,902	134,983
Disposals	-	(257)	(18,002)	(334)	(8,564)	-	(7,631)	(34,788)
Effect of foreign currency exchange differences	-	(17,661)	(23,627)	-	(2,177)	-	(2,415)	(45,880)
Balance at September 30, 2019	$ -	$ 461,530	$ 614,816	$ 84,869	$ 86,667	$ -	$ 74,680	$ 1,322,562
Carrying amounts at January 1, 2019	$ 710,458	$ 557,580	$ 320,566	$ 41,974	$ 41,856	$ 125,342	$ 17,175	$ 1,814,951
Carrying amounts at September 30, 2019	$ 687,337	$ 514,123	$ 344,555	$ 29,072	$ 40,351	$ 160,095	$ 11,356	$ 1,786,889

Property, plant and equipment are depreciated on a straight-line basis over the useful lives of the assets, estimated as follows:

Buildings and plant equipment	
Main building	30-50 years
Firefighting, air-conditioning and other systems	3-27 years
Plant equipment	1-36 years
Machinery	2-17 years
Experiment equipment	2-6 years
Miscellaneous equipment	3-8 years
Leasehold improvements	1-7 years

Refer to Note 27 for the carrying amounts of property, plant and equipment pledged by the Group to secure borrowings of the Group.

13. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	September 30, 2019
Carrying amounts	
Buildings	$ 173,971
Office equipment	2,232
Transportation equipment	7,045
	$ 183,248
Additions to right-of-use assets	$ 60,108

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Depreciation charge for right-of-use assets		
Buildings	$ 14,685	$ 52,232
Office equipment	114	342
Transportation equipment	1,257	3,607
	$ 16,056	$ 56,181

b. Lease liabilities - 2019

	September 30, 2019
Carrying amounts	
Current	$ 56,284
Non-current	$ 130,954

Range of discount rate for lease liabilities was as follows:

	September 30, 2019
Buildings	2%-10.85%
Office equipment	2%
Transportation equipment	2%-4.5%

c. Other lease information

2018

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	December 31, 2018	September 30, 2018
Not later than 1 year	$ 57,289	$ 56,356
Later than 1 year and not later than 5 years	162,929	155,587
Later than 5 years	5,036	11,894
	$ 225,254	$ 223,837

14. OTHER INTANGIBLE ASSETS

	Product Use Rights	Patent	Brand	In-process R&D	Capitalization of Development Expenses	Others	Total
Cost							
Balance at January 1, 2018	$ 1,254,112	$ 154,440	$ 786,898	$ 375,724	$ 823,379	$ 137,434	$ 3,531,987
Additions	3,286	-	-	-	88,819	18,467	110,572
Disposals and write-offs	-	-	-	-	-	(7,887)	(7,887)
Reclassification	-	-	-	-	(1,099)	8,879	7,780
Effect of foreign currency exchange differences	(11,037)	(1,740)	(8,865)	(4,233)	(6,944)	(3,759)	(36,578)
Balance at September 30, 2018	$ 1,246,361	$ 152,700	$ 778,033	$ 371,491	$ 904,155	$ 153,134	$ 3,605,874
Accumulated amortization and impairment							
Balance at January 1, 2018	$ 277,913	$ 55,158	$ 315,604	$ 218,255	$ 181,308	$ 104,538	$ 1,152,776
Amortization	102,246	8,163	-	9,896	30,648	7,227	158,180
Impairment loss	-	-	-	-	6,539	-	6,539
Disposals and write-offs	-	-	-	-	-	(2,802)	(2,802)
Effect of foreign currency exchange differences	(1,799)	(605)	(3,555)	(2,439)	(2,374)	(3,153)	(13,925)
Balance at September 30, 2018	$ 378,360	$ 62,716	$ 312,049	$ 225,712	$ 216,121	$ 105,810	$ 1,300,768
Carrying amounts at January 1, 2018	$ 976,199	$ 99,282	$ 471,294	$ 157,469	$ 642,071	$ 32,896	$ 2,379,211
Carrying amounts at September 30, 2018	$ 868,001	$ 89,984	$ 465,984	$ 145,779	$ 688,034	$ 47,324	$ 2,305,106
Cost							
Balance at January 1, 2019	$ 1,243,883	$ 152,311	$ 776,050	$ 370,544	$ 965,078	$ 154,200	$ 3,662,066
Additions	275,500	-	-	-	184,438	3,383	463,321
Reclassification and transfer	456,252	-	-	-	-	(23,168)	433,084
Effect of foreign currency exchange differences	(62,715)	(8,455)	(43,081)	(20,570)	(27,342)	(4,990)	(167,153)
Balance at September 30, 2019	$ 1,912,920	$ 143,856	$ 732,969	$ 349,974	$ 1,122,174	$ 129,425	$ 4,391,318
Accumulated amortization and impairment							
Balance at January 1, 2019	$ 411,821	$ 65,277	$ 434,083	$ 228,433	$ 227,931	$ 109,335	$ 1,476,880
Amortization	154,674	7,963	-	9,653	60,177	5,963	238,430
Impairment loss	-	-	-	-	13,019	-	13,019
Reclassification and transfer	8,310	-	-	-	-	(8,310)	-
Effect of foreign currency exchange differences	(18,471)	(3,880)	(24,097)	(12,992)	(9,195)	(4,106)	(72,741)
Balance at September 30, 2019	$ 556,334	$ 69,360	$ 409,986	$ 225,094	$ 291,932	$ 102,882	$ 1,655,588
Carrying amounts at January 1, 2019	$ 832,062	$ 87,034	$ 341,967	$ 142,111	$ 737,147	$ 44,865	$ 2,185,186
Carrying amounts at September 30, 2019	$ 1,356,586	$ 74,496	$ 322,983	$ 124,880	$ 830,242	$ 26,543	$ 2,735,730

The Group carried out a review of the recoverable amount of certain capitalized development expenses and determined that the recoverable amount was lower than the related carrying amount, as a result, impairment loss of $13,019 thousand and $6,539 thousand were recognized for the nine months ended September 30, 2019 and 2018, respectively. The impairment loss was included in the research and development expenses.

