Lotus Pharmaceutical Co., Ltd.

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

Deloitte.

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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

In our opinion, based on our audits and the report of the other auditors (please refer to Other Matter paragraph), the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

We conducted our 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 Financial Statements section of our report. We are independent of the Company 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. Based on our audits and the report of other auditors, 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 Company's financial statements for the year ended December 31, 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

<u>Goodwill Impairment Assessment</u>

As described in Note 12, the goodwill amounted to 22% (NT$2,751,253 thousand) of the Company's total assets as of December 31, 2019; therefore, goodwill is material to the financial statements as a whole and considered as a key audit matter. Please refer to Note 4, h. 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 Company's goodwill resulted from the reverse acquisition of the equity of the Company. The Company 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 Company in its evaluation of goodwill for impairment.

2. 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.

3. 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.

4. 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.

Impairment Assessment of Investment Accounted for Using the Equity Method

As described in Note 9, the investment in Alvogen Korea Holdings Ltd., a subsidiary accounted for by using the equity method, amounted to 27% (NT$3,473,562 thousand) of the Company's total assets as of December 31, 2019; therefore, the investment accounted for by using the equity method is material to the financial statements as a whole and considered as a key audit matter. Please refer to Note 4, f. for the accounting policy on the impairment of investments accounted for using the equity method.

Audit Procedures for the Key Audit Matter

We performed the following audit procedures to evaluate the reasonableness of the impairment assessment of investment accounted for using the equity method done by the management:

1. We recalculated the share of profit or loss in the Company's ownership interest in the subsidiary to ensure the accuracy of the Company's calculation.

2. We discussed with the management and the auditor engaged by the subsidiary ("component auditor") about their understanding and assessment related to key matters including goodwill impairment.

3. We issued audit instructions to the component auditor and reviewed the deliverables and the independent valuation reports provided by the component auditor.

4. We evaluated the overall impairment of the investment accounted for using the equity method by comparing the carrying amount with the recoverable amount based on the subsidiary's financial statements.

Buprenorphine/Naloxone Product Sales Revenue Recognition

As described in Note 23(e), 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 67% (NT$2,623,433 thousand) of the Company's total revenue; therefore, Buprenorphine/Naloxone product sales revenue is material to the financial statements as a whole and considered as a key audit matter. Please refer to Note 4, l. 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

The financial statements of Alvogen Pharma India Pvt Ltd., a subsidiary accounted for by the equity method, were audited by other auditors, whose report has been furnished to us. Our opinion, insofar as it relates to the amount of the investment, is based solely on the report of the other auditors. The carrying amount of the investment was 0.7% (NT$78,960 thousand) of the Company's total assets as of December 31, 2018. The share of income of the subsidiary amounted 218% (NT$32,751 thousand) of the Company's loss before tax for the year ended December 31, 2018.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements 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 financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. 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 financial statements shall prevail.

LOTUS PHARMACEUTICAL CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

ASSETS	**2019 Amount**	**%**	**2018 Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Note 6)	$ 228,473	2	$ 180,305	2
Contract assets - current (Note 17)	-	-	9,867	-
Notes and trade receivables, net (Notes 7 and 17)	234,434	2	235,476	2
Trade receivables from related parties, net (Notes 17 and 23)	1,135,939	9	2,761	-
Other receivables	995	-	1,822	-
Other receivables from related parties (Note 23)	728,766	5	111,046	1
Current tax assets (Note 19)	1,293	-	-	-
Inventories (Note 8)	500,474	4	454,179	4
Other current assets (Note 24)	99,912	1	110,939	1
Total current assets	2,930,286	23	1,106,395	10
NON-CURRENT ASSETS				
Investment accounted for using the equity method (Notes 9 and 28)	3,610,719	28	3,939,639	35
Property, plant and equipment (Note 10)	933,149	7	830,268	7
Right-of-use assets (Note 11)	61,902	-	-	-
Goodwill (Note 12)	2,751,253	22	2,751,253	25
Other intangible assets (Note 13)	2,234,831	18	560,391	5
Deferred tax assets (Note 19)	171,438	1	250,227	2
Other non-current assets (Notes 23 and 24)	69,107	1	1,765,181	16
Total non-current assets	9,832,399	77	10,096,959	90
TOTAL	$ 12,762,685	100	$ 11,203,354	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 14)	$ 460,000	4	$ 310,000	3
Contract liabilities - current (Notes 17 and 23)	42,708	-	2,431	-
Notes and trade payables	126,682	1	103,859	1
Trade payables to related parties (Note 23)	317,146	3	197,819	2
Other payables	164,905	1	111,264	1
Other payables to related parties (Note 23)	186,548	1	109,569	1
Lease liabilities - current (Note 11)	20,861	-	-	-
Current portion of long-term borrowings (Note 14)	-	-	300,000	2
Other current liabilities - other	11,526	-	9,520	-
Total current liabilities	1,330,376	10	1,144,462	10
NON-CURRENT LIABILITIES				
Contract liabilities - non-current (Note 17)	9,252	-	6,015	-
Long-term borrowings, net of current portion (Note 14)	1,141,748	9	-	-
Deferred tax liabilities (Note 19)	62,947	1	44,186	1
Lease liabilities - non-current (Note 11)	41,924	-	-	-
Loan payables to related parties - non-current (Note 23)	2,253,450	18	2,700,068	24
Net defined benefit liabilities (Note 15)	9,142	-	9,090	-
Credit on investment accounted for using the equity method (Notes 9 and 28)	171,117	1	73,526	1
Other non-current liabilities	714	-	312	-
Total non-current liabilities	3,690,294	29	2,833,197	26
Total liabilities	5,020,670	39	3,977,659	36
EQUITY				
Share capital (Note 16)	2,431,140	19	2,382,007	21
Capital surplus (Note 16)	6,588,034	52	6,020,558	54
Accumulated deficits	(652,936)	(5)	(995,135)	(9)
Other equity	(624,223)	(5)	(181,735)	(2)
Total equity	7,742,015	61	7,225,695	64
TOTAL	$ 12,762,685	100	$ 11,203,354	100

