Lotus Pharmaceutical Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2019 and 2018 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The entities that are required to be included in the combined financial statements of Lotus Pharmaceutical Co., Ltd. as of and for the year ended December 31, 2019, under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10, "Consolidated Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Lotus Pharmaceutical Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

LOTUS PHARMACEUTICAL CO., LTD.

By

VILHELM ROBERT WESSMAN
Chairman

March 19, 2020

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Lotus Pharmaceutical Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements").

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

Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Group's consolidated financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters of the Group's consolidated financial statements for the year ended December 31, 2019 are as follows:

Goodwill Impairment Assessment

As described in Note 15, the goodwill amounted to 33% (NT$5,910,026 thousand) of the Group's consolidated total assets as of December 31, 2019; therefore, goodwill is material to the consolidated financial statements as a whole and considered as a key audit matter. Please refer to Note 4, i. for the accounting policy on the impairment of goodwill. The management performs an impairment test under IAS 36 Impairment of Assets on an annual basis and whenever an indication of impairment exists.

The Group's goodwill mainly resulted from the acquisitions of the equity investments of the Company and Dream Pharmaceutical Co., Ltd. The Group evaluated goodwill for impairment by comparing the recoverable amount with the carrying value of the goodwill. The management estimated the recoverable amount of goodwill based on the estimated operating cash flows of the invested companies using a five-year period budget discounted at the weighted average cost of capital. The estimation mainly depended on subjective management judgements and may be affected by either the degree of future market competition or changes in economic situation. As a result, the evaluation of goodwill for impairment loss is determined to be a key audit matter.

Audit Procedures for the Key Audit Matter

We performed the following audit procedures to evaluate the significant assumptions and estimations for the future operating cash flows and discount rates used by the management in its assessment of goodwill for impairment:

1. We obtained an understanding of the process and control activities of the Group in its evaluation of goodwill for impairment.

2. For goodwill recognized from the acquisition of the equity investments of the Company:

2-1. We evaluated the competence, capabilities and objectivity of the external independent valuator engaged by the management, and we verified the eligibility of the external valuator. We inquired from the management and determined that nothing in the work scope and the engagement terms and conditions affect the valuator's objectivity nor limit their work scope.

2-2. We assessed that the recent operating results, historical trends, new products' estimated launch schedules and their expected probable generation of cash flows and industry overview have been reasonably taken into consideration in the determination of the future sales growth rates of the invested company.

2-3. We consulted our firm's internal experts regarding the discount rates used by the Company including assumptions of the risk-free rate, volatility and risk premium, and determined that the weighted average cost of capital used for the pharmaceutical industry is appropriate.

3. For goodwill recognized from the acquisition of the equity investments of Dream Pharmaceutical Co., Ltd, we referred to the audit instruction sent to the auditor engaged by the subsidiary, Alvogen Korea Holdings Ltd., and we reviewed the related documents provided by the subsidiary's auditor, read the independent valuation reports, and discussed with management and the subsidiary's auditor, and evaluated the appropriateness of the management's evaluation process and conclusion for its goodwill impairment.

Buprenorphine/Naloxone Product Sales Revenue Recognition

As described in Note 26(d), Buprenorphine/Naloxone was approved by the FDA in the United States in January 2019. In February 2019, the Company launched Buprenorphine/Naloxone in the United States market. For the year ended December 31, 2019, revenue from sales of Buprenorphine/Naloxone amounted to 29% (NT$2,623,433 thousand) of the Group's consolidated total revenue; therefore, Buprenorphine/Naloxone product sales revenue is material to the consolidated financial statements as a whole and considered as a key audit matter. Please refer to Note 4, n. for the accounting policy on revenue recognition.

Audit Procedures for the Key Audit Matter

We performed the following procedures to address the Buprenorphine/Naloxone product sales revenue recognition:

1. We performed tests of controls to obtain an understanding of the Company's revenue recognition process of Buprenorphine/Naloxone product sales as well as the design and operating effectiveness of relevant internal controls.

2. We performed tests of details of Buprenorphine/Naloxone product sales. Procedures performed include inspect relevant purchase orders and shipping documents of sales sample selections or confirmation letter between the Company and contracted third-party warehouse to ensure the occurrence and accuracy of revenue recognition.

3. Performed collection test for those account receivables due on or before audit opinion date to ensure the occurrence and collectibility of revenue recognition.

Other Matter

We have also audited the parent company only financial statements of Lotus Pharmaceutical Co., Ltd. as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified opinion and an unmodified opinion with other matter paragraph, respectively.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 19, 2020

<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 audit 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
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019		2018	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 1,124,719	6	$ 1,023,232	7
Contract assets - current (Note 19)	-	-	9,867	-
Notes and trade receivables, net (Notes 8 and 19)	993,539	6	1,063,287	7
Trade receivables from related parties, net (Notes 19 and 26)	1,207,223	7	84,095	1
Other receivables	43,922	-	6,219	-
Other receivables from related parties (Note 26)	104,701	1	36,098	-
Current tax assets (Note 21)	1,351	-	14,332	-
Inventories (Note 9)	1,323,621	7	1,160,853	8
Other current assets (Note 27)	671,090	4	161,971	1
Total current assets	5,470,166	31	3,559,954	24
NON-CURRENT ASSETS				
Financial assets at fair value through other comprehensive income - non-current (Note 7)	449,704	3	-	-
Investment accounted for using the equity method (Note 11)	8,354	-	9,035	-
Property, plant and equipment (Notes 12 and 27)	1,872,776	10	1,814,951	12
Right-of-use assets (Note 13)	168,010	1	-	-
Goodwill (Note 15)	5,910,026	33	6,083,453	41
Other intangible assets (Note 14)	2,897,150	16	2,185,186	15
Deferred tax assets (Note 21)	378,647	2	486,720	3
Other non-current assets (Notes 26 and 27)	763,094	4	714,384	5
Total non-current assets	12,447,761	69	11,293,729	76
TOTAL	$ 17,917,927	100	$ 14,853,683	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	$ 460,000	3	$ 310,000	2
Contract liabilities - current (Notes 19 and 26)	65,054	-	65,344	-
Notes and trade payables	653,407	4	577,507	4
Trade payables to related parties (Note 26)	228,142	1	150,064	1
Other payables	471,605	3	386,803	3
Other payables to related parties (Note 26)	221,880	1	89,271	1
Current tax liabilities (Note 21)	49,647	-	76,576	-
Provisions - current (Note 22)	83,791	1	50,406	-
Lease liabilities - current (Note 13)	54,730	-	-	-
Current portion of long-term borrowings (Note 16)	579,075	3	300,000	2
Other current liabilities	91,782	1	97,648	1
Total current liabilities	2,959,113	17	2,103,619	14
NON-CURRENT LIABILITIES				
Contract liabilities - non-current (Note 19)	104,038	1	106,580	1
Long-term borrowings, net of current portion (Note 16)	3,723,633	21	1,461,604	10
Provisions - non-current (Note 22)	28,924	-	32,411	-
Deferred tax liabilities (Note 21)	172,247	1	197,211	1
Lease liabilities - non-current (Note 13)	115,211	1	-	-
Loan payables to related parties - non-current (Note 26)	2,253,450	12	2,700,068	18
Net defined benefit liabilities (Note 17)	547,311	3	571,156	4
Other non-current liabilities	270,171	1	312	-
Total non-current liabilities	7,214,985	40	5,069,342	34
Total liabilities	10,174,098	57	7,172,961	48
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY				
Share capital (Note 18)	2,431,140	14	2,382,007	16
Capital surplus (Note 18)	6,588,034	37	6,020,558	41
Accumulated deficits	(652,936)	(4)	(995,135)	(7)
Other equity	(624,223)	(4)	(181,735)	(1)
Total equity attributable to owners of the Company	7,742,015	43	7,225,695	49
NON-CONTROLLING INTERESTS (Note 18)	1,814	-	455,027	3
Total equity	7,743,829	43	7,680,722	52
TOTAL	$ 17,917,927	100	$ 14,853,683	100

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

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	%	Amount	%
NET OPERATING REVENUE (Notes 19 and 26)	$ 9,174,740	100	$ 6,428,894	100
OPERATING COSTS (Notes 9, 20 and 26)	4,926,869	54	3,289,414	51
GROSS PROFIT	4,247,871	46	3,139,480	49
OPERATING EXPENSES (Notes 20 and 26)				
Selling and marketing expenses	1,793,609	19	1,687,316	26
General and administrative expenses	787,073	9	681,609	11
Research and development expenses	553,569	6	324,936	5
Expected credit loss (gain)	467	-	(3,069)	-
Total operating expenses	3,134,718	34	2,690,792	42
INCOME FROM OPERATIONS	1,113,153	12	448,688	7
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 20 and 26)	20,028	-	43,380	1
Other gains and losses (Note 20)	82,739	1	(8,639)	-
Finance costs (Notes 20 and 26)	(338,819)	(4)	(320,008)	(5)
Share of (loss) profit of associate (Note 11)	(681)	-	283	-
Total non-operating expenses, net	(236,733)	(3)	(284,984)	(4)
INCOME BEFORE INCOME TAX	876,420	9	163,704	3
INCOME TAX EXPENSE (Note 21)	(198,137)	(2)	(39,616)	(1)
NET INCOME FOR THE YEAR	678,283	7	124,088	2
OTHER COMPREHENSIVE (LOSS) INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Note 17)	(81,820)	-	(24,301)	(1)
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(170,449)	(2)	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 21)	17,780	-	5,749	-