Other intangible assets are amortized on a straight-line basis over the useful lives of the assets, estimated as follows:

Product use rights	3-10 years
Patent	10 years
In-process R&D	15 years
Capitalization of development expenses	5-7 years
Others	1-6 years

15. GOODWILL

	For the Nine Months Ended September 30	
	2019	**2018**
Cost		
Balance as of January 1	$ 6,157,453	$ 6,204,032
Effect of foreign currency exchange differences	(184,980)	(38,066)
Balance as of September 30	$ 5,972,473	$ 6,165,966
Accumulated impairment		
Balance as of January 1 and September 30	$ 74,000	$ 74,000
Carrying amounts at January 1	$ 6,083,453	$ 6,130,032
Carrying amounts at September 30	$ 5,898,473	$ 6,091,966

The Company had a stock swap with its investor, Alvogen EMH (Note 1), in which the Company privately placed its newly issued 151,100,000 shares on August 11, 2014 to acquire equity in some subsidiaries of Alvogen Group. Goodwill resulted from this reverse acquisition.

On December 19, 2014, Alvogen Korea acquired a 100% ownership interest in Dream Pharmaceutical Co., Ltd. ("Dream Pharma"), a spin-off subsidiary of Hanwha Chemical Corporation. Dream Pharma was merged with Alvogen Korea in June 2015. Goodwill was generated from this share acquisition.

The allocation of goodwill to a cash-generating unit as of September 30, 2019, December 31, 2018 and September 30, 2018 was as follows:

	September 30, 2019	**December 31, 2018**	**September 30, 2018**
Pharmaceutical developing and manufacturing business	$ 5,898,473	$ 6,083,453	$ 6,091,966

The recoverable amount of the Group's pharmaceutical developing and manufacturing business was calculated by applying an appropriate discount rates to future cash flows estimated on the basis of financial budgets approved by management for a certain target period.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount of the pharmaceutical manufacturing division is based would not significantly cause this division's carrying amount to exceed its recoverable amount.

16. BORROWINGS

a. Short-term borrowings

	September 30, 2019	December 31, 2018	September 30, 2018
Unsecured borrowings			
Line of credit borrowings - bank loans	$ 440,000	$ 310,000	$ 310,000
Interest interval	1.50%-1.84%	1.60%-1.84%	1.60%-1.84%

b. Long-term borrowings

	September 30, 2019	December 31, 2018	September 30, 2018
Secured borrowings (Note 27)			
Bank loans	$ 1,530,876	$ 730,802	$ 1,221,171
Loans from other financial institutions	1,530,876	730,802	1,265,870
Unsecured borrowings			
Bank loans	1,178,570	300,000	300,000
	4,240,322	1,761,604	2,787,041
Less: Current portion matured within a year	(208,719)	(300,000)	(810,396)
	$ 4,031,603	$ 1,461,604	$ 1,976,645
Bank loans			
Maturity period	February 2021-December 2021	April 2019-December 2021	April 2019-March 2020
Interest interval	2.98%-5.37%	2.00%-5.15%	2.00%-4.95%
Loans from other financial institutions			
Maturity period	December 2021	December 2021	March 2020
Interest interval	4.87%-5.37%	4.65%-5.15%	4.50%-4.95%

As described in Note 27, bank demand deposits, 11,814,261 shares of Alvogen Korea's common share and property, plant and equipment had been pledged as collaterals.

17. RETIREMENT BENEFIT PLANS

Employee benefit expenses in respect of the Group's defined benefit retirement plans were $33,938 thousand, $37,402 thousand, $110,550 thousand and $192,537 thousand for the three months and nine months ended September 30, 2019 and 2018, respectively, and were calculated using the actuarially determined pension cost rate as of December 31, 2018 and 2017.

18. EQUITY

a. Share capital

Ordinary shares

	September 30, 2019	December 31, 2018	September 30, 2018
Number of shares authorized (in thousands)	300,000	300,000	300,000
Amount of shares authorized	$ 3,000,000	$ 3,000,000	$ 3,000,000
Number of shares issued and fully paid (in thousands)	243,114	238,201	238,201
Amount of shares issued	$ 2,431,140	$ 2,382,007	$ 2,382,007

Fully paid ordinary shares, which have a par value of $10, carry one vote per share and carry a right to dividends. In June 2018, the Company cancelled 291 thousand treasury shares.

On March 19, 2019, the Company's board of directors resolved to issue 4,913 thousand ordinary shares through private placement at $125.5 per share in premium with a par value of $10; the Company's issued ordinary share capital after the private placement was $2,431,140 thousand.

The above transaction was approved by FSC, and the record date was set at April 1, 2019.

b. Capital surplus

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Company has no deficit, this capital surplus may be distributed as cash dividends or transferred once a year to capital within a certain percentage of the Company's paid-in capital.

The capital surplus from long-term investments accounted for using the equity method may not be used for any purpose.

Capital surplus as of September 30, 2019, December 31, 2018 and September 30, 2018 consisted of the following:

	September 30, 2019	December 31, 2018	September 30, 2018
Shares issued in excess of par			
Issuance of ordinary shares	$ 567,476	$ -	$ -
Arising from adjustment of reverse acquisition (Note 1)	4,464,123	4,464,123	4,464,123
Arising from treasury share transactions	16,805	16,805	16,805
Arising from conversion of bonds	1,268,876	1,268,876	1,268,876
Arising from donation from its shareholder (Note 2)	270,754	270,754	270,754
	$ 6,588,034	$ 6,020,558	$ 6,020,558

Note 1: The balance was the sum of legal capital and capital surplus, amounting to $3,164,409 thousand of the legal subsidiaries in the reverse acquisition immediate before the acquisition; a consideration transferred of the reverse acquisition of $3,563,075 thousand (exclusive of the fair value of the conversion right of convertible bonds) on August 11, 2014. For the adjustment from purchase price allocation report during the measurement period, the Group decreased the consideration transferred by $8,439 thousand and the legal capital of the Company, amounting to $2,254,922 thousand. The capital surplus from reverse acquisition amounted to $4,464,123 thousand.