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

LOTUS PHARMACEUTICAL CO., LTD.

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 17 and 23)	$ 3,902,452	100	$ 945,495	100
OPERATING COSTS (Notes 8 and 23)	2,213,147	57	518,461	55
GROSS PROFIT	1,689,305	43	427,034	45
REALIZED PROFIT ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATE	4,772	-	-	-
REALIZED GROSS PROFIT	1,694,077	43	427,034	45
OPERATING EXPENSES (Notes 18 and 23)				
Selling and marketing expense	483,993	13	263,543	28
General and administrative expense	231,095	6	179,667	19
Research and development expense	366,864	9	110,380	11
Expected credit loss (gain)	7,159	-	(827)	-
Total operating expenses	1,089,111	28	552,763	58
INCOME (LOSS) FROM OPERATIONS	604,966	15	(125,729)	(13)
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 18 and 23)	19,413	1	34,015	4
Other gains and losses (Note 18)	41,131	1	(15,552)	(2)
Finance costs (Notes 18 and 23)	(158,059)	(4)	(86,191)	(9)
Share of profit of subsidiaries and associates (Note 9)	252,887	6	178,448	19
Total non-operating income, net	155,372	4	110,720	12
INCOME (LOSS) BEFORE INCOME TAX	760,338	19	(15,009)	(1)
INCOME TAX (EXPENSE) BENEFIT (Note 19)	(97,531)	(2)	114,485	12
NET INCOME	662,807	17	99,476	11

(Continued)

LOTUS PHARMACEUTICAL CO., LTD.

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**	**%**
OTHER COMPREHENSIVE INCOME (LOSS), NET				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	$ 93	-	$ 436	-
Share of other comprehensive loss of subsidiaries and associate accounted for using the equity method	(234,563)	(6)	(17,632)	(2)
Income tax relating to items that will not be reclassified subsequently to profit or loss	(19)	-	307	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(272,039)	(7)	(72,942)	(8)
Share of other comprehensive loss of subsidiaries and associate accounted for using the equity method (Note 19)	-	-	(586)	-
Other comprehensive (loss) income for the year, net of income tax	(506,528)	(13)	(90,417)	(10)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 156,279	4	$ 9,059	1
EARNINGS PER SHARE (Note 20)				
Basic	$ 2.74		$ 0.42	

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

LOTUS PHARMACEUTICAL CO., LTD.

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

	Equity								
					Other Equity				
	Share Capital - Ordinary Shares								
	Shares (Thousands)	Amount	Capital Surplus	Accumulated Deficits	Unrealized Gains 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 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
Effect of retrospective application	-	-	-	(1,005)	995	-	-	-	(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
Net income for the year ended December 31, 2018	-	-	-	99,476	-	-	-	-	99,476
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	(17,475)	-	-	(72,942)	-	(90,417)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	82,001	-	-	(72,942)	-	9,059
Cancelation of treasury share	(291)	(2,910)	-	(19,978)	-	-	-	22,888	-
Changes in investment in subsidiaries and associate accounted for using the equity method	-	-	-	(29,263)	-	-	-	-	(29,263)
BALANCE AT DECEMBER 31, 2018	238,201	2,382,007	6,020,558	(995,135)	-	-	(181,735)	-	7,225,695
Net income for the year ended December 31, 2019	-	-	-	662,807	-	-	-	-	662,807
Other comprehensive loss for the year ended December 31, 2019, net of income tax	-	-	-	(64,040)	-	(170,449)	(272,039)	-	(506,528)
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	598,767	-	(170,449)	(272,039)	-	156,279
Issuance of ordinary shares for cash	4,913	49,133	567,476	-	-	-	-	-	616,609
Changes in investment in subsidiaries and associate accounted for using the equity method	-	-	-	(256,568)	-	-	-	-	(256,568)
BALANCE AT DECEMBER 31, 2019	243,114	$ 2,431,140	$ 6,588,034	$ (652,936)	$ -	$ (170,449)	$ (453,774)	$ -	$ 7,742,015

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

LOTUS PHARMACEUTICAL CO., LTD.