(Continued)

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	$ (285,086)	(3)	$ (78,649)	(1)
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 21)	-	-	(586)	-
Other comprehensive (loss) income for the year, net of income tax	(519,575)	(5)	(97,787)	(2)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 158,708	2	$ 26,301	-
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	$ 662,807	7	$ 99,476	2
Non-controlling interests	15,476	-	24,612	-
	$ 678,283	7	$ 124,088	2
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	$ 156,279	2	$ 9,059	-
Non-controlling interests	2,429	-	17,242	-
	$ 158,708	2	$ 26,301	-
EARNINGS PER SHARE (Note 23)				
Basic	$ 2.74		$ 0.42	

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

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	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 year ended December 31, 2018	-	-	-	99,476	-	-	-	-	99,476	24,612	124,088
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	(17,475)	-	-	(72,942)	-	(90,417)	(7,370)	(97,787)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	82,001	-	-	(72,942)	-	9,059	17,242	26,301
Acquisition of non-controlling interests	-	-	-	(29,263)	-	-	-	-	(29,263)	29,263	-
Cancellation of treasury shares	(291)	(2,910)	-	(19,978)	-	-	-	22,888	-	-	-
BALANCE AT DECEMBER 31, 2018	238,201	2,382,007	6,020,558	(995,135)	-	-	(181,735)	-	7,225,695	455,027	7,680,722
Net income for the year ended December 31, 2019	-	-	-	662,807	-	-	-	-	662,807	15,476	678,283
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	(64,040)	-	(170,449)	(272,039)	-	(506,528)	(13,047)	(519,575)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	598,767	-	(170,449)	(272,039)	-	156,279	2,429	158,708
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 DECEMBER 31, 2019	243,114	$ 2,431,140	$ 6,588,034	$ (652,936)	$ -	$ (170,449)	$ (453,774)	$ -	$ 7,742,015	$ 1,814	$ 7,743,829

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

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 876,420	$ 163,704
Adjustments for:		
Expected credit loss recognized (reversed) on trade receivables	467	(3,069)
Depreciation expenses	254,536	178,966
Amortization expenses	332,157	212,573
Write-down of inventories	79,889	98,318
Impairment loss on non-financial assets	211,247	140,177
Loss on disposal of property, plant and equipment	9,446	1,092
Loss on disposal of intangible assets	-	109
Interest income	(7,788)	(13,534)
Finance costs	338,819	320,008
Dividend income	(4,296)	-
Share of loss (profit) of associate	681	(283)
Unrealized foreign exchange (gain) loss	(72,956)	15,378
Changes in operating assets and liabilities		
Contract assets	9,867	110,735
Notes and trade receivables	26,780	(8,075)
Trade receivables from related parties	(1,144,494)	(3,540)
Other receivables	(40,921)	(4,281)
Other receivables from related parties	(12,564)	184,638
Inventories	(286,196)	(331,861)
Other current assets	(4,866)	(60,051)
Other non-current assets	(240,428)	128
Contract liabilities	671	(62,898)
Notes and trade payables	103,539	174,738
Trade payables to related parties	86,964	140,630
Other payables	78,453	(64,646)
Other payables to related parties	133,046	(38,895)
Net defined benefit liabilities	(60,596)	36,274
Provisions	34,950	(26,582)
Other current liabilities	(19,810)	(13,069)
Other non-current liabilities	1,681	-
Cash generated from operations	684,698	1,146,684
Interest received	9,862	10,780
Interest paid	(282,154)	(182,190)
Income tax paid	(109,597)	(178,296)
Net cash generated from operating activities	302,809	796,978
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through other comprehensive income	(616,498)	-
Purchase of property, plant and equipment	(333,338)	(145,618)

(Continued)

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
Proceeds from disposal of property, plant and equipment	$ 32,887	$ 1,061
Purchase of intangible assets (including capitalized development expenses)	(769,376)	(253,449)
Proceeds from disposal of intangible assets	-	4,976
(Increase) decrease in refundable deposits	(1,781)	24,883
Dividend received	4,296	-
Increase in other current assets	(519,636)	-
Increase in other non-current assets	(184,810)	(130,190)
Net cash used in investing activities	(2,388,256)	(498,337)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	170,000	50,000
Repayments of short-term borrowings	(20,000)	-
Proceeds from long-term borrowings	3,077,903	1,526,124
Repayments of long-term borrowings	(400,000)	(4,409,583)
Increase in guarantee deposits received	402	-
Net (decrease) increase from loan payables to related parties	(434,329)	1,875,335
Decrease in lease payables	-	(2)
Repayments of the principal portion of lease liabilities	(73,324)	-
Proceeds from issuance of ordinary shares	616,609	-
Acquisition of non-controlling interests	(712,210)	-
Net cash generated from (used in) financing activities	2,225,051	(958,126)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(38,117)	(91,455)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	101,487	(750,940)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1,023,232	1,774,172
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,124,719	$ 1,023,232

The accompanying notes are an integral part of the consolidated financial statements. (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, and on December 16, 2019, the Company's shares had been switched listing venue to Taiwan Stock Exchange (TWSE).

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 (refer to Note 26(d)). 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 March 17, 2020.

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. 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 lessee's weighted average 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 Group as lessor

The Group does not make any adjustments for leases in which it is a lessor and it accounts for those leases with the application of IFRS 16 starting from January 1, 2019.

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 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 IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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 retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: 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 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

Note: Unless stated otherwise, the above New IFRSs are effective for annual reporting 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

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments that 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 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 the 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. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within 12 months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within 12 months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

All other assets and liabilities that are not classified as current are classified as non-current.

d. Basis of consolidation

Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statements of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Attribution of total comprehensive income to non-controlling interests

Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this attribution results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their respective interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

See Note 10 and Table 8 for detailed information of subsidiaries (including the percentage of ownership and main business).

e. Foreign currencies

In preparing the financial statements of each Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which these differences arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income; in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction (i.e., not retranslated).

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including those of the subsidiaries or associates in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. All exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

Goodwill and fair value adjustments on identifiable assets and liabilities acquired on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

f. Inventories

Inventories consist of raw materials, supplies, finished goods, merchandise and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost on the balance sheet date.

g. Investment in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The Group uses the equity method to account for its investments in associates.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

h. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for prospectively.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units or groups of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication of unit impairment, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit should be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Internally generated intangible assets - research and development expenditure

Expenditure for generics research activities is recognized as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the development phase of an internal project is recognized only if all of the following have been demonstrated:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

b) The intention to complete the intangible asset and use or sell it;

c) The ability to use or sell the intangible asset;

d) How the intangible asset will generate probable future economic benefits;

e) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f) The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above and the Group has evidence to prove that will get regulatory approval for these assets. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

k. Impairment of tangible and intangible assets other than goodwill and assets related to contract costs

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the smallest group of cash-generating units on a reasonable and consistent basis of allocation.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

Before the Group recognizes an impairment loss from assets related to contract costs, any impairment loss on inventories, property, plant and equipment and intangible assets related to the contract accounted for under IFRS 15 shall be recognized in accordance with applicable standards. Then, impairment loss from the assets related to the contract costs is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services and which have not been recognized as expenses. The assets related to the contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

When an impairment loss is subsequently reversed, the carrying amount of the asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. Financial instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. For financial instruments not subsequently measured at fair value through profit or loss, transaction costs that are directly attributable to instrument acquisition or issue are added to or deducted from the fair value of the financial assets or financial liabilities. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial assets are mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends, interest earned and remeasurement gains or losses on such financial assets are recognized in profit or loss.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes and trade receivables, trade receivables from related parties, other receivables, other receivables from related parties, and other non-current asset, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that are not credit impaired on purchase or origination but have subsequently become credit impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

A financial asset is credit impaired when one or more of the following events have occurred:

i) Significant financial difficulty of the issuer or the borrower;

ii) Breach of contract, such as a default;

iii) It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or

iv) The disappearance of an active market for that financial asset because of financial difficulties.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b) Impairment of financial assets and contract assets

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables), as well as, contract assets.

The Group recognizes lifetime expected credit losses (ECLs) for trade receivables and contract assets. For all other financial instruments, the Group recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

ECLs reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

i. Internal or external information show that the debtor is unlikely to pay its creditors.

ii. When a financial asset is more than 180 days past due unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and the carrying amounts of such financial assets are not reduced.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss._

2) Equity instruments

Debt and equity instruments issued by a Group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a Group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

3) Financial liabilities

Financial liabilities not classified as at fair value through profit or loss are measured at amortized cost using the effective interest method. On the derecognition of a financial liability, the difference between its carrying amount and the consideration paid is recognized in profit or loss.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Other long-term employee benefits are recognized in accordance with actuarial amounts. Actuarial gains and losses are recognized in profit or loss immediately.

n. Revenue recognition

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

1) Sale of goods and revenue from sale or out-licensing of intellectual property (IP) rights

Revenue from sale of goods comes from sales of drugs, which are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, and has the primary responsibility for sales to future customers. Trade receivable is recognized concurrently or contract asset is recognized concurrently. Any amount previously recognized as a contract asset is reclassified to trade receivables when remaining obligation is performed.

Revenue from the sale or out-licensing of IP rights is recognized upon assignment of such rights to a third party, provided the collectability is assured and there are no distinct future performance obligations related to such rights, except for the on-going de minimums assistance, if any, provided to the third party with respect to the maintenance of such rights.