Note 2: The Company acquired the creditor's right payable to Alvogen Group through reverse combination with Alvogen Pharma India Pvt Ltd. and Taiwan Alvogen Ltd., which amounted to US$6,094 thousand and US$2,522 thousand, respectively (in the aggregate of $270,754 thousand at the date of acquisition), and the transactions were regarded as the donation from its shareholders, which was debited to other receivables and credited to capital surplus - donation from its shareholders. The Company's board of directors in March 2016 approved to transfer the other receivables of $75,242 thousand from Taiwan Alvogen Ltd. to its equity investment through debt-to-equity swap of Taiwan Alvogen Ltd.

c. Retained earnings and dividend policy

Under the dividend policy as set forth in the Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous year, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors (including independent directors), please refer to employee benefits expense in Note 20, e.

In allocating dividends from distributable earnings, the Company takes into consideration its future capital demand, long-term financial planning, the cash inflow demand of the shareholders, plans for corporate growth, and the operating environment. In their meeting, shareholders may adjust the board of directors' proposed form and percentage of appropriations depending on the Company's actual profit and capital situation.

Legal reserve should be appropriated from earnings until the legal reserve equals the Company's paid-in capital. Legal reserve may be used to offset deficit. If the Company has no deficit and the legal reserve exceeds 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

d. Non-controlling interests

	For the Nine Months Ended September 30	
	2019	**2018**
Balance at January 1	$ 455,027	$ 408,522
Attributable to non-controlling interests:		
Share of profit for the period	15,553	23,821
Exchange differences on translating foreign operations	(12,930)	(4,699)
Remeasurement on defined benefit plans	-	(443)
Acquisition of non-controlling interests without a change in control	(455,642)	-
Balance at September 30	$ 2,008	$ 427,201

On April 7, 2017 and November 2, 2017, the board of directors of Alvogen Korea resolved to buy back its shares from the Korean stock market. During the year of 2017, the Group acquired 1,156,112 shares in Alvogen Korea for $920,884 thousand in cash, increasing its ownership from 82% to 91%. The Group recognized a decrease in non-controlling interests of $575,527 thousand, a decrease in capital surplus of $133,347 thousand and an increase in accumulated deficit of $212,010 thousand for the year ended December 31, 2017.

On December 7, 2018, the board of directors of Alvogen Korea Holdings approved to acquire 1,156,112 shares of Alvogen Korea in cash, the transaction was eliminated in the consolidated financial statement, and increased its ownership from 91% to 92%. The Group recognized increase in non-controlling interests and in accumulated deficit with amount $29,263 thousand for the year ended December 31, 2018.

	December 31, 2018
Carrying amount of non-controlling interests acquired	$ 29,263
Decrease in equity attributable to owners of the Company	$ (29,263)

On February 15, 2019, the Company's board of directors approved the Company's subsidiary, Alvogen Korea Holdings, to acquire shares in Alvogen Korea held by minority shareholders at a cash consideration of WON29 thousand per share on April 25, 2019. After the acquisition, Alvogen Korea became 100% owned subsidiary of Alvogen Korea Holding and was delisted from Korea Exchange in May 2019. The Group recognized a decrease in non-controlling interests of $455,642 thousand and an increase in accumulated deficit with amount $256,568 thousand for the nine months ended September 30, 2019.

19. NET OPERATING REVENUE

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Revenue from contracts with customers				
Revenue from the sale of goods	$ 1,723,714	$ 1,507,026	$ 5,467,933	$ 4,511,399
Revenue from the rendering of services	71,218	35,870	152,218	123,569
Revenue from the sale or out-licensing of IP rights	74,684	2,381	192,542	(20,012)
Revenue from R&D and others	100,315	35,956	233,773	91,343
	$ 1,969,931	$ 1,581,233	$ 6,046,466	$ 4,706,299

a. Contract balances

	September 30, 2019	December 31, 2018	September 30, 2018
Notes and trade receivables, net (Notes 8 and 26)	$ 1,705,144	$ 1,147,382	$ 1,174,966
Contract assets - current	$ -	$ 9,867	$ 39,001
Contract liabilities - current	$ 27,304	$ 65,344	$ 128,324
Contract liabilities - non-current	$ 101,013	$ 106,580	$ 93,327

b. Disaggregation of revenue

	Reportable Segments		
	Drug Manufacturing Department	Others	Total
For the nine months ended September 30, 2019			
Type of goods or services			
Sale of goods	$ 5,467,933	$ -	$ 5,467,933
Rendering of services	2,239	149,979	152,218
Sale or out-licensing of IP rights	192,542	-	192,542
R&D and others	233,773	-	233,773
	$ 5,896,487	$ 149,979	$ 6,046,466
For the nine months ended September 30, 2018			
Type of goods or services			
Sale of goods	$ 4,511,399	$ -	$ 4,511,399
Rendering of services	3,269	120,300	123,569
Sale or out-licensing of IP rights	(20,012)	-	(20,012)
R&D and others	91,343	-	91,343
	$ 4,585,999	$ 120,300	$ 4,706,299