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 (loss) before income tax	$ 760,338	$ (15,009)
Adjustments for:		
Depreciation expenses	105,661	73,084
Amortization expenses	242,711	34,428
Expected credit loss recognized (reversed) on trade receivables	7,159	(827)
Finance costs	158,059	86,191
Interest income	(12,762)	(4,170)
Share of profit of subsidiaries and associates	(252,887)	(178,448)
Loss on disposal of property, plant and equipment	8,228	1,286
Unrealized foreign exchange (gain) loss	(65,962)	15,377
Impairment loss on non-financial assets	150,119	10,775
Write-down of inventories	22,691	30,026
Realized gain on transactions with subsidiaries and associate	(4,772)	-
Changes in operating assets and liabilities		
Contract assets	9,867	110,735
Notes and trade receivables	(6,117)	(68,051)
Trade receivables from related parties	(1,133,178)	(2,761)
Other receivables	(172)	186
Other receivables from related parties	(16,891)	197,428
Inventories	(68,986)	(220,139)
Other current assets	11,027	(53,438)
Contract liabilities	43,514	(22,345)
Notes and trade payables	22,823	(5,824)
Trade payables to related parties	113,243	145,423
Other payables	36,480	(25,079)
Other payables to related parties	76,341	21,529
Other current liabilities - other	2,006	(2,054)
Net defined benefit liabilities	145	152
Cash generated from operations	208,685	128,475
Interest paid	(140,869)	(41,623)
Interest received	5,936	3,681
Income tax paid	(294)	-
Net cash generated from operating activities	73,458	90,533
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(228,706)	(59,269)
Proceeds from disposal of property, plant and equipment	31,242	-
Other receivables from related parties	(616,828)	-
Purchase of intangible assets (including capitalized development expenses)	(386,649)	(222,612)
Increase in other assets	(15,000)	(1,745,560)
Increase in refundable deposits	(10,514)	(1,266)
Net cash used in investing activities	(1,226,455)	(2,028,707)

(Continued)

LOTUS PHARMACEUTICAL CO., LTD.

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

	2019	2018
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	1,289,020	-
Repayments of long-term borrowings	(400,000)	-
Increase in guarantee deposits received	402	-
Net (decrease) increase from long-term payable to related parties	(434,330)	1,875,335
Repayments of the principal portion of lease liabilities	(20,536)	-
Proceeds from issuance of ordinary shares	616,609	-
Net cash generated from financing activities	1,201,165	1,925,335
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,168	(12,839)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	180,305	193,144
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 228,473	$ 180,305

The accompanying notes are an integral part of the 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 financial statements prepared following this reverse acquisition have been issued in the name of the legal parent (the Company) and presented as a continuation of the financial statements of the legal subsidiaries (Alvogen Korea Holdings and its subsidiary, Alvogen Pharma India Pvt Ltd. and its subsidiary, and Taiwan Alvogen Ltd.). In addition, the Company also acquired two high-value abbreviated new drug application (ANDA) filings for Buprenorphine/Naloxone and Budesonide from the Alvogen Group. Further, the Company acquired distribution rights from the Alvogen Group to sell some monoclonal antibody molecules to Asian markets, excluding Japan.

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

The financial statements are presented in the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The 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 Company's accounting policies:

<u>IFRS 16 "Leases"</u>

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.

<u>Definition of a lease</u>

The Company 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.

<u>The Company as lessee</u>

The Company recognizes right-of-use assets and lease liabilities for all leases on the 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 statements of comprehensive income, the Company 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 statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the 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 Company applies IAS 36 to all right-of-use assets.

The Company also applies the following practical expedients:

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

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

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

4) The Company 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 2%. 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	$ 38,623
Less: Recognition exemption for short-term leases	(137)
Less: Recognition exemption for leases of low-value assets	(158)
Undiscounted amounts on January 1, 2019	$ 38,328
Discounted amounts using the incremental borrowing rate on January 1, 2019	$ 37,466
Lease liabilities recognized on January 1, 2019	$ 37,466

The Company as lessor

The Company 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	$ -	$ 37,466	$ 37,466
Total effect on assets	$ -	$ 37,466	$ 37,466
Lease liabilities - current	$ -	$ 13,654	$ 13,654
Lease liabilities - non-current	-	23,812	23,812
Total effect on liabilities	$ -	$ 37,466	$ 37,466

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 Company 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 Company shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

Note 3: The Company shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

As of the date the financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company'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 financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company'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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

b. Basis of preparation

The 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, which 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 Company 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. Foreign currencies

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (i.e., 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 financial statements, the assets and liabilities of the Company'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

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.

e. 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.

f. Investments accounted for by using the equity method

The Company uses the equity method to account for its investments in subsidiaries and associates.

1) Investments in subsidiaries

A subsidiary is an entity that is controlled by the Company.