2) Rendering of services, research and development (R&D) and others

Revenue from contract to provide services is recognized when services rendered met the contracts' conditions.

o. Leases

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 low-value asset leases and short-term 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 and an estimate of costs needed to restore the underlying assets. 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 variable lease payments which depend on an index or a rate. 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.

1) The Group as lessor

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

2) The Group as lessee

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

3) Leasehold land and building for own use

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 Lessee. 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.

p. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until the assets are substantially ready for their intended use or sale.

Other than that which is stated above, all other borrowing costs are recognized in profit or loss in the period in which they are incurred.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefit

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and past service cost) and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that remeasurement is recognized in profit or loss.

r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

Based on the Income Tax Law, an additional tax of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. In addition, a deferred tax liability is not recognized on taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry-forwards and unused tax credits for research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current and deferred taxes

Current and deferred taxes are recognized in profit or loss, but if these taxes relate to items that are recognized in other comprehensive income or directly in equity, the current and deferred taxes are recognized in other comprehensive income or directly in equity, respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	**2018**
Cash on hand	$ 428	$ 396
Checking accounts and demand deposits	1,124,291	1,022,836
	$ 1,124,719	$ 1,023,232

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

Investments in equity instruments

	December 31, 2019
Non-current	
Foreign investments	
Listed shares - Fuji Pharma Co., Ltd.	$ 449,704

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.

The Group recognized dividend income of $4,296 thousand from this investment for the year ended December 31, 2019

8. NOTES AND TRADE RECEIVABLES

	December 31	
	2019	2018
Notes receivable		
Notes receivable - operating	$ 24,533	$ 27,189
Trade receivables		
At amortized cost		
Gross carrying amount	$ 987,031	$ 1,054,853
Less: Allowance for impairment loss	(18,025)	(18,755)
	969,006	1,036,098
	$ 993,539	$ 1,063,287

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 Group 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 provide 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.

December 31, 2019

	Gross Carrying Amount	Loss Allowance (Lifetime ECLs)	Amortized Cost
Less than 60 days	$ 864,699	$ (3,243)	$ 861,456
61-90 days	57,939	(214)	57,725
91-120 days	34,986	(505)	34,481
121-150 days	12,111	(449)	11,662
151-180 days	9,244	(618)	8,626
181-360 days	19,983	(3,091)	16,892
More than 360 days	12,602	(9,905)	2,697
	$ 1,011,564	$ (18,025)	$ 993,539

December 31, 2018

	Gross Carrying Amount	Loss Allowance (Lifetime ECLs)	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

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

	For the Years Ended December 31	
	2019	2018
Balance at January 1	$ 18,755	$ 23,475
Add: Recognition of impairment loss allowance	467	-
Less: Amounts written off	(653)	(1,405)
Less: Reversal of impairment loss allowance recognized	-	(3,069)
Foreign exchange gains and losses	(544)	(246)
Balance at December 31	$ 18,025	$ 18,755

9. INVENTORIES

	December 31	
	2019	2018
Merchandise	$ 369,331	$ 206,392
Raw materials and supplies	307,154	182,685
Work in progress	141,706	170,664
Finished goods	423,829	389,426
Inventory in transit	81,601	211,686
	$ 1,323,621	$ 1,160,853

Write-down of inventories to net realizable value at the amount of $79,889 thousand and $98,318 thousand for the years ended December 31, 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:

Investor	Investee	Main Businesses	% of Ownership December 31 2019	2018	Remark
Lotus Pharmaceutical Co., Ltd.	Alvogen Korea Holdings Ltd. ("Alvogen Korea Holdings")	Investment business	100	100	
	Alvogen Pharma India Pvt Ltd.	Investment business	98	98	
	Taiwan Alvogen Ltd.	Sale of medicine	100	100	Note a.
	Lotus International Pte. Ltd.	Investment business	100	100	
	Lotus Lab, Ltd.	Data collection and agency affairs in Europe	-	100	Note b.
	Lotus Pharmaceutical, HK Ltd.	Data collection and agent services in Hong Kong	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	
	Lotus Japan Holdings Co., Ltd.	Sale of medicine, clinical machine retail	100	-	Note c.
Alvogen Korea Holdings Ltd.	Alvogen Korea Co., Ltd. ("Alvogen Korea")	Manufactures and sells medicines	100	92	Note d.
Alvogen Pharma India Pvt Ltd.	Norwich Clinical Services Private Limited	Contract research organization	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	

a. During December 2019, Taiwan Alvogen Ltd. was approved by board of directors and entered into the process of liquidation.

b. Lotus Lab, Ltd. was dissolved on October 15, 2019.

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

d. 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 December 31, 2019, the percentage of ownership was 100%.

11. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

Investment in an associate

	December 31	
	2019	2018
Associate that is not individually material		
Heng Kang Bio Medi Co., Ltd.	$ 8,354	$ 9,035

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

	For the Years Ended December 31	
	2019	2018
The Group's share of		
Net (loss) income for the year	$ (681)	$ 283
Total comprehensive (loss) income for the year	$ (681)	$ 283

The investment accounted for using the equity method and the share of income (loss) and other comprehensive income (loss) for the years ended December 31, 2019 and 2018 were calculated and disclosed on the basis of unaudited and audited financial statements respectively. Management believes there will be no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income from the unaudited financial statements.

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, 2019	$ 710,458	$ 998,078	$ 914,728	$ 113,495	$ 124,098	$ 125,342	$ 96,999	$ 3,083,198
Additions	-	4,190	20,302	538	14,865	292,249	1,802	333,946
Disposals	(32,767)	(5,154)	(20,874)	(2,749)	(9,318)	-	(9,929)	(80,791)
Reclassification	-	17,546	111,810	243	7,974	(140,294)	-	(2,721)
Effect of foreign currency exchange differences	(21,677)	(31,274)	(34,689)	-	(4,159)	(1,694)	(3,772)	(97,265)
Balance at December 31, 2019	$ 656,014	$ 983,386	$ 991,277	$ 111,527	$ 133,460	$ 275,603	$ 85,100	$ 3,236,367
Accumulated depreciation and impairment								
Balance at January 1, 2019	$ -	$ 440,498	$ 594,162	$ 71,521	$ 82,242	$ -	$ 79,824	$ 1,268,247
Depreciation	-	51,881	84,009	17,326	20,445	-	6,381	180,042
Disposals	-	(1,075)	(18,267)	(2,341)	(8,666)	-	(8,109)	(38,458)
Effect of foreign currency exchange differences	-	(16,523)	(23,627)	-	(2,837)	-	(3,253)	(46,240)
Balance at December 31, 2019	$ -	$ 474,781	$ 636,277	$ 86,506	$ 91,184	$ -	$ 74,843	$ 1,363,591
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 December 31, 2019	$ 656,014	$ 508,605	$ 355,000	$ 25,021	$ 42,276	$ 275,603	$ 10,257	$ 1,872,776
Cost								
Balance at January 1, 2018	$ 716,280	$ 965,253	$ 889,529	$ 97,933	$ 114,741	$ 135,825	$ 93,555	$ 3,013,116
Additions	-	3,028	40,191	5,753	9,017	76,464	11,165	145,618
Disposals	-	-	(25,263)	(7)	(5,249)	-	(5,614)	(36,133)
Reclassification	-	38,083	21,339	9,816	7,918	(86,892)	857	(8,879)
Effect of foreign currency exchange differences	(5,822)	(8,286)	(11,068)	-	(2,329)	(55)	(2,964)	(30,524)
Balance at December 31, 2018	$ 710,458	$ 998,078	$ 914,728	$ 113,495	$ 124,098	$ 125,342	$ 96,999	$ 3,083,198

(Continued)

	Land	Buildings, and Plant Equipment	Machinery	Experiment Equipment	Miscellaneous Equipment	Construction in Progress	Leasehold Improvements	Total
Accumulated depreciation and impairment								
Balance at January 1, 2018	$ -	$ 394,363	$ 541,077	$ 54,853	$ 66,319	$ -	$ 71,363	$ 1,127,975
Depreciation	-	50,136	73,810	16,675	22,286	-	16,059	178,966
Impairment loss	-	-	10,775	-	-	-	-	10,775
Disposals	-	-	(23,964)	(7)	(4,694)	-	(5,315)	(33,980)
Effect of foreign currency exchange differences	-	(4,001)	(7,536)	-	(1,669)	-	(2,283)	(15,489)
Balance at December 31, 2018	$ -	$ 440,498	$ 594,162	$ 71,521	$ 82,242	$ -	$ 79,824	$ 1,268,247
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 December 31, 2018	$ 710,458	$ 557,580	$ 320,566	$ 41,974	$ 41,856	$ 125,342	$ 17,175	$ 1,814,951

(Concluded)

The recoverable amount of certain idle equipment was determined based on fair value less costs of disposal. The Group carried out reviews of the recoverable amount of certain idle equipment and determined that the recoverable amount was lower than the related carrying amount. As a result, impairment loss of $10,775 thousand was recognized for the years ended December 31, 2018. The impairment loss was included in the general and administrative expenses.