20. NET INCOME (LOSS)

Net income (loss) contains following items:

a. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest income	$ 2,303	$ 3,243	$ 6,180	$ 10,120
Others	601	673	2,762	10,623
	$ 2,904	$ 3,916	$ 8,942	$ 20,743

b. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Net foreign exchange gain (loss)	$ 24,011	$ 4,381	$ 41,127	$ (11,200)
Gain (loss) on disposal of property, plant and equipment	(762)	173	(2,878)	(1,207)
Loss on disposal of intangible assets	-	-	-	(109)
Others	(3,007)	3,977	16,747	(3,632)
	$ 20,242	$ 8,531	$ 54,996	$ (16,148)

c. Finance costs

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Interest expenses				
Loans	$ 88,469	$ 69,776	$ 235,831	$ 222,145
Interest on lease liabilities	2,199	-	6,762	-
Others	68	44	202	147
	$ 90,736	$ 69,820	$ 242,795	$ 222,292

d. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Depreciation				
Property, plant and equipment	$ 45,236	$ 46,519	$ 134,983	$ 139,571
Right-of-use assets	16,056	-	56,181	-
	61,292	46,519	191,164	139,571
Amortization: Intangible assets	84,593	53,240	238,430	158,180
	$ 145,885	$ 99,759	$ 429,594	$ 297,751
An analysis of depreciation by function				
Operating costs	$ 33,666	$ 29,036	$ 99,261	$ 87,240
Operating expenses	27,525	16,979	91,432	50,828
Capitalization of development expenses	101	504	471	1,503
	$ 61,292	$ 46,519	$ 191,164	$ 139,571

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
An analysis of amortization by function				
Operating costs	$ 403	$ 404	$ 1,210	$ 734
Selling and marketing expenses	13,657	327	32,085	982
General and administrative expenses	40,499	34,406	121,575	102,368
Research and development expenses	30,034	18,103	83,560	54,096
	$ 84,593	$ 53,240	$ 238,430	$ 158,180

(Concluded)

e. Employee benefit expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term benefits	$ 406,672	$ 432,170	$ 1,291,424	$ 1,268,959
Post-employment benefits				
Defined contribution plans	3,689	3,481	10,471	10,212
Defined benefit plans	33,938	37,402	110,550	192,537
Early retirement benefits	2,023	-	123,828	-
Other employee benefits	4,044	1,080	5,380	9,765
Total employee benefits expense	$ 450,366	$ 474,133	$ 1,541,653	$ 1,481,473
An analysis of employee benefit expense by function				
Operating costs	$ 144,127	$ 146,715	$ 433,628	$ 444,213
Operating expenses	306,239	327,418	1,108,025	1,037,260
	$ 450,366	$ 474,133	$ 1,541,653	$ 1,481,473

The Company accrued employees' compensation and remuneration to directors shall be calculated based on income before income tax and before deducting employees' compensation and remuneration to directors, at a rate of no less than 1% as employees' compensation and no higher than 10% as remuneration to directors. For the three months and nine months ended September 30, 2019 and 2018, due to accumulated deficits, accruals for employees' compensation and remuneration to directors were $0.

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

Information on the employees' compensation and remuneration to directors resolved by the Company's board of directors in 2019 and 2018 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

21. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Current tax				
Current year	$ 25,193	$ 51,188	$ 74,901	$ 139,271
Adjustment for prior periods	(13,029)	-	(13,029)	-
	12,164	51,188	61,872	139,271
Deferred tax				
Current year	11,766	(3,150)	84,162	(29,460)
Adjustment for prior periods	-	-	(499)	(10,154)
Adjustment for prior periods attributable to changes in tax rates and laws	-	-	-	(18,116)
	11,766	(3,150)	83,663	(57,730)
Income tax expense recognized in profit or loss	$ 23,930	$ 48,038	$ 145,535	$ 81,541

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income/expense to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

The applicable tax rate used by subsidiaries in Korea and India are 22% and 31%-35%, respectively.

b. Income tax assessments

The Company's tax returns through 2015 and undistributed earnings through 2014 have been assessed by the tax authorities.

22. PROVISIONS

	September 30, 2019		December 31, 2018		September 30, 2018	
	Current	Non-current	Current	Non-current	Current	Non-current
Provision for employee benefit obligations	$ -	$ 18,793	$ -	$ 16,842	$ -	$ 17,901
Provisions for estimated return of goods	43,953	-	50,406	-	57,992	-
Provision for restoration	-	10,613	-	15,569	-	10,900
Provision for others	-	-	-	-	-	5,268
	$ 43,953	$ 29,406	$ 50,406	$ 32,411	$ 57,992	$ 34,069

23. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Basic earnings per share	$ 0.82	$ 0.28	$ 2.17	$ 0.11

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net Income for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Profit for the period attributable to owners of the Company	$199,602	$ 67,381	$523,485	$ 27,383

Weighted Average Number of Ordinary Shares Outstanding (In Thousand Shares)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Weighted average number of ordinary shares in the computation of basic earnings per share	243,114	238,201	241,494	238,201

There was no potential share with dilutive effect issued by the Company during the nine months ended September 30, 2019 and 2018.

24. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to stockholders through the optimization of the debt and equity balance.

As for the strategy of the Group's capital structure management, the Group sets its suitable market share according to its industry scale, the growth of the industry and the blueprint of the product development. The Group estimates the required capacity, the equipment and related capital expenditure to be used. Then the Group calculates working capitals and cash on the basis of the industry character to support a complete plan for its long-term development. Finally, the Group estimates not only the possible contribution margin, operating profit ratio and cash flows according to the product competitiveness but also risk factors such as the fluctuation of the business circle and the life circle of the product to decide the suitable capital structure. The management inspects capital structures periodically and considers the possible costs and risks taken by different capital structures.

25. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments measured at fair value on a recurring basis

- Fair value hierarchy

September 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets at FVTOCI				
Investments in equity instruments				
Foreign listed shares	$ 460,508	$ -	$ -	$ 460,508

There were no transfers between Levels 1 and 2 in the current period.

b. Categories of financial instruments

	September 30, 2019	December 31, 2018	September 30, 2018
Financial assets			
Financial assets at amortized cost (Note 1)	$ 2,955,767	$ 2,214,662	$ 3,212,465
Financial assets at FVTOCI			
Equity instruments	460,508	-	-
Financial liabilities			
Measured at amortized cost (Note 2)	9,140,204	5,975,317	6,666,750

Note 1: The balance includes cash and cash equivalents, notes and trade receivables, trade receivables from related parties, other receivables, other receivables from related parties, and other non-current assets etc., which are carried at amortized cost.