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

Changes in the Company's ownership interest in a subsidiary that do not result in the Company losing control of the subsidiary are equity transactions. The Company recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

When the Company's share of losses of a subsidiary exceeds its interest in that subsidiary (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Company's net investment in the subsidiary), the Company continues recognizing its share of further losses.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The Company assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Company recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Company loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of the previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides this, the Company accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Company had directly disposed of the related assets or liabilities.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Company.

2) Investments in associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of the 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 the Company transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Company's financial statements only to the extent that interests in the associate that are not related to the Company.

g. 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. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. 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.

h. 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 Company'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 Company 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.

i. 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 Company 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.

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

At the end of each reporting period, the Company 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 Company 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 Company 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 Company 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.

k. Financial instruments

Financial assets and financial liabilities are recognized when the Company 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 and financial assets at amortized cost.

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, 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 asset; 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

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.

b) Impairment of financial assets and contract assets

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

The Company recognizes lifetime expected credit loss (ECLs) for trade receivables and contract assets. For all other financial instruments, the Company 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 Company 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 Company determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Company):

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 Company 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 Company 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 the Company 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 the Company 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.

l. Revenue recognition

The Company 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.

m. Leases

<u>2019</u>

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

<u>The Company as lessee</u>

The Company 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 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 Company 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 Company 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 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 Company as lessor

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

2) The Company 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 Company 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.

n. 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.

o. 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 benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services 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 Company'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.

p. 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 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 Company 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 Company 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 Company'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	$ 373	$ 363
Checking accounts and demand deposits	228,100	179,942
	$ 228,473	$ 180,305

7. NOTES AND TRADE RECEIVABLES

	December 31 2019	December 31 2018
Notes receivable		
Notes receivable - operating	$ 24,533	$ 27,189
Trade receivables		
At amortized cost		
Gross carrying amount	221,198	212,449
Less: Allowance for impairment loss	(11,297)	(4,162)
	209,901	208,287
	$ 234,434	$ 235,476

The average credit period of sales of goods was 30 to 120 days. No interest was charged on trade receivables. In order to minimize credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Company 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 Company's credit risk was significantly reduced.

The Company 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 Company'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 Company's different customer base.

The Company 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 Company 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 Company's provision matrix.

December 31, 2019

	Gross Carrying Amount	Loss Allowance (Lifetime ECLs)	Amortized Cost
Less than 60 days	$ 234,996	$ (2,853)	$ 232,143
61-90 days	808	(178)	630
91-120 days	440	(123)	317
121-150 days	1,004	(331)	673
151-180 days	1,199	(528)	671
181-360 days	861	(861)	-
More than 360 days	6,423	(6,423)	-
	$ 245,731	$ (11,297)	$ 234,434

December 31, 2018

	Gross Carrying Amount	Loss Allowance (Lifetime ECLs)	Amortized Cost
Less than 60 days	$ 230,581	$ (2,603)	$ 227,978
61-90 days	916	(202)	714
91-120 days	657	(184)	473
121-150 days	1,336	(441)	895
151-180 days	127	(56)	71
181-360 days	5,977	(632)	5,345
More than 360 days	44	(44)	-
	$ 239,638	$ (4,162)	$ 235,476

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	$ 4,162	$ 5,434
Add: Recognition of impairment loss allowance	7,159	-
Less: Amounts written off	(24)	(445)
Less: Reversal of impairment loss allowance recognized	-	(827)
Balance at December 31	$ 11,297	$ 4,162

8. INVENTORIES

	December 31	
	2019	2018
Merchandise	$ 223,733	$ 211,846
Raw materials and supplies	121,235	83,500
Work in progress	62,637	51,236
Finished goods	87,203	107,597
Inventory in transit	5,666	-
	$ 500,474	$ 454,179

Write-down of inventories to net realizable value at the amount of $22,691 thousand and $30,026 thousand for the years ended December 31, 2019 and 2018, respectively, were included in the cost of goods sold.

9. INVESTMENT ACCOUNTED FOR BY USING THE EQUITY METHOD

	December 31	
	2019	2018
Investment accounted for by using the equity method		
Investments in subsidiaries	$ 3,602,365	$ 3,930,604
Investments in an associate	8,354	9,035
	$ 3,610,719	$ 3,939,639
Credit on investment accounted for by using equity method		
Investments in subsidiaries	$ 171,117	$ 73,526

a. Investments in subsidiaries

	December 31	
	2019	2018
Alvogen Korea Holdings Ltd.	$ 3,473,562	$ 3,812,254
Lotus International Pte. Ltd.	37,989	38,930
Lotus Jonson Biotech Limited.	102	126
Alvogen Pharma India Pvt Ltd.	88,522	78,960
Taiwan Alvogen Ltd.	2,190	(72,442)
Lotus Lab, Ltd. (dissolved on October 15, 2019)	-	(1,084)
Lotus Pharmaceutical, HK Ltd.	(2,221)	334
Lotus Japan Holdings Co., Ltd.	(168,896)	-
Add: Credit on investment accounted for by using equity method	171,117	73,526
	$ 3,602,365	$ 3,930,604

Details of the proportion of ownership and voting rights of subsidiaries were as follows:

	December 31	
	2019	2018
Alvogen Korea Holdings Ltd.	100%	100%
Lotus International Pte. Ltd.	100%	100%
Lotus Jonson Biotech Limited	100%	100%
Alvogen Pharma India Pvt Ltd.	98%	98%
Taiwan Alvogen Ltd. (Note 1)	100%	100%
Lotus Lab, Ltd. (dissolved on October 15, 2019)	100%	100%
Lotus Pharmaceutical, HK Ltd.	100%	100%
Lotus Japan Holdings Co., Ltd. (Note 2)	100%	-

Note 1: During December 2019, Taiwan Alvogen Ltd. was approved by board of directors and entered into the process of liquidation.