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

	December 31, 2019
Carrying amounts	
Buildings	$ 158,598
Office equipment	2,283
Transportation equipment	7,129
	$ 168,010

	For the Years Ended December 31, 2019
Additions to right-of-use assets	$ 63,718
Depreciation charge for right-of-use assets	
Buildings	$ 68,948
Office equipment	470
Transportation equipment	5,076
	$ 74,494

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	
Current	$ 54,730
Non-current	$ 115,211

Range of discount rate for lease liabilities was as follows:

	December 31, 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
Not later than 1 year	$ 57,289
Later than 1 year and not later than 5 years	162,929
Later than 5 years	5,036
	$ 225,254

14. OTHER INTANGIBLE ASSETS

	Product Use Rights	Patent	Brand	In-process R&D	Capitalization of Development Expenses	Others	Total
Cost							
Balance at January 1, 2019	$ 1,243,883	$ 152,311	$ 776,050	$ 370,544	$ 965,078	$ 154,200	$ 3,662,066
Additions	655,293	-	-	-	230,261	3,537	889,091
Reclassification	456,252	-	-	-	(9,288)	(13,880)	433,084
Effect of foreign currency exchange differences	(64,383)	(7,927)	(40,391)	(19,285)	(26,089)	(5,963)	(164,038)
Balance at December 31, 2019	$ 2,291,045	$ 144,384	$ 735,659	$ 351,259	$ 1,159,962	$ 137,894	$ 4,820,203
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	217,254	10,537	-	12,773	83,669	7,924	332,157
Impairment loss	2,464	-	123,153	-	57,591	-	183,208
Reclassification	8,310	-	-	-	(9,288)	978	-
Effect of foreign currency exchange differences	(17,092)	(3,621)	(22,374)	(12,160)	(8,904)	(5,041)	(69,192)
Balance at December 31, 2019	$ 622,757	$ 72,193	$ 534,862	$ 229,046	$ 350,999	$ 113,196	$ 1,923,053
Carrying amounts at January 1, 2019	$ 832,062	$ 87,034	$ 341,967	$ 142,111	$ 737,147	$ 44,865	$ 2,185,186
Carrying amounts at December 31, 2019	$ 1,668,288	$ 72,191	$ 200,797	$ 122,213	$ 808,963	$ 24,698	$ 2,897,150
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	-	-	-	150,372	18,842	172,500
Disposals and write-offs	-	-	-	-	-	(7,887)	(7,887)
Reclassification	-	-	-	-	(1,099)	8,879	7,780
Effect of foreign currency exchange differences	(13,515)	(2,129)	(10,848)	(5,180)	(7,574)	(3,068)	(42,314)
Balance at December 31, 2018	$ 1,243,883	$ 152,311	$ 776,050	$ 370,544	$ 965,078	$ 154,200	$ 3,662,066
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	136,307	10,879	-	13,188	42,075	10,124	212,573
Impairment loss	-	-	122,641	-	6,761	-	129,402
Disposals and write-offs	-	-	-	-	-	(2,802)	(2,802)
Effect of foreign currency exchange differences	(2,399)	(760)	(4,162)	(3,010)	(2,213)	(2,525)	(15,069)
Balance at December 31, 2018	$ 411,821	$ 65,277	$ 434,083	$ 228,433	$ 227,931	$ 109,335	$ 1,476,880
Carrying amounts at January 1, 2018	$ 976,199	$ 99,282	$ 471,294	$ 157,469	$ 642,071	$ 32,896	$ 2,379,211
Carrying amounts at December 31, 2018	$ 832,062	$ 87,034	$ 341,967	$ 142,111	$ 737,147	$ 44,865	$ 2,185,186

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 $57,591 thousand and $6,761 thousand was recognized for the years ended December 31, 2019 and 2018, respectively. The impairment loss was included in the research and development expenses.

The Group determined the recoverable amount of Brand on the basis of fair value less costs of disposal. The fair value of the recoverable amount was measured using the income approach. The key assumptions included royalty rate of 3.8%, weighted average cost of capital of 11.4% and long term growth rate of 1.0%. The estimated recoverable amount of Brand was lower than the related carrying amount; as a result, impairment loss of $123,153 thousand and $122,641 thousand was recognized for the years ended December 31, 2019 and 2018, respectively. The impairment loss was included in the selling and marketing 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	1-10 years

15. GOODWILL

	For the Years Ended December 31	
	2019	2018
Cost		
Balance as of January 1	$ 6,157,453	$ 6,204,032
Effect of foreign currency exchange differences	(173,427)	(46,579)
Balance as of December 31	$ 5,984,026	$ 6,157,453
Accumulated impairment		
Balance as of January 1 and December 31	$ 74,000	$ 74,000
Carrying amounts at January 1	$ 6,083,453	$ 6,130,032
Carrying amounts at December 31	$ 5,910,026	$ 6,083,453

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 December 31, 2019 and 2018 was as follows:

	December 31	
	2019	2018
Pharmaceutical developing and manufacturing business	$ 5,910,026	$ 6,083,453

The recoverable amount of the Group's pharmaceutical developing and manufacturing business was calculated by applying an appropriate discount rate to future cash flows estimated based on the financial budgets approved by management for a certain target period. The discount rates used to determine the future cash flows were 8.98%-18% and 9.3%-16% for the years ended December 31, 2019 and 2018, respectively. Other key assumptions included budgeted revenue and budgeted gross margin. Such assumptions were based on past performance of the cash-generating unit and management's expectations of the market development.

16. BORROWINGS

a. Short-term borrowings

	December 31	
	2019	2018
Unsecured borrowings		
Line of credit borrowings - bank loans	$ 460,000	$ 310,000
Interest interval	1.50%-1.84%	1.60%-1.84%

b. Long-term borrowings

	December 31 2019	December 31 2018
Secured borrowings (Note 27)		
Bank loans	$ 1,580,480	$ 730,802
Loans from other financial institutions	1,580,480	730,802
Unsecured borrowings		
Bank loans	1,141,748	300,000
	4,302,708	1,761,604
Less: Current portion matured within a year	(579,075)	(300,000)
	$ 3,723,633	$ 1,461,604
Bank loans		
Maturity period	June 2020-December 2021	April 2019-December 2021
Interest interval	2.90%-5.08%	2.00%-5.15%
Loans from other financial institutions		
Maturity period	December 2021	December 2021
Interest interval	4.58%-5.08%	4.65%-5.15%

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

17. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Company adopted a pension plan under the Labor Pension Act (LPA), which is a state-managed defined contribution plan. Under the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The Korea-based subsidiaries, Alvogen Korea (formerly "Kunwha Pharmaceutical Co., Ltd.") and Dream Pharma (which was merged with Kunwha Pharmaceutical on June 1, 2015), and the subsidiary of Alvogen Pharma India Pvt Ltd., Norwich Clinical Services Private Limited, also have defined benefit pension plans for qualified employees, and the actuarial assessment of the plan assets and defined benefit obligations is performed by their respective local actuaries.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

	December 31	
	2019	**2018**
Present value of defined benefit obligation	$ 1,070,275	$ 1,029,134
Fair value of plan assets	(522,964)	(457,978)
Net defined benefit liabilities	$ 547,311	$ 571,156

Movements in net defined benefit liabilities were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities**
Balance at January 1, 2018	$ 873,344	$ (355,377)	$ 517,967
Service cost			
Current service cost	118,577	-	118,577
Past service cost and gain on settlements	92,006	-	92,006
Net interest expense (income)	26,041	(8,232)	17,809
Other	1,515	-	1,515
Recognized in profit or loss	238,139	(8,232)	229,907
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(508)	(508)
Actuarial loss - changes in financial assumptions	29,220	-	29,220
Actuarial gain - experience adjustments	(7,829)	-	(7,829)
Other	-	3,418	3,418
Recognized in other comprehensive income	21,391	2,910	24,301
Contributions from the employer	-	(117,842)	(117,842)
Benefits paid	(91,150)	15,883	(75,267)
Exchange differences on foreign plans	(12,590)	4,680	(7,910)
Balance at December 31, 2018	$ 1,029,134	$ (457,978)	$ 571,156

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities
Balance at January 1, 2019	$ 1,029,134	$ (457,978)	$ 571,156
Service cost			
Current service cost	120,122	-	120,122
Net interest expense (income)	23,601	(9,040)	14,561
Other	1,754	-	1,754
Recognized in profit or loss	145,477	(9,040)	136,437
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(587)	(587)
Actuarial gain - changes in demographic assumptions	(1,778)	-	(1,778)
Actuarial loss - changes in financial assumptions	32,702	-	32,702
Actuarial loss - experience adjustments	50,560	-	50,560
Other	-	923	923
Recognized in other comprehensive income	81,484	336	81,820
Contributions from the employer	-	(110,267)	(110,267)
Benefits paid	(134,859)	28,993	(105,866)
Other	1,107	-	1,107
Exchange differences on foreign plans	(52,068)	24,992	(27,076)
Balance at December 31, 2019	$ 1,070,275	$ (522,964)	$ 547,311

(Concluded)

An analysis by function of the amounts recognized in profit or loss and capitalized development expenses in respect of the defined benefit plans is as follows:

	For the Years Ended December 31 2019	2018
Operating costs	$ 36,768	$ 55,466
Operating expenses	99,049	171,529
Capitalized development expenses	620	2,912
	$ 136,437	$ 229,907