Note 2: The balance includes short-term borrowings, notes and trade payables, trade payables to related parties, other payables, other payables to related parties, current portion of long-term borrowings, long-term borrowings, and loan payables to related parties-non-current etc., which are carried at amortized cost.

c. Financial risk management objectives and policies

The Group's major financial instruments include financial assets at amortized cost, equity instrument, short-term borrowings, notes and trade payables, other payables, current portion of long-term borrowings, long-term borrowings, lease liabilities and loan payables to related parties-non-current.

The Group's corporate treasury function provides services relevant to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports, which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

To lower financial risks, the Group seeks to identify and evaluate what negative influence each risk will have on the financial performance. Each material financial activity has been reviewed by the board of directors following the related rules and internal control systems.

1) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below) and interest rates (see (b) below).

a) Foreign currency risk

The Group has assets and liabilities not recorded in the same functional currency as that of the Company; thus, it is exposed to risks due to exchange rate fluctuation.

To manage risks within an acceptable level, the Group uses nature hedge against its currency risk. The Group monitors and evaluates the movements of exchange rates and the weakness or strength of a currency's performance in line with natural hedging.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency with the Group entity at the end of the reporting period are shown in Note 29.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar.

The following table shows the Group's sensitivity to a 5% increase and decrease in New Taiwan dollars (the functional currency of the Company) against the relevant foreign currencies. A 5% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and was adjusted at the end of the reporting period for a 5% change in foreign currency rates. The number in the table indicates in pretax profit associated with the 5% appreciation of the New Taiwan dollar against the relevant currency.

	Currency USD Impact	
	For the Nine Months Ended September 30	
	2019	**2018**
Profit (loss)	$ 146,279	$ 40,884

The above profit or loss are mainly from the receivables, payables and bank deposits calculated by USD, which are outstanding and not being hedged to cash flows risk at balance sheet date.

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Fair value interest rate risk			
Financial liabilities	$ 287,238	$ -	$ -
Cash flow interest rate risk			
Financial assets	1,110,237	1,022,836	1,981,580
Financial liabilities	6,906,447	4,771,672	5,639,848

Sensitivity analysis

The sensitivity analyses were determined on the basis of the Group's exposure to interest rate changes for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period had been outstanding for the whole year.

Had interest rates been five basis points higher/lower and all other variables were held constant, the Group's pretax profits would have decreased/increased by $2,174 thousand and $1,372 thousand for the nine months ended September 30, 2019 and 2018, respectively.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. As of the end of the reporting period, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group because of the counterparties' failure to discharge their obligations, could arise from the carrying amount of the financial assets recognized in the balance sheets.

The Group has a policy to have transactions only with reputable counterparties, and it will continue monitoring the exposure to credit risk and the creditworthiness of the counterparty.

The Group did not have a significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. That is, the concentration of credit risk to a non-related counterparty did not exceed 10% of accounts receivable at any time for the nine months ended September 30, 2019 and 2018.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of cash flow fluctuations. In addition, management monitors how bank borrowings are used and ensures compliance with loan covenants. The Group has adequate capital and working capital to cover all of its contract obligations; thus, it does not have liquidity risk on meeting its obligations.

The following table shows the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed-upon repayment periods. The tables had been drawn up on the basis of the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay. The tables included both interest and principal cash flows.

September 30, 2019

	On Demand or Less than 3 Months	3 Months to 1 Year	1-5 Years	5-10 Years
Non-derivative financial liabilities				
Lease liabilities	$ 22,159	$ 41,089	$ 138,520	$ 3,500
Variable interest rate liabilities	100,000	448,719	6,357,728	-
Fixed interest rate liabilities	-	100,000	-	-
	$ 122,159	$ 589,808	$ 6,496,248	$ 3,500

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years
Lease liabilities	$ 63,248	$ 138,520	$ 3,500

December 31, 2018

	On Demand or Less than 3 Months	3 Months to 1 Year	1-5 Years
Non-derivative financial liabilities			
Variable interest rate liabilities	$ 160,000	$ 450,000	$ 4,161,672

September 30, 2018

	On Demand or Less than 3 Months	3 Months to 1 Year	1-5 Years
Non-derivative financial liabilities			
Variable interest rate liabilities	$ 260,000	$ 860,396	$ 4,519,452

26. TRANSACTIONS WITH RELATED PARTIES

The Company's parent company is Alvogen EMH, which held 62% of the Company's ordinary shares as of September 30, 2019. The Company's intermediate holding company is Alvogen Lux Holdings SARL. Ultimate holding company of the Company is Celtic Holdings S.C.A. Other related parties are the subsidiaries in which the ultimate parent has direct or indirect control and associates.

Balances and transactions between the Company and its subsidiaries which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and other related parties are disclosed below.

Related parties and their relationships with the Company were as follows:

Related Party Name	Relationships
Alvogen Lux Holdings S.A.R.L. ("Alvogen Lux")	Intermediate holding company
Alvogen Emerging Markets Holdings Limited ("Alvogen EMH")	Parent company
Alvogen Inc.	Other related parties
Alvogen IPCo S.A.R.L.	Other related parties
Alvogen Pine Brook Inc.	Other related parties
Norwich Pharmaceutical Inc.	Other related parties
Alvogen Malta Group Services Limited	Other related parties
Alvogen Malta Operations (ROW) Limited ("AMOROW")	Other related parties
Alvogen Malta Operations Asia Limited	Other related parties
Alvogen Malta Operations Ltd.	Other related parties
Alvogen Malta (Out-Licensing) Ltd.	Other related parties
Alvogen Development Ltd.	Other related parties
Alvogen Iceland ehf.	Other related parties
Labormed Pharma S.A.	Other related parties
Alvogen CEE Kft.	Other related parties
Aramis Pharma Kft.	Other related parties
Alvogen PB Research & Development LLC. ("Alvogen PB R&D")	Other related parties
Alvogen Pharma Trading Europe EOOD	Other related parties
Alvogen Group Inc.	Other related parties