Note 2: Lotus Japan Holdings Co., Ltd. was established during the first quarter of 2019.

Except for Lotus Jonson Biotech Limited., investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. 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 financial statements of Lotus Jonson Biotech Limited which has not been audited.

b. Investments in an associate

	December 31	
	2019	2018
Associate that is unlisted company		
Heng Kang Bio Medi Co., Ltd.	$ 8,354	$ 9,035

Details of the proportion of ownership and voting rights of an associate were as follows:

	December 31	
	2019	2018
Heng Kang Bio Medi Co., Ltd.	33.69%	33.69%

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

	For the Years Ended December 31	
	2019	2018
The Company'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.

10. 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	$ 293,959	$ 401,670	$ 256,863	$ 113,497	$ 40,857	$ 96,392	$ 12,297	$ 1,215,535
Additions	-	2,187	9,235	538	5,508	211,160	687	229,315
Disposals	(32,767)	(5,153)	(3,752)	(2,748)	(1,289)	-	(476)	(46,185)
Reclassification	-	8,524	48,587	242	7,974	(68,049)	-	(2,722)
Balance at December 31, 2019	$ 261,192	$ 407,228	$ 310,933	$ 111,529	$ 53,050	$ 239,503	$ 12,508	$ 1,395,943
Accumulated depreciation and impairment								
Balance at January 1, 2019	$ -	$ 131,893	$ 146,924	$ 71,520	$ 25,070	$ -	$ 9,860	$ 385,267
Depreciation	-	30,071	25,361	17,325	10,634	-	851	84,242
Disposals	-	(1,075)	(1,534)	(2,341)	(1,289)	-	(476)	(6,715)
Balance at December 31, 2019	$ -	$ 160,889	$ 170,751	$ 86,504	$ 34,415	$ -	$ 10,235	$ 462,794
Carrying amounts at January 1, 2019	$ 293,959	$ 269,777	$ 109,939	$ 41,977	$ 15,787	$ 96,392	$ 2,437	$ 830,268
Carrying amounts at December 31, 2019	$ 261,192	$ 246,339	$ 140,182	$ 25,025	$ 18,635	$ 239,503	$ 2,273	$ 933,149

(Continued)

	Land	Buildings, and Plant Equipment	Machinery	Experiment Equipment	Miscellaneous Equipment	Construction in Progress	Leasehold Improvements	Total
Cost								
Balance at January 1, 2018	$ 293,959	$ 364,190	$ 241,500	$ 97,934	$ 29,438	$ 131,838	$ 9,372	$ 1,168,231
Additions	-	2,164	8,523	5,753	3,764	36,997	2,068	59,269
Disposals	-	-	(3,075)	(6)	(263)	-	-	(3,344)
Reclassification	-	35,316	9,915	9,816	7,918	(72,443)	857	(8,621)
Balance at December 31, 2018	$ 293,959	$ 401,670	$ 256,863	$ 113,497	$ 40,857	$ 96,392	$ 12,297	$ 1,215,535
Accumulated depreciation and impairment								
Balance at January 1, 2018	$ -	$ 104,156	$ 118,437	$ 54,851	$ 17,113	$ -	$ 8,909	$ 303,466
Depreciation	-	27,737	19,501	16,675	8,220	-	951	73,084
Impairment loss	-	-	10,775	-	-	-	-	10,775
Disposals	-	-	(1,789)	(6)	(263)	-	-	(2,058)
Balance at December 31, 2018	$ -	$ 131,893	$ 146,924	$ 71,520	$ 25,070	$ -	$ 9,860	$ 385,267
Carrying amounts at January 1, 2018	$ 293,959	$ 260,034	$ 123,063	$ 43,083	$ 12,325	$ 131,838	$ 463	$ 864,765
Carrying amounts at December 31, 2018	$ 293,959	$ 269,777	$ 109,939	$ 41,977	$ 15,787	$ 96,392	$ 2,437	$ 830,268

(Concluded)

The recoverable amount of certain idle equipment was determined based on fair value less costs of disposal. The Company 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	35-50 years
Firefighting, air-conditioning and other systems	3-27 years
Plant equipment	1-35 years
Machinery	2-17 years
Experiment equipment	2-6 years
Miscellaneous equipment	3-5 years
Leasehold improvements	1-7 years

Refer to Note 24 for the carrying amounts of property, plant and equipment pledged by the Company to secure borrowings of the Company.

11. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Buildings	$ 55,886
Office equipment	2,283
Transportation equipment	3,733
	$ 61,902

	For the Years Ended December 31, 2019
Additions to right-of-use assets	$ 46,042
Depreciation charge for right-of-use assets	
Buildings	$ 19,216
Office equipment	470
Transportation equipment	1,733
	$ 21,419

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	
Current	$ 20,861
Non-current	$ 41,924

Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Buildings	2%
Office equipment	2%
Transportation equipment	2%

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	$ 14,552
Later than 1 year and not later than 5 years	24,071
	$ 38,623

12. GOODWILL

	For the Years Ended December 31	
	2019	2018
Cost		
Balance as of January 1 and December 31	$ 2,825,253	$ 2,825,253
Accumulated impairment		
Balance as of January 1 and December 31	$ 74,000	$ 74,000
Carrying amounts at January 1	$ 2,751,253	$ 2,751,253
Carrying amounts at December 31	$ 2,751,253	$ 2,751,253

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.

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	$ 2,751,253	$ 2,751,253

The recoverable amount of the Company'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.

13. OTHER INTANGIBLE ASSETS

	Software and Systems	Product Use Rights	Capitalization of Development Expenses	Others	Total
Cost					
Balance at January 1, 2019	$ 10,658	$ 266,538	$ 484,602	$ 9,224	$ 771,022
Additions	-	-	234,682	-	234,682
Reclassification	2,722	1,716,832	-	(9,224)	1,710,330
Balance at December 31, 2019	$ 13,380	$1,983,370	$ 719,284	$ -	$2,716,034

(Continued)

	Software and Systems	Product Use Rights	Capitalization of Development Expenses	Others	Total
Accumulated amortization and impairment					
Balance at January 1, 2019	$ 2,995	$ 130,175	$ 71,650	$ 5,811	$ 210,631
Amortization	2,345	208,540	31,826	-	242,711
Impairment loss	-	-	27,861	-	27,861
Reclassification	-	5,811	-	(5,811)	-
Balance at December 31, 2019	$ 5,340	$ 344,526	$ 131,337	$ -	$ 481,203
Carrying amounts at January 1, 2019	$ 7,663	$ 136,363	$ 412,952	$ 3,413	$ 560,391
Carrying amounts at December 31, 2019	$ 8,040	$1,638,844	$ 587,947	$ -	$2,234,831
Cost					
Balance at January 1, 2018	$ 2,037	$ 266,538	$ 356,773	$ 9,224	$ 634,572
Additions	-	-	127,829	-	127,829
Reclassification	8,621	-	-	-	8,621
Balance at December 31, 2018	$ 10,658	$ 266,538	$ 484,602	$ 9,224	$ 771,022
Accumulated amortization and impairment					
Balance at January 1, 2018	$ 1,984	$ 100,423	$ 69,294	$ 4,502	$ 176,203
Amortization	1,011	29,752	2,356	1,309	34,428
Balance at December 31, 2018	$ 2,995	$ 130,175	$ 71,650	$ 5,811	$ 210,631
Carrying amounts at January 1, 2018	$ 53	$ 166,115	$ 287,479	$ 4,722	$ 458,369
Carrying amounts at December 31, 2018	$ 7,663	$ 136,363	$ 412,952	$ 3,413	$ 560,391

(Concluded)

The Company 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 $27,861 thousand was recognized for the years ended December 31 2019. The impairment loss was included in the research and development expenses.

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

Software and systems	3-6 years
Product use rights	9 years
Capitalization of development expenses	7 years
Others	1-5 years

14. 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	2018
Unsecured borrowings		
Bank loans	$ 1,141,748	$ 300,000
Less: Current portion matured within a year	-	(300,000)
	$ 1,141,748	$ -
Maturity period	February 2021	April 2019
Interest interval	2.90%	2.00%

15. 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 amounts included in the balance sheets in respect of the Company's defined benefit plans were as follows:

	December 31	
	2019	**2018**
Present value of defined benefit obligation	$ 26,549	$ 25,711
Fair value of plan assets	(17,407)	(16,621)
Net defined benefit liabilities	$ 9,142	$ 9,090

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 Liability**
Balance at January 1, 2018	$ 25,301	$ (15,927)	$ 9,374
Service cost			
Current service cost	86	-	86
Net interest expense (income)	253	(160)	93
Recognized in profit or loss	339	(160)	179
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(507)	(507)
Actuarial loss - experience adjustments	71	-	71
Recognized in other comprehensive income	71	(507)	(436)
Contributions from the employer	-	(27)	(27)
Balance at December 31, 2018	$ 25,711	$ (16,621)	$ 9,090
Balance at January 1, 2019	$ 25,711	$ (16,621)	$ 9,090
Service cost			
Current service cost	87	-	87
Net interest expense (income)	257	(166)	91
Recognized in profit or loss	344	(166)	178
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(588)	(588)
Actuarial loss - experience adjustments	494	-	494
Recognized in other comprehensive income	494	(588)	(94)
Contributions from the employer	-	(32)	(32)
Balance at December 31, 2019	$ 26,549	$ (17,407)	$ 9,142