For the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	Discount Rate		Expected Rate of Salary Increase	
	December 31		December 31	
	2019	2018	2019	2018
The Company	1.00%	1.00%	3.00%	3.00%
Subsidiaries in India	6.92%-6.97%	7.47%-7.57%	11.67%-12.51%	12.00%-12.60%
Subsidiaries in Korea	2.03%-2.44%	2.45%	3.33%-5.00%	5.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31	
	2019	2018
Discount rate(s)		
1% increase	$ (79,063)	$ (74,016)
1% decrease	$ 90,196	$ 84,468
Expected rate(s) of salary increase		
1% increase	$ 86,483	$ 81,631
1% decrease	$ (77,596)	$ (73,116)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2019	2018
The expected contributions to the plan for the next year	$ 590,088	$ 693,133
The average duration of the defined benefit obligation	7.00-15.10 years	7.29-16.20 years

18. EQUITY

a. Share capital

Ordinary shares

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

Fully paid ordinary shares, which have a par value of NT$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 December 31, 2019 and 2018 consisted of the following:

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

Note a: 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 b: 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 NT$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 amended 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 Years Ended December 31	
	2019	**2018**
Balance at January 1	$ 455,027	$ 408,522
Attributable to non-controlling interests:		
Share of profit for the year	15,476	24,612
Exchange difference on translating foreign operations	(13,047)	(5,707)
Remeasurement on defined benefit plans	-	(1,663)
Acquisition of non-controlling interests without a change in control	(455,642)	29,263
Balance at December 31	$ 1,814	$ 455,027

On December 7, 2018, the board of directors of Alvogen Korea Holdings approved to acquired 1,156,112 shares of Alvogen Korea for $29,263 thousand in cash, 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.

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 Holdings 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 year ended December 31, 2019.

	December 31	
	2019	2018
Carrying amount of non-controlling interests acquired	$ (455,642)	$ 29,263
Increase (decrease) in equity attributable to owners of the Company	$ 455,642	$ (29,263)

19. NET OPERATING REVENUE

	For the Years Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from the sale of goods	$ 8,595,631	$ 6,075,764
Revenue from the rendering of services	198,547	178,318
Revenue from the sale or out-licensing of IP rights	167,318	36,842
Revenue from R&D and others	213,244	137,970
	$ 9,174,740	$ 6,428,894

a. Contract balances

	December 31	
	2019	2018
Notes and trade receivables (Notes 8 and 26)	$ 2,200,762	$ 1,147,382
Contract assets - current	$ -	$ 9,867
Contract liabilities - current	$ 65,054	$ 65,344
Contract liabilities - non-current	$ 104,038	$ 106,580

b. Disaggregation of revenue

	Reportable Segments		
	Drug Manufacturing Department	Others	Total
For the year ended December 31, 2019			
Sources of revenue			
Sale of goods	$ 8,595,631	$ -	$ 8,595,631
Rendering of services	3,399	195,148	198,547
Sale or out-licensing of IP rights	167,318	-	167,318
R&D and others	213,244	-	213,244
	$ 8,979,592	$ 195,148	$ 9,174,740

	Reportable Segments		
	Drug Manufacturing Department	Others	Total
For the year ended December 31, 2018			
Sources of revenue			
Sale of goods	$ 6,075,764	$ -	$ 6,075,764
Rendering of services	3,269	175,049	178,318
Sale or out-licensing of IP rights	36,842	-	36,842
R&D and others	137,970	-	137,970
	$ 6,253,845	$ 175,049	$ 6,428,894

20. NET INCOME (LOSS)

Net income (loss) contains following items:

a. Other income

	For the Years Ended December 31	
	2019	2018
Interest income	$ 7,788	$ 13,534
Dividend income (Note 7)	4,296	-
Others	7,944	29,846
	$ 20,028	$ 43,380

b. Other gains and losses

	For the Years Ended December 31	
	2019	2018
Net foreign exchange gains (losses)	$ 74,989	$ (10,394)
Loss on disposal of property, plant and equipment	(9,446)	(1,092)
Loss on disposal of intangible assets	-	(109)
Others	17,196	2,956
	$ 82,739	$ (8,639)

c. Finance costs

	For the Years Ended December 31	
	2019	2018
Interest expenses		
Loans	$ 324,744	$ 319,790
Interest on lease liabilities	9,081	-
Others	4,994	218
	$ 338,819	$ 320,008

d. Depreciation and amortization

	For the Years Ended December 31	
	2019	2018
Depreciation		
Property, plant and equipment	$ 180,042	$ 178,966
Right-of-use assets	74,494	-
	254,536	178,966
Amortization: Intangible assets	332,157	212,573
	$ 586,693	$ 391,539
An analysis of depreciation by function		
Operating costs	$ 133,494	$ 116,703
Operating expenses	120,523	60,570
Capitalization of development expenses	519	1,693
	$ 254,536	$ 178,966
An analysis of amortization by function		
Operating costs	$ 1,612	$ 1,138
Selling and marketing expenses	45,742	1,310
General and administrative expenses	170,005	136,789
Research and development expenses	114,798	73,336
	$ 332,157	$ 212,573

e. Employee benefit expense

	For the Years Ended December 31	
	2019	2018
Short-term employee benefits	$ 1,696,444	$ 1,693,102
Post-employment benefits		
Defined contribution plans	14,139	13,940
Defined benefit plans (Note 17)	135,817	226,995
Early retirement benefits	133,166	-
Other employee benefits	5,372	9,824
Total employee benefits expense	$ 1,984,938	$ 1,943,861
An analysis of employee benefits expense by function		
Operating costs	$ 581,698	$ 587,206
Operating expenses	1,403,240	1,356,655
	$ 1,984,938	$ 1,943,861

As of December 31, 2019 and 2018, the Group had a total of 1,099 and 1,081 employees.

The Company's 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% for employees' compensation and no higher than 10% for remuneration to directors. For the years ended December 31, 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 of directors and supervisors resolved by the Company's board of directors in 2020 and 2019 is available at 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 Years Ended December 31	
	2019	**2018**
Current tax		
Current year	$ 114,953	$ 140,278
Adjustments for prior years	(14,321)	(14,420)
	100,632	125,858
Deferred tax		
Current year	97,434	(82,738)
Adjustments for prior years	71	14,612
Effect of tax rate changes	-	(18,116)
	97,505	(86,242)
Income tax expense recognized in profit or loss	$ 198,137	$ 39,616

A reconciliation of accounting profit and income tax expense is as follows:

	For the Years Ended December 31	
	2019	**2018**
Profit before tax from continuing operations	$ 876,420	$ 163,704
Income tax expense calculated at the statutory rate	$ 170,346	$ 119,009
Permanent differences (including nondeductible expenses)	28,519	48,084
Investment credits	(8,812)	(21,800)
Income tax on unappropriated earnings	8,964	14,321
Unrecognized deductible temporary differences/loss carryforwards	22,599	(43,117)
Adjustments recognized in the period for current tax of prior years	(14,250)	192
Effect of tax rate changes	-	(18,116)
Taxable temporary differences arising from investment in subsidiaries	(15,800)	-
Deferred profit of upstream transaction	9,840	(59,378)
Others	(3,269)	421
	$ 198,137	$ 39,616

The Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was 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 recognized in other comprehensive income

	For the Years Ended December 31	
	2019	**2018**
Deferred tax		
Remeasurement on defined benefit plan	$ 17,780	$ 5,355
Effect of tax rate changes	-	(192)
	$ 17,780	$ 5,163

c. Current tax assets and liabilities

	December 31	
	2019	**2018**
Current tax assets		
Tax refund receivable	$ 1,351	$ 14,332
Current tax liabilities		
Income tax payable	$ 49,647	$ 76,576

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

	For the Year Ended December 31, 2019				
Deferred tax assets	**Opening Balance**	**Recognized in Profit or Loss**	**Recognized in Other Compre-hensive Income**	**Exchange Differences**	**Closing Balance**
Temporary differences					
Defined benefit obligation	$ 124,281	$ (17,409)	$ 17,780	$ (6,505)	$ 118,147
Inventories	7,918	7,318	-	(257)	14,979
Provisions	15,987	7,142	-	(731)	22,398
Property, plant and equipment	18,552	(1,588)	-	(343)	16,621
Loss from spin-off	29,578	(28,866)	-	(712)	-
Accounts receivable	267	(267)	-	-	-
Loss carryforwards	165,898	(85,430)	-	-	80,468
Deferred profit of upstream	59,378	(9,839)	-	-	49,539
Taxable temporary differences arising from investment in subsidiaries	-	15,800	-	-	15,800
Others	64,861	(1,370)	-	(2,796)	60,695
	$ 486,720	$ (114,509)	$ 17,780	$ (11,344)	$ 378,647

(Continued)

	For the Year Ended December 31, 2019				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax liabilities					
Temporary differences					
Property, plant and equipment	$ 13,239	$ (1,983)	$ -	$ (797)	$ 10,459
Intangible assets - acquisition of Dream Pharma	139,745	(33,827)	-	(7,161)	98,757
Property, plant and equipment and intangible assets - acquisition of the Company	29,821	(7,708)	-	-	22,113
Others	14,406	26,514	-	(2)	40,918
	$ 197,211	$ (17,004)	$ -	$ (7,960)	$ 172,247

(Concluded)