a. Operating transactions

		For the Three Months Ended September 30		For the Nine Months Ended September 30	
Items	Related Party Name	2019	2018	2019	2018
Sale of goods and services	Alvogen Inc.	$ 293,262	$ 5,672	$1,092,371	$ 17,952
	Other related parties	111,396	21,036	212,785	81,072
		$ 404,658	$ 26,708	$1,305,156	$ 99,024
Purchase of goods	Alvogen Malta Operations Ltd.	$ 38,978	$ -	$1,390,322	$ -
	AMOROW	-	12,083	-	67,484
	Norwich Pharmaceutical Inc.	-	-	-	17,811
	Other related parties	25,311	-	71,523	-
		$ 64,289	$ 12,083	$1,461,845	$ 85,295

b. Other transactions

Items	Related Party Name	For the Three Months Ended September 30 2019	For the Three Months Ended September 30 2018	For the Nine Months Ended September 30 2019	For the Nine Months Ended September 30 2018
Capitalization of development expense	Alvogen PB R&D	$ 1,722	$ 5,161	$ 4,431	$ 6,086
Operating expense	Other related parties	$ 17,659	$ 2,390	$ 27,564	$ 7,332
Other income	Other related parties	$ -	$ (6)	$ 521	$ 8,285
Interest expense	Alvogen EMH	$ 33,276	$ 19,136	$ 79,898	$ 22,250
	Aramis Pharma Kft.	-	8,747	20,194	24,130
		$ 33,276	$ 27,883	$ 100,092	$ 46,380
Purchase of intangible assets (Note 1)	AMOROW	$ 35,738	$ -	$ 188,891	$ -
Promotion income recognized as offset to operating expense	Alvogen EMH	$ -	$ -	$ -	$ (8,130)
Reimbursable income for developments costs recognized as an offset to research and development expense (Note 2)	Alvogen PB R&D	$ (28,324)	$ (225)	$ (62,676)	$ (83,625)

Note 1: (i) On January 26, 2019, Alvogen Korea Holdings entered into an agreement with AMOROW to acquire all the rights, title, interests, benefits and obligations of product marketed under the brand name Aclasta® in Thailand, for a total consideration of US$5 million (NT$153,153 thousand). (ii) In the third quarter of 2019, Alvogen Korea paid AMOROW US$1,183 thousand (NT$35,738 thousand) pursuant to an assignment agreement to transfer all the rights, title, interests, benefits and obligations of product marketed under the brand name Qsymia® in South Korea. After the assignment, Alvogen Korea assumed performance of such rights and obligations to pay, milestone and royalty payments to Vivus Inc. under the License and Commercialization Agreement.

Note 2: The Company entered into a co-development and commercialization agreement with Alvogen PB R&D with respect to several products developed and manufactured by the Company for commercialization by Alvogen PB R&D in the U.S. Pursuant to the agreement, Alvogen PB R&D agreed to bear 50% of the development costs incurred by the Company.

Transactions with related parties were entered into at prices and on terms that were not materially different from those with third parties unless otherwise agreed.

c. Receivables from related parties

Items	Related Party Name/Categories	September 30, 2019	December 31, 2018	September 30, 2018
1) Trade receivables	Alvogen Inc.	$ 504,726	$ 4,260	$ 3,745
	Other related parties	129,884	79,835	73,695
		$ 634,610	$ 84,095	$ 77,440
2) Other receivables	Alvogen PB R&D	$ 62,733	$ -	$ 30,597
	Alvogen Malta Group Services Limited	25,011	31,558	14,254
	Other related parties	9,808	4,540	1,984
		$ 97,552	$ 36,098	$ 46,835

Trade receivables from related parties are unsecured. For the nine months ended September 30, 2019 and 2018, no impairment loss was recognized on the trade receivables from related parties.

d. Other non-current assets

In May 2014, the Company's subsidiary, Alvogen Korea Holdings Ltd., made a prepayment pursuant to a Purchase and Sale Agreement entered into with a related party in the Alvogen Group, to have all rights, title and interest in and to two high-value ANDA filings for Buprenorphine/Naloxone and Budesonide in the United States to be transferred to the subsidiary upon receiving the FDA's final approval. This was recorded in other non-current assets at the seller's book value. During the first quarter of year 2018, the Company's board of directors approved the arrangement to have its subsidiary to exercise the right to request for the refund of purchase price pursuant to the Purchase and Sale Agreement and at the same time the Company obtained a right to purchase. In April 2018, the Company's subsidiary received refund in the amount of US$56,302 thousand in accordance with the terms in the Purchase and Sale Agreement and in the same month, the Company exercised the right to purchase the two ANDA for the same amount received by the subsidiary. As of September 30, 2019, the legal fees related to ANDA filings for two products with amount US$3,197 thousand. Buprenorphine/Naloxone was approved by FDA in the United States in January 2019. In February 2019, the Company launched Buprenorphine/Naloxone in the market and transfer related cost of rights from other non-current assets into intangible assets - product use rights. For the nine months ended September 30, 2019, sales from the product Buprenorphine/Naloxone amounted to NT$1,074,982 thousand.

e. Payables to related parties

Items	Related Party Name/Categories	September 30, 2019	December 31, 2018	September 30, 2018
1) Trade payables	Alvogen Malta Operations Ltd.	$ 944,846	$ 123,068	$ -
	AMOROW	-	2,537	14,044
	Other related parties	36,959	24,459	-
		$ 981,805	$ 150,064	$ 14,044

Items	Related Party Name/Categories	September 30, 2019	December 31, 2018	September 30, 2018
2) Other payables - current	Norwich Pharmaceutical Inc.	$ 9,670	$ 15,573	$ 17,241
	Alvogen EMH	20,372	42,921	22,173
	Aramis Pharma Kft.	-	9,085	8,714
	AMOROW	-	7,544	11,072
	Alvogen Group Inc.	99,153	-	-
	Other related parties	29,205	14,148	75,277
		$ 158,400	$ 89,271	$ 134,477
3) Loan payables - non-current	Aramis Pharma Kft.	$ -	$ 978,480	$ 824,175
	Alvogen EMH	2,326,125	1,721,588	1,718,632
		$ 2,326,125	$ 2,700,068	$ 2,542,807

Loan payable to Alvogen EMH comprised a five-year US$56.4 million (NT$1,741,745 thousand) unsecured loan facility entered into in April 2018. The loan facility is charged at the market rate which is similar to the rate that the related party borrowed from the market, and on terms that would not be materially different from those with third parties.