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

	For the Years Ended December 31	
	2019	2018
Operating costs	$ 82	$ 76
Selling and marketing expenses	68	75
General and administrative expenses	4	4
Research and development expenses	24	24
	$ 178	$ 179

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:

	December 31	
	2019	2018
Discount rate	1.00%	1.00%
Expected rate of salary increase	3.00%	3.00%

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	$ (2,652)	$ (2,826)
1% decrease	$ 3,165	$ 3,396
Expected rate(s) of salary increase		
1% increase	$ 3,087	$ 3,314
1% decrease	$ (2,645)	$ (2,821)

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	$ 30	$ 29
The average duration of the defined benefit obligation	15.1 years	16.2 years

16. 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 shareholder (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 Company 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 18, 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 principle, cash dividends should be no less than 10% of the total dividends distributed. 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.

17. NET OPERATING REVENUE

	For the Years Ended December 31	
	2019	2018
Revenue from contracts with customers		
Revenue from the sale of goods	$ 3,669,460	$ 830,228
Revenue from the rendering of services	3,399	3,269
Revenue from the sale or out-licensing of IP rights	167,318	36,842
Revenue from R&D and others	62,275	75,156
	$ 3,902,452	$ 945,495

Contract Balances

	December 31	
	2019	2018
Notes and trade receivables, net (Notes 7 and 23)	$ 1,370,373	$ 238,237
Contract assets - current	$ -	$ 9,867
Contract liabilities - current	$ 42,708	$ 2,431
Contract liabilities - non-current	$ 9,252	$ 6,015

18. NET INCOME (LOSS)

Net income (loss) contains following items:

a. Other income

	For the Years Ended December 31	
	2019	2018
Interest income	$ 12,762	$ 4,170
Others	6,651	29,845
	$ 19,413	$ 34,015

b. Other gains and losses

	For the Years Ended December 31	
	2019	2018
Net foreign exchange gains (losses)	$ 53,090	$ (14,021)
Loss on disposal of property, plant and equipment	(8,228)	(1,286)
Others	(3,731)	(245)
	$ 41,131	$ (15,552)

c. Finance costs

	For the Years Ended December 31	
	2019	2018
Interest expenses		
Loans	$ 157,101	$ 86,191
Interest on lease liabilities	958	-
	$ 158,059	$ 86,191

d. Depreciation and amortization

	For the Years Ended December 31	
	2019	2018
Depreciation		
Property, plant and equipment	$ 84,242	$ 73,084
Right-of-use assets	21,419	-
	105,661	73,084
Amortization		
Intangible assets	242,711	34,428
	$ 348,372	$ 107,512
An analysis of depreciation by function		
Operating costs	$ 63,038	$ 51,772
Operating expenses	42,623	21,312
	$ 105,661	$ 73,084
An analysis of amortization by function		
Operating costs	$ 1,437	$ 958
Selling and marketing expenses	178,789	1,309
General and administrative expenses	907	15
Research and development expenses	61,578	32,146
	$ 242,711	$ 34,428

e. Employee benefit expense

	For the Years Ended December 31	
	2019	2018
Short-term employee benefits	$ 438,062	$ 421,136
Post-employment benefits		
Defined contribution plans	14,139	13,940
Defined benefit plans (Note 15)	178	179
Other employee benefits	5,372	9,824
Total employee benefits expense	$ 457,751	$ 445,079
An analysis of employee benefits expense by function		
Operating costs	$ 150,705	$ 136,928
Operating expenses	307,046	308,151
	$ 457,751	$ 445,079

As of December 31, 2019 and 2018, the Company had a total of 444 and 409 employees. The number of employees is used to calculate employee benefit expense.

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 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.

19. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense (benefit) were as follows:

	For the Years Ended December 31	
	2019	2018
Deferred tax		
Current year	$ 97,460	$ (93,819)
Adjustments for prior years	71	(2,550)
Effect of tax rate changes	-	(18,116)
Income tax expense (benefit) recognized in profit or loss	$ 97,531	$ (114,485)

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

	For the Years Ended December 31	
	2019	**2018**
Profit (loss) before tax from continuing operations	$ 760,338	$ (15,009)
Income tax expense (benefit) calculated at the statutory rate	$ 152,068	$ (3,002)
Permanent differences (including nondeductible expenses)	3,899	5,682
Unrecognized deductible investment income	(52,547)	(36,576)
Effect of tax rate changes	-	(18,116)
Adjustments recognized in the period for deferred tax of prior years	71	(2,550)
Taxable temporary differences arising from investment in subsidiaries	(15,800)	-
Deferred profit of upstream transaction	9,840	(59,378)
Others	-	(545)
	$ 97,531	$ (114,485)

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%.