	For the Year Ended December 31, 2018				
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Defined benefit obligation	$ 112,733	$ 7,489	$ 5,749	$ (1,690)	$ 124,281
Inventories	9,884	(1,957)	-	(9)	7,918
Provisions	24,383	(8,057)	-	(339)	15,987
Property, plant and equipment	17,309	1,810	-	(567)	18,552
Loss from spin-off	69,981	(39,438)	-	(965)	29,578
Accounts receivable	348	(81)	-	-	267
Loss carryforwards	115,650	50,248	-	-	165,898
Deferred profit of upstream	-	59,378	-	-	59,378
Others	98,880	(28,370)	-	(5,649)	64,861
	$ 449,168	$ 41,022	$ 5,749	$ (9,219)	$ 486,720

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax liabilities					
Temporary differences					
Property, plant and equipment	$ 40,735	$ (26,881)	$ -	$ (615)	$ 13,239
Intangible assets - acquisition of Dream Pharma	146,250	(4,500)	-	(2,005)	139,745
Property, plant and equipment and intangible assets - acquisition of the Company	31,809	(1,988)	-	-	29,821
Others	25,833	(11,851)	586	(162)	14,406
	$ 244,627	$ (45,220)	$ 586	$ (2,782)	$ 197,211

e. Unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

The information of the loss carryforward for which no deferred tax assets have been recognized was as follows:

	December 31	
	2019	2018
Expiry period		
1-4 years	$ 191,652	$ 4,683
5-10 years	425,866	683,634
	$ 617,518	$ 688,317

The information of the investment credits for which no deferred tax assets have been recognized was as follows:

	December 31, 2019
Expiry period	
1-3 years	$ 210,122

The unrecognized investment credits will expire in 2020.

f. Income tax assessments

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

22. PROVISIONS

	December 31			
	2019		2018	
	Current	Non-current	Current	Non-current
Provisions for estimated return of goods	$ 83,791	$ -	$ 50,406	$ -
Provision for restoration	-	10,746	-	15,569
Provision for employee benefit obligations	-	18,178	-	16,842
	$ 83,791	$ 28,924	$ 50,406	$ 32,411

23. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Years Ended December 31	
	2019	2018
Basic earnings per share	$ 2.74	$ 0.42

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 Year

	For the Years Ended December 31	
	2019	**2018**
Earnings attributable to owners of the Company	$662,807	$ 99,476

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

	For the Years Ended December 31	
	2019	**2018**
Weighted average number of ordinary shares in the computation of basic earnings per share	241,902	238,201

The Company did not have potential share with dilutive effect during the years ended December 31, 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 cycle and the life cycle 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

December 31, 2019

	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at FVTOCI				
Investments in equity instruments				
Foreign listed shares	$ 449,704	$ -	$ -	$ 449,704

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

b. Categories of financial instruments

	December 31	
	2019	2018
Financial assets		
Financial assets at amortized cost (Note 1)	$ 3,475,745	$ 2,214,662
Financial assets at FVTOCI		
Equity instruments	449,704	-
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	8,591,192	5,975,317

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, trade payables to related parties, other payables, other payables to related parties, 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 natural 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 as 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 the change in pretax profit associated with the 5% appreciation of the New Taiwan dollar against the relevant currency.

	Currency USD Impact For the Years Ended December 31	
	2019	**2018**
Profit (loss)	$ 108,125	$ 48,705

The above profit or loss is mainly associated with the receivables, payables and bank deposits calculated in USD, which are outstanding and not being hedged against 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:

	December 31	
	2019	**2018**
Fair value interest rate risk		
Financial liabilities	$ 269,941	$ -
Cash flow interest rate risk		
Financial assets	1,124,291	1,022,836
Financial liabilities	6,916,158	4,771,672

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 $2,896 thousand in 2019 and $1,874 thousand in 2018.

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 in 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.

December 31, 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	$ 10,957	$ 49,452	$ 122,345	$ 2,835
Variable interest rate liabilities	360,000	579,075	5,977,083	-
Fixed interest rate liabilities	100,000	-	-	-
	$ 470,957	$ 628,527	$ 6,099,428	$ 2,835

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years	5-10 Years
Lease liabilities	$ 60,409	$ 122,345	$ 2,835

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

26. TRANSACTIONS WITH RELATED PARTIES

The Company's parent company is Alvogen EMH, which held 62% of the Company's ordinary shares as of December 31, 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 Group were as follows:

Related Party Name	Relationships
Alvogen EMH	Parent company
Almatica Pharma Inc.	Other related parties
Alvogen Development Ltd.	Other related parties
Alvogen ehf.	Other related parties
Alvogen Group Inc.	Other related parties
Alvogen Iceland ehf.	Other related parties
Alvogen Inc.	Other related parties
Alvogen IPCo S.A.R.L.	Other related parties
Alvogen Malta Group Services Limited	Other related parties
Alvogen Malta Operations Asia Limited	Other related parties
Alvogen Malta Operations Ltd.	Other related parties
Alvogen Malta Operations (ROW) Limited ("AMOROW")	Other related parties
Alvogen Malta (Out-Licensing) Ltd.	Other related parties
Alvogen PB Research & Development LLC. ("Alvogen PB R&D")	Other related parties
Alvogen Pharma d.o.o. [Bosnia]	Other related parties
Alvogen Pharma Trading Europe EOOD	Other related parties
Alvogen (Thailand) Ltd.	Other related parties
Alvotech	Other related parties
Aramis Pharma Kft.	Other related parties
Labormed Pharma S.A.	Other related parties
Labormed Pharma Trading S.R.L	Other related parties
Norwich Pharmaceuticals Inc.	Other related parties
Alvogen CEE Kft.	Other related parties
Alvogen Pine Brook LLC	Other related parties

a. Operating transactions

Items	Related Party Name/Categories	For the Years Ended December 31 2019	2018
Sale of goods and services	Alvogen Inc.	$ 2,645,902	$ 23,919
	Alvogen IPCo S.A.R.L.	50,145	63,184
	Norwich Pharmaceuticals Inc.	32,558	38,800
	Other related parties	279,095	22,698
		$ 3,007,700	$ 148,601
Purchase of goods	Alvogen Malta Operations Ltd.	$ 1,581,690	$ 124,524
	AMOROW	-	67,953
	Other related parties	88,948	42,298
		$ 1,670,638	$ 234,775

b. Other transactions

Items	Related Party Name/Categories	For the Years Ended December 31 2019	2018
Capitalization of development expense	Alvogen PB R&D	$ 4,431	$ -
	AMOROW	-	6,731
	Other related parties	-	423
		$ 4,431	$ 7,154
Operating expense	Other related parties	$ 45,872	$ 9,704
Other income	Alvogen Malta Group Services Limited	$ 4,599	$ 17,956
	Other related parties	323	193
		$ 4,922	$ 18,149
Interest expense	Alvogen EMH	$ 111,024	$ 41,798
	Aramis Pharma Kft.	20,194	33,312
		$ 131,218	$ 75,110
Purchase of intangible asset (Note 1)	AMOROW	$ 188,891	$ -
Purchase of property, plant and equipment	Alvogen Development Ltd.	$ -	$ 6,955
Promotion income recognized as an offset to operating expense	Alvogen EMH	$ -	$ (8,130)

Items	Related Party Name/Categories	For the Years Ended December 31 2019	2018
Reimbursable income for development costs recognized as an offset to research and development expense (Note 2)	Alvogen PB R&D	$ (69,517)	$ (83,766)

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. The foregoing consideration does not include future milestone and royalty payments under the License and Commercialization Agreement between the Qsymia® brand owner, Vivus Inc., and AMOROW.

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	December 31 2019	2018
1) Trade receivables	Alvogen Inc.	$ 974,977	$ 4,260
	Alvogen Malta (Out-Licensing) Ltd.	123,386	-
	Alvogen IPCo S.A.R.L.	16,615	71,661
	Other related parties	92,245	8,174
		$ 1,207,223	$ 84,095
2) Other receivables	Alvogen PB R&D	$ 68,391	$ -
	Alvogen Malta Group Services Limited	34,716	31,558
	Other related parties	1,594	4,540
		$ 104,701	$ 36,098

Trade receivables from related parties are unsecured. For the years ended December 31, 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 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 (NT$1,721,561 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 December 31, 2019, the legal fees related to ANDA filings for two products amounted to US$3,197 thousand (NT$96,057 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 year ended December 31, 2019, sales from the product Buprenorphine/Naloxone amounted to NT$2,623,433 thousand.

The Group carried out a review of the recoverable amount of Budesonide and determined that the recoverable amount was lower than the related carrying amount; as a result, impairment loss of $28,039 thousand was recognized for the year ended December 31, 2019. The impairment loss was included in the research and development expenses.