Loan payable to Aramis Pharma Kft. comprised a five-year US$65 million (NT$2,007,330 thousand) secured revolving loan facility entered into in May 2017, which was novated from Alvogen CEE Kft. in August 2017. After the novation, Aramis Pharma Kft. discharged Alvogen CEE Kft. from all the liabilities and obligations under the revolving loan agreement in substitution for Alvogen CEE Kft. On May 28, 2019, Aramis Pharma Kft. entered into assignment agreements to transfer loan obligation to Alvogen EMH. Pursuant to the Agreement, Alvogen EMH discharged Aramis Pharma Kft. From all the liabilities and obligations under the agreement. The loan facility is charged at the market rate and on terms would not be materially different from those with third parties.

Both the foregoing loan payables to Alvogen EMH were repaid in full during the third quarter of 2019.

On July 29, 2019, the Company entered into a 3-year US$115 million (NT$3,576,270 thousand) secured intercompany loan agreement with Alvogen EMH in conjunction with the new credit facility entered into by Alvogen EMH and BNP Paribas, whereby the Company is a joint and several guarantor providing assets, including real properties in Taiwan, shares in 100% owned subsidiary Alvogen Korea Holdings, and the intellectual property rights related to Buprenorphine/Naloxone, as collateral up to US$90 million (NT$2,791,350 thousand), as further described in Note 27. This loan facility can be jointly used by either the Company, or Alvogen EMH. The loan facility is charged at the market rate which is similar to the rate that the related party borrowed from the market, and on terms that would not be materially different from those with third parties.

Details of the loans from related parties were as follows:

	For the Nine Months Ended September 30, 2019				
Related Party Name	Maximum Balance	Ending Balance	Interest	Interest Expense	Interest Payable
Alvogen EMH	$ 2,326,125 (US$ 75,000)	$ 2,326,125 (US$ 75,000)	5.5% (Note 1)	$ 20,372	$ 20,372
Alvogen EMH	$ 3,228,049 (US$ 103,802)	$ -	4.1% - 4.3% (Note 2)	$ 59,526	$ -

Related Party Name	For the Year Ended December 31, 2018 Maximum Balance	Ending Balance	Interest	Interest Expense	Interest Payable
Alvogen EMH	$ 1,721,588 (US$ 56,302)	$ 1,721,588 (US$ 56,302)	4.8% (Note 3)	$ 41,798	$ 41,551
Aramis Pharma Kft.	$ 978,480 (US$ 32,000)	$ 978,480 (US$ 32,000)	4.6% (Note 4)	$ 33,312	$ 9,085

Related Party Name	For the Nine Months Ended September 30, 2018 Maximum Balance	Ending Balance	Interest	Interest Expense	Interest Payable
Alvogen EMH	$ 1,721,560 (US$ 56,302)	$ 1,718,632 (US$ 56,302)	4.4% (Note 3)	$ 22,250	$ 22,173
Aramis Pharma Kft.	$ 825,578 (US$ 27,000)	$ 824,175 (US$ 27,000)	4.2% (Note 4)	$ 24,130	$ 8,714

Note 1: The interest rate is 3.25% + three-month USD LIBOR.

Note 2: The interest rate is 1.8% - 2% + three-month USD LIBOR.

Note 3: The interest rate is 2% + three-month USD LIBOR.

Note 4: The interest rate is 1.8% + three-month USD LIBOR.

f. Contract liabilities - current

Related Party Category/Name	September 30, 2019	December 31, 2018	September 30, 2018
Norwich Pharmaceutical Inc.	$ -	$ 37,266	$ 61,050

g. Compensation of key management personnel

Items	For the Three Months Ended September 30 2019	2018	For the Nine Months Ended September 30 2019	2018
Salaries and other employee benefits	$ 7,930	$ 5,490	$ 33,336	$ 19,666
Post-employment benefits	2,810	-	2,810	-
	$ 10,740	$ 5,490	$ 36,146	$ 19,666

The remuneration of key executives was determined by the remuneration committee on the basis of the performance of individuals and market trends.

27. ASSETS PLEDGED AS COLLATERALS OR FOR SECURITY

As described in Note 26(e), real properties in Taiwan, shares in 100% owned subsidiary Alvogen Korea Holdings, and the intellectual property rights related to Buprenorphine/Naloxone, are pledged as collateral up to US$90 million (NT$2,791,350 thousand) for a US$115 million (NT$3,576,270 thousand) related party loan from Alvogen EMH. As of September 30, 2019, property, plant and equipment pledged under this loan facility included land amounted to $293,959 thousand and buildings and plant equipment amounted to $257,168 thousand.

The following assets and 11,814,261 shares of Alvogen Korea were pledged as collaterals for other borrowings:

	September 30, 2019	December 31, 2018	September 30, 2018
Bank demand deposits (classified as other current assets)	$ 550,495	$ -	$ -
Bank demand deposits (classified as other non-current assets)	410,274	272,903	146,696
Property, plant and equipment			
Land	-	293,959	709,890
Buildings and plant equipment	-	269,777	528,551
Machinery	-	-	122,249
	$ 960,769	$ 836,639	$ 1,507,386

28. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of September 30, 2019 were as follows:

a. The Company had entered into agreements to buy machines and building plants and equipment for $407,522 thousand, and it committed to pay $311,913 thousand as of September 30, 2019.

b. The Company had entered into clinical trials collaborative agreements, which required the Company to pay $100,675 thousand, with $20,135 thousand payable within one year and the remaining $80,540 thousand payables in installments based on the progress of clinical trials as of September 30, 2019.

c. The Company had entered into drug development collaborative agreements, which required the Company to pay $6,375 thousand as of September 30, 2019.

d. As of September 30, 2019, the Company was involved in the following lawsuits:

Plaintiff	Defendant	Cause of Action	Status
Indivior Inc., Indivior UK Ltd., Aquestive Therapeutics Inc.	Alvogen Pine Brook LLC (refer to Note 1 below)	Buprenorphine/Naloxone patent infringement	The judgment of the first trial was in favor of the defendant, second trial is ongoing; refer to Note 2 below.