In 2014, the Company acquired distribution rights from the Alvogen Group to sell some monoclonal antibody molecules to the Asian markets, excluding Japan. As of December 31, 2019, management estimated the recoverable amount of the distribution rights based on the estimated operating cash flows based on a five-year period budget discounted at the weighted average cost of capital. Estimated fair market value of the distribution rights ranges from US$29,466 thousand (NT$885,329 thousand) to US$34,717 thousand (NT$1,043,110 thousand).

e. Payables to related parties

		December 31	
Items	**Related Party Name/Categories**	**2019**	**2018**
1) Trade payables	Alvogen Malta Operations Ltd.	$ 193,448	$ 123,068
	Alvogen Malta Operations Asia Limited	34,694	24,459
	Other related parties	-	2,537
		$ 228,142	$ 150,064
2) Other payables - current	Alvogen Group Inc.	$ 96,055	$ -
	Alvogen EMH	50,570	42,921
	Alvogen Malta Group Services Limited	23,304	3,684
	Norwich Pharmaceuticals Inc.	5,658	15,573
	Aramis Pharma Kft.	-	9,085
	Other related parties	46,293	18,008
		$ 221,880	$ 89,271

Items	Related Party Name/Categories	December 31 2019	2018
3) Loan payables - non-current	Alvogen EMH	$ 2,253,450	$ 1,721,588
	Aramis Pharma Kft.	-	978,480
		$ 2,253,450	$ 2,700,068

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$2,704,140 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:

Related Party Name	For the Year Ended December 31, 2019 Maximum Balance	Ending Balance	Interest Rate	Interest Expense	Interest Payable
Alvogen EMH	$ 2,253,450 (US$ 75,000)	$ 2,253,450 (US$ 75,000)	5.5% (Note 1)	$ 51,498	$ 50,570
Alvogen EMH	$ 3,228,049 (US$103,802)	$ - (US$ -)	4.1%-4.3% (Note 2)	$ 59,526	$ -

Related Party Name	For the Year Ended December 31, 2018 Maximum Balance	Ending Balance	Interest Rate	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

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 Name	December 31 2019	December 31 2018
Alvogen Malta (Out-Licensing) Ltd.	$ 34,603	$ -
Norwich Pharmaceuticals Inc.	-	37,266
Other related parties	757	-
	$ 35,360	$ 37,266

g. Compensation of key management personnel

Items	For the Years Ended December 31 2019	For the Years Ended December 31 2018
Short-term employee benefits	$ 55,107	$ 26,793

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$2,704,140 thousand) for a US$115 million (NT$3,576,270 thousand) related party loan from Alvogen EMH. As of December 31, 2019, property, plant and equipment pledged under this loan facility included land amounted to $261,192 thousand and buildings and plant equipment amounted to $246,339 thousand.

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

	December 31 2019	December 31 2018
Bank demand deposits (classified as other current assets)	$ 508,611	$ -
Bank demand deposits (classified as other non-current assets)	441,331	272,903
Property, plant and equipment		
Land	-	293,959
Buildings and plant equipment	-	269,777
	$ 949,942	$ 836,639

28. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

In addition to those disclosed in other notes, significant commitments and contingencies of the Group as of December 31, 2019 were as follows:

a. The Company had entered into an agreement to buy machines and building plants and equipment for $434,894 thousand, and the unpaid amounted to $308,830 thousand as of December 31, 2019.

b. The Company had entered into clinical trials collaborative agreements, which required the Group to pay $100,675 thousand, with $20,135 thousand payable within one year and the remaining $80,540 thousand payable in installments based on the progress of clinical trials as of December 31, 2019.

c. The Company had entered into a drug development collaborative agreement, which required the Company to pay $6,375 thousand.

d. As of December 31, 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 Company's business, financial condition and results of operations.

e. As of December 31, 2019, the Group's subsidiaries in Korea had the following commitments:

Significant Commitment	Contract Amount (In Thousands of Korea Won/U.S. Dollars)	Financial Institution
Letter of credit	US$ 1,500 (NT$ 45,069)	Woori Bank
Turnover loan for general fund	₩ 8,000,000 (NT$ 207,784)	Woori Bank
Turnover loan for general fund	₩ 2,000,000 (NT$ 51,946)	KEB Hana Bank
Court deposit guarantee insurance	₩ 37,950 (NT$ 986)	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

December 31, 2019

	Foreign Currencies	Exchange Rate (Functional Currency)	Carrying Amount
Financial assets			
Monetary items			
USD	$ 28,764	1,156.83 (USD:WON)	$ 864,253
USD	2,859	71.33 (USD:RUP)	85,911
USD	40,595	30.05 (USD:NTD)	1,219,731
EUR	548	79.91 (EUR:RUP)	18,444
EUR	6,636	33.66 (EUR:NTD)	223,339
JPY	2,275,266	0.28 (JPY:NTD)	627,180
Financial liabilities			
Monetary items			
USD	14,577	1,156.83 (USD:WON)	437,974
USD	404	71.33 (USD:RUP)	12,139
USD	129,211	30.05 (USD:NTD)	3,882,280
EUR	1,087	1,295.88 (EUR:WON)	36,599
EUR	2,165	33.66 (EUR:NTD)	72,863

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)	14,503
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

30. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

a. On December 17, 2019 and January 22, 2020, the board of directors approved to inject capital of US$7,000 thousand and US$3,000 thousand respectively to its wholly owned subsidiary in Singapore, Lotus International Pte. Ltd.

b. On February 25, 2020, the board of directors of the Company's subsidiary, Alvogen Korea Holdings resolved to reduce capital by 21.655%.

31. SEPARATELY DISCLOSED ITEMS

a. Information on significant transactions and on investees:

1) Financing provided to others: Table 1.

2) Endorsements/guarantees provided: Table 2.

3) Marketable securities held: Table 3.

4) Marketable securities acquired and disposed at costs or prices at least NT$300 million or 20% of the paid-in capital: Table 4.

5) Acquisition of individual real estate at costs of at least NT $300 million or 20% of the paid-in capital: NA.

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital: NA.

7) Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: Table 5.

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 6.

9) Trading in derivative instruments: NA.

10) Intercompany relationships and significant intercompany transactions: Table 7.

11) Name, locations, and related information of investees over which the company exercises significant influence (excluding information on investment in mainland China): Table 8.

b. Information on investments in mainland China:

Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investment in the mainland China area: Table 9.

32. 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 sale of medicines. The Group has other operating segments engaged 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 evaluation. 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 year ended December 31, 2019				
Revenues from external customers	$ 8,979,592	$ 195,148	$ -	$ 9,174,740
Inter-segment revenues	129,474	46,370	(175,844)	-
Net operating revenue	$ 9,109,066	$ 241,518	$ (175,844)	$ 9,174,740
Income from operations	$ 1,056,914	$ 70,342	$ (14,103)	$ 1,113,153
Interest income				7,788
Net foreign exchange gains				74,989
Finance costs				(338,819)
Share of loss of associate				(681)
Other non-operating income, net				19,990
Income before income tax				$ 876,420
For the year ended December 31, 2018				
Revenues from external customers	$ 6,253,845	$ 175,049	$ -	$ 6,428,894
Inter-segment revenues	119,357	31,727	(151,084)	-
Net operating revenue	$ 6,373,202	$ 206,776	$ (151,084)	$ 6,428,894

(Continued)

	Drug Manufacturing Department	Others	Elimination	Consolidation
Income from operations	$ 393,041	$ 64,774	$ (9,127)	$ 448,688
Interest income				13,534
Net foreign exchange losses				(10,394)
Finance costs				(320,008)
Share of gain of associate				283
Other non-operating income, net				31,601
Income before income tax				$ 163,704

(Concluded)

c. Geographical information

The Group operates in two principal geographical areas - Taiwan and Korea.

The Group's revenue from external customers by location of operations and information on its non-current assets by location of assets are shown below.

	Revenue from External Customers For the Years Ended December 31		Non-current Assets December 31	
	2019	2018	2019	2018
Korea	$ 5,039,220	$ 5,315,065	$ 3,520,774	$ 2,894,940
USA	2,686,810	84,848	-	-
Taiwan	826,227	772,231	2,126,297	1,776,434
Others	622,483	256,750	53,959	43,147
	$ 9,174,740	$ 6,428,894	$ 5,701,030	$ 4,714,521

Non-current assets included property, plant and equipment; right-of-use assets; intangible assets; and other non-current assets.

TABLE 1

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

FINANCINGS PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars and Others)

No.	Lender	Borrower	Financial Statement Account	Related Parties	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate	Nature of Financing	Business Transaction Amounts	Reasons for Short-term Financing	Allowance for Impairment Loss	Collateral Item	Collateral Item Value	Financing Limit for Each Borrower (Note 1)	Aggregate Financing Limits (Note 1)	Note
0	Lotus Pharmaceutical Co., Ltd.	Taiwan Alvogen Ltd.	Other receivables from related parties	Yes	$ 70,000	$ -	$ -	5%	Necessity for short-term financing	$ -	For operating fund	$ -	-	-	$ 3,096,806	$ 3,096,806	Note 2
0	Lotus Pharmaceutical Co., Ltd.	Lotus Japan Holdings Co., Ltd.	Other receivables from related parties	Yes	613,407 (JPY 2,225,300)	613,407 (JPY 2,225,300)	613,407 (JPY 2,225,300)	2%	Necessity for short-term financing	-	Investment	-	-	-	3,096,806	3,096,806	Note 2

Note 1: It was according to 40% of the Company's equity as of the latest period.

Note 2: The transaction was eliminated in the consolidated financial statements.

TABLE 2

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars and Others)

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 1)	Maximum Balance for the Period	Ending Balance	Amount Actually Drawn	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity Per Latest Financial Statements (%)	Maximum Endorsement/ Guarantee Amount Allowable (Note 1)	Guarantee Provided by Parent Company	Guarantee Provided by A Subsidiary	Guarantee Provided to Subsidiaries in Mainland China	Note
		Name	Nature of Relationship											
0	Lotus Pharmaceutical Co., Ltd.	Alvogen EMH	Parent company	$ 3,871,007	$ 3,160,400 (US$ 100,000)	$ -	$ -	$ -	-	$ 3,871,007	No	Yes	No	
0	Lotus Pharmaceutical Co., Ltd.	Alvogen EMH	Parent company	3,871,007	2,704,140 (US$ 90,000)	2,704,140 (US$ 90,000)	2,253,450 (US$ 75,000)	2,704,140 (US$ 90,000)	35	3,871,007	No	Yes	No	Note 2

Note 1: It was according to 50% of the Company's equity as of the latest period.

Note 2: The second endorsed loan facility was used by the Company. Actual drawn amount is NT$2,253,450 thousand (US$75 million).

TABLE 3

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars)

Holding Company Name	Type and Issuer of Marketable Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2019				Note
				Shares (Thousands)	Carrying Amount	Percentage of Ownership	Fair Value	
Lotus Pharmaceutical Co., Ltd.	International Green Solution, Inc.	-	Financial assets at fair value through profit and loss	1	$ -	0.07%	$ -	Note
Lotus Japan Holdings Co., Ltd.	Fuji Pharma Co., Ltd.	-	Financial assets at fair value through other comprehensive income - non-current	1,219	449,704	3.91%	449,704	
Alvogen Korea Co., Ltd.	Korea Pharmaceutical Industry Cooperative	-	Other non-current assets	65 shares	1,641	0.65%	1,641	Note

Note: The securities had no quoted market prices, so the Group listed their investment net value as of December 31, 2019.

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Company Name	Type and Name of Marketable Securities (Note 1)	Financial Statement Account	Counterparty (Note 2)	Relationship (Note 2)	Beginning Balance		Acquisition (Note 3)		Disposal (Note 3)				Ending Balance (Note 4)	
					Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Carrying Amount	Gain (Loss) on Disposal	Shares	Amount
Lotus Japan Holdings Co., Ltd.	Stock	Financial assets at fair value through other comprehensive income - non-current	-	-	-	$ -	1,219,300	$ 616,498	-	$ -	$ -	$ -	1,219,300	$ 449,704

Note 1: The marketable securities are stocks, bonds, mutual funds and derivative marketable securities.

Note 2: These two columns should be filled in if the marketable securities are recognized as investments accounted for using the equity method.

Note 3: The accumulated acquisition and disposal amount should be individually calculated based on market value to determine if it exceeds NT$300 million or 20% of the paid-in capital.

Note 4: The ending balance is measured at fair value through other comprehensive income.

TABLE 5

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES OF AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationships	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchases/ Sales	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Lotus Pharmaceutical Co., Ltd.	Alvogen Inc.	Other related parties	Sales	$ 2,623,433	28.59	120 days from the end of the month of when invoice is issued	-	-	$ 957,057	43.49	
Lotus Pharmaceutical Co., Ltd.	Alvogen Malta Operations Ltd.	Other related parties	Purchases	(1,581,690)	31.57	120 days from invoice date	-	-	(193,448)	21.94	
Lotus Pharmaceutical Co., Ltd.	Alvogen Malta (Out-Licensing) Ltd.	Other related parties	Sales	141,603	1.54	120 days from the end of the month of when invoice is issued	-	-	120,544	5.48	
Alvogen Korea Holdings Ltd.	Lotus Pharmaceutical Co., Ltd.	Parent company	Sales	163,297	1.78	120 days from the end of the month of when invoice is issued	-	-	64,509	2.93	Note

Note: The above transactions were eliminated in the consolidated financial statements.

TABLE 6

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Lotus Pharmaceutical Co., Ltd.	Alvogen Inc.	Other related parties	$ 957,057	3.14	$ -	-	$ 524,594	$ -
Lotus Pharmaceutical Co., Ltd.	Alvogen Malta (Out-Licensing) Ltd.	Other related parties	120,544	3.90	30,525	Collection in subsequent period	31,477	-

TABLE 7

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars)

No.	Investee Company	Counterparty	Relationship (Note 1)	Transaction Details			
				Financial Statement Accounts	Amount (Note 3)	Payment Terms	% of Total Sales or Assets
1	Alvogen Korea Holdings Ltd.	Lotus Pharmaceutical Co., Ltd.	1	Operating revenue	$ 163,297	Note 2	1.78
1	Alvogen Korea Holdings Ltd.	Lotus Pharmaceutical Co., Ltd.	1	Trade receivables from related parties	64,509	Note 2	0.36
2	Norwich Clinical Services Private Limited	Lotus Pharmaceutical Co., Ltd.	1	Operating revenue	22,578	Note 2	0.25
2	Norwich Clinical Services Private Limited	Lotus Pharmaceutical Co., Ltd.	1	Trade receivables from related parties	13,028	Note 2	0.07
2	Norwich Clinical Services Private Limited	Alvogen Korea Co., Ltd.	2	Operating revenue	23,792	Note 2	0.26

Note 1: 1 represents transactions between the parent company and the subsidiaries; 2 represents transactions between the subsidiaries.

Note 2: The intercompany transaction terms are determined in accordance with mutual agreements.

Note 3: The transactions were eliminated in the consolidated financial statements.

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES OVER WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE (EXCLUDING INFORMATION ON INVESTMENT IN MAINLAND CHINA)
FOR THE YEAR ENDED DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars and Others)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		As of December 31, 2019			Net Income (Loss) of the Investee	Investee Gain (Loss)	Note
				December 31, 2019	December 31, 2018	Shares (Thousand)	%	Carrying Amount			
Lotus Pharmaceutical, Co., Ltd.	Lotus International Pte. Ltd.	Singapore	Investment business	$ 25,618	$ 25,618	790	100.00	$ 37,989	$ (941)	$ (941)	-
	Lotus Lab, Ltd.	England	Market data collection and European-agent services	-	-	-	100.00	-	1,084	1,084	Note 1
	Heng Kang Bio Medi Co., Ltd.	Taiwan	Drug inspection, biotech technology services, and intellectual property	49,700	49,700	4,970	33.69	8,354	(2,222)	(681)	Note 2
	Lotus Pharmaceutical, HK Ltd.	Hong Kong	Market data collection and Hong-Kong-agent services	HK$ 250	HK$ 250	250	100.00	(2,221)	(2,677)	(2,677)	-
	Lotus Jonson Biotech Limited	Taiwan	Cosmetics wholesale, medicine retail, clinical machine retail, international trade industry, biotech technological services, and related consulting services	1,100	1,100	110	100.00	102	(24)	(24)	-
	Alvogen Korea Holdings Ltd.	Korea	Investment business	US$ 204,244	US$ 204,244	1,922	100.00	3,473,562	75,139	250,976	Note 4
	Taiwan Alvogen Ltd.	Taiwan	Sale of medicine	US$ 5,000 + $ 79,000	US$ 5,000	10,400	100.00	2,190	(4,368)	(4,368)	-
	Alvogen Pharma India Pvt. Ltd.	India	Investment business	US$ 9,800	US$ 9,800	502	98.00	88,522	29,169	14,764	Note 4
	Lotus Japan Holdings Co., Ltd.	Japan	Sale of medicine, sale of clinical machine	-	-	-	100.00	(168,896)	(5,246)	(5,246)	Note 5
Lotus Pharmaceutical, HK Ltd.	Lotus Pharmaceutical (Shanghai) Health Management Consulting Limited	Mainland China - Shanghai	Consultation on health management, trading information, market planning, and business information.	911	911	-	100.00	(1,686)	(2,638)	(2,638)	-

Note 1: England subsidiary - Lotus Lab, Ltd. has been dissolved on October 15, 2019.

Note 2: It includes the pricing technology contribution amounting to $30,000 thousand.

Note 3: Except for Heng Kang Bio Medi Co., Ltd., the above investee companies were eliminated in the consolidated financial statements.

Note 4: The main financial statements of the Company's subsidiary Alvogen Korea Holdings Ltd. and Alvogen Pharma India Pvt Ltd. are their consolidated financial statements.

Note 5: Japan subsidiary - Lotus Japan Holdings Co., Ltd., as of December 31, 2019, the capital remittance has not been paid.

TABLE 9

LOTUS PHARMACEUTICAL CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR YEAR ENDED DECEMBER 31, 2019
(Amounts in Thousands of New Taiwan Dollars)

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2019	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2019	Ownership of Direct or Indirect Investment (%)	Investment Income (Loss)	Carrying Amount as of December 31, 2019	Accumulated Repatriation of Investment Income as of December 31, 2019
					Outward	Inward					
Lotus Pharmaceutical (Shanghai) Health Management Consulting Limited (Note 1)	Consultation on health management, health technology, trading information, market planning, and business information	$ 911	Reinvestment in Mainland China through another investee in a third area	$ 911	$ -	$ -	$ 911	100	$ (2,638)	$ (1,686)	$ -
Lotus Biotech (Shanghai) Limited (Note 2)	Consulting on health technology, chemical drugs, chemical reagents, biotech technology, and biotech production	20,100	Reinvestment in Mainland China through another investee in a third area	20,100	-	-	20,100	-	-	-	-

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA)	Limit of the Amount of Investment Stipulated by the Investment Commission, MOEA (Note 3)
$21,011	$21,011	$4,646,297

Note 1: The investment amount has been approved by Investment Commission, MOEA No.10700074190.

Note 2: The investment amount has been approved by Investment Commission, MOEA No. 092031304 and No. 09500181300. Lotus Biotech (Shanghai) Limited has been divested in 2017. It's has been approved by Investment Commission, MOEA No.10800070030.

Note 3: The amount of the limit is in accordance with No. 006130 issued by the Ministry of Finance on November 16, 2001 and No. 09704604680 issued by Investment of Commission, Ministry of Economic Affairs on August 29.