Note 1: The Company is the owner of the intellectual property rights to the product in the United States. The Company appointed Alvogen Pine Brook LLC as its agent and attorney-in-fact with respect to the litigation in the United States concerning the product.

Note 2: On March 22, 2018, the court found the defendant did not infringe the plaintiffs' patents and issued a decision in favor of the defendant. The plaintiffs filed an appeal of that court's decision, and a decision was entered in defendant's favor on July 12, 2019. The second trial on separate patents is ongoing. The plaintiffs have not yet asserted any damages. Management does not anticipate such legal proceedings to have any material impact on the Group's business, financial condition and results of operations.

e. As of September 30, 2019, the Group's subsidiaries in Korea had the following commitments:

Significant Commitment	Contract Amount (In Thousand of Korea Won/U.S. Dollars)	Financial Institution
Letter of credit	US$ 1,500 (NT$ 46,523)	Woori Bank
Turnover loan for general fund	₩ 8,000,000 (NT$ 207,024)	Woori Bank
Turnover loan for general fund	₩ 2,000,000 (NT$ 51,756)	KEB Hana Bank
Court deposit guarantee insurance	₩ 841,350 (NT$21,772)	Seoul Guarantee Insurance

29. EXCHANGE RATES FOR FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the group entities and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant financial assets and liabilities denominated in foreign currencies were as follows:

Unit: Thousands of New Taiwan Dollars and Others

September 30, 2019

	Foreign Currencies	Exchange Rate (Functional Currency)	Carrying Amount
Financial assets			
Monetary items			
USD	$ 29,023	1,198.52 (USD:WON)	$ 900,169
USD	2,794	70.43 (USD:RUP)	86,645
USD	29,496	31.02 (USD:NTD)	914,818
EUR	717	77.11 (EUR:RUP)	24,357
EUR	5,213	33.96 (EUR:NTD)	176,993
JPY	2,226,490	0.29 (JPY:NTD)	638,502
Financial liabilities			
Monetary items			
USD	1,136	1,198.52 (USD:WON)	35,241
USD	493	70.43 (USD:RUP)	15,296
USD	154,011	31.02 (USD:NTD)	4,776,667
EUR	820	1,312.13 (EUR:WON)	27,834

December 31, 2018

	Foreign Currencies	Exchange Rate (Functional Currency)	Carrying Amount
Financial assets			
Monetary items			
USD	$ 5,627	1,116.00 (USD:WON)	$ 172,060
USD	3,080	69.95 (USD:RUP)	94,194
USD	61,575	30.58 (USD:NTD)	1,882,820
EUR	415	34.97 (EUR:NTD)	40,766
Financial liabilities			
Monetary items			
USD	3,188	1,116.00 (USD:WON)	97,488
USD	2,061	69.95 (USD:RUP)	63,009
USD	96,891	30.58 (USD:NTD)	2,962,675
EUR	497	1,276.37 (EUR:WON)	17,388

September 30, 2018

	Foreign Currencies	Exchange Rate (Functional Currency)	Carrying Amount
Financial assets			
Monetary items			
USD	$ 3,962	1,111.27 (USD:WON)	$ 120,955
USD	2,965	72.52 (USD:RUP)	90,503
USD	61,293	30.53 (USD:NTD)	1,870,975
Financial liabilities			
Monetary items			
USD	1,719	1,111.27 (USD:WON)	52,486
USD	2,830	72.52 (USD:RUP)	86,390
USD	90,458	30.53 (USD:NTD)	2,761,240

30. OPERATING SEGMENT INFORMATION

a. The only reportable segment of the Group is the generic drug business segment, which engages mainly in the research and development, manufacturing and sales of medicine. The Group has other operating segments engage mainly in the research, design and the provision of clinical trial and technical services, which did not meet the quantitative thresholds for reportable segment.

   The segment income or loss was mainly measured by operating income or loss, which is also the basis of performance valuation. In addition, there is no significant inconsistency between the accounting policies adopted by the operating segment and the policies stated in Note 4.

b. Segment revenues and results

The following was an analysis of the Group's revenue and results by reportable segment.

	Drug Manufacturing Department	Others	Elimination	Consolidation
For the nine months ended September 30, 2019				
Revenues from external customers	$ 5,896,487	$ 149,979	$ -	$ 6,046,466
Inter-segment revenues	127,971	32,936	(160,907)	-
Net operating revenue	$ 6,024,458	$ 182,915	$ (160,907)	$ 6,046,466
Income from operations	$ 813,067	$ 60,107	$ (9,295)	$ 863,879
Interest income				6,180
Net foreign exchange gains				41,127
Finance costs				(242,795)
Share of loss of associate				(449)
Other non-operating income and losses, net				16,631
Income before income tax				$ 684,573
For the nine months ended September 30, 2018				
Revenues from external customers	$ 4,511,399	$ 194,900	$ -	$ 4,706,299
Inter-segment revenues	84,397	20,447	(104,844)	-
Net operating revenue	$ 4,595,796	$ 215,347	$ (104,844)	$ 4,706,299
Income from operations	$ 320,991	$ 34,090	$ (4,779)	$ 350,302
Interest income				10,120
Net foreign exchange losses				(11,200)
Finance costs				(222,292)
Share of gain of associate				140
Other non-operating income and losses, net				5,675
Income before income tax				$ 132,745