b. Income tax recognized in other comprehensive income

	For the Years Ended December 31	
	2019	**2018**
Deferred tax		
Remeasurement on defined benefit plan	$ (19)	$ (279)

c. Current tax assets and liabilities

	December 31	
	2019	**2018**
Current tax assets		
Tax refund receivable	$ 1,293	$ -
Tax refund receivable (classified as other receivables)	-	398
	$ 1,293	$ 398

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	Closing Balance
Temporary differences				
Write-down of inventories	$ 4,445	$ 4,095	$ -	$ 8,540
Impairment loss on investment accounted for by equity method	1,908	-	-	1,908
Actuarial gains on defined benefit plan	2,543	-	(19)	2,524
Deferred profit of upstream transaction	59,378	(9,840)	-	49,538
Others	16,055	12,405	-	28,460
	84,329	6,660	(19)	90,970
Loss carryforwards	165,898	(85,430)	-	80,468
	$ 250,227	$ (78,770)	$ (19)	$ 171,438
Deferred tax liabilities				
Temporary differences				
Deferred tax liabilities from acquisition of the Company	$ 29,820	$ (7,708)	$ -	$ 22,112
Pension unfunded	724	(29)	-	695
Unrealized appraisal increment	9,732	-	-	9,732
Others	3,910	26,498	-	30,408
	$ 44,186	$ 18,761	$ -	$ 62,947

	For the Year Ended December 31, 2018			
Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Temporary differences				
Write-down of inventories	$ 4,643	$ (198)	$ -	$ 4,445
Impairment loss on investment accounted for by equity method	1,622	286	-	1,908
Pension unfunded	112	(112)	-	-
Actuarial gains on defined benefit plan	2,236	-	307	2,543

(Continued)

	For the Year Ended December 31, 2018			
	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Closing Balance
Deferred profit of upstream transaction	-	59,378	-	59,378
Others	14,099	1,956	-	16,055
	22,712	61,310	307	84,329
Loss carryforwards	115,649	50,249	-	165,898
	$ 138,361	$ 111,559	$ 307	$ 250,227
Deferred tax liabilities				
Temporary differences				
Deferred tax liabilities from acquisition of the Company	$ 31,808	$ (1,988)	$ -	$ 29,820
Pension unfunded	-	724	-	724
Unrealized appraisal increment	9,732	-	-	9,732
Others	4,986	(1,662)	586	3,910
	$ 46,526	$ (2,926)	$ 586	$ 44,186

(Concluded)

e. Unused investment credits for which no deferred tax assets have been recognized in the balance sheets

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. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2019 comprised:

Occurred Year	Assessed Amount	Unused Tax Credit	Expiry Year
2014	$ 220,267	$ 3,500	2024
2015	75,531	15,106	2025
2016	98,400	19,680	2026
2017	69,143	13,829	2027
2018	141,764	28,353	2028
	$ 605,105	$ 80,468	

g. 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.

20. 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 used in the computation of basic earnings per share	$ 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.

21. CAPITAL MANAGEMENT

The Company manages its capital to ensure that the Company 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 Company's capital structure management, the Company sets its suitable market share according to its industry scale, the growth of the industry and the blueprint of the product development. The Company estimates the required capacity, the equipment and related capital expenditure to be used. Then the Company calculates working capitals and cash on the basis of the industry character to support a complete plan for its long-term development. Finally, the Company 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.

22. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	December 31	
	2019	2018
Financial assets		
Financial assets at amortized cost (Note 1)	$ 2,328,607	$ 531,410
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	4,650,479	3,832,579

Note 1: The balance includes cash and cash equivalents, notes and trade receivables, trade receivables from related parties, other receivables, and other receivables from related parties 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.

b. Financial risk management objectives and policies

The Company'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 Company'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 Company 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 Company 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 Company'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 Company 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 Company uses natural hedge against its currency risk. The Company 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 Company's foreign currency denominated monetary assets and monetary liabilities which were not in the same functional currency as the Company entity at the end of the reporting period are shown in Note 26.

Sensitivity analysis

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

The following table shows the Company'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)	$ 134,280	$ 53,953

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 Company'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	$ 162,785	$ -
Cash flow interest rate risk		
Financial assets	228,100	179,942
Financial liabilities	3,755,198	3,310,068

Sensitivity analysis

The sensitivity analyses were determined on the basis of the Company'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 Company's pretax profits would have decreased/increased by $1,764 thousand in 2019 and $1,655 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 Company. As of the end of the reporting period, the Company's maximum exposure to credit risk, which will cause a financial loss to the Company 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 Company 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 Company 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 Company manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Company'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 Company 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 Company'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 Company 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
Non-derivative financial liabilities			
Lease liabilities	$ 5,788	$ 16,097	$ 43,135
Variable interest rate liabilities	360,000	-	3,395,198
Fixed interest rate liabilities	100,000	-	-
	$ 465,788	$ 16,097	$ 3,438,333

Additional information about the maturity analysis for lease liabilities:

	Less than 1 Year	1-5 Years
Lease Liabilities	$ 21,885	$ 43,135

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	$ 2,700,068

23. 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.

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

Related Party Name	Relationships
Alvogen EMH	Parent company
Alvogen Korea Holdings Ltd.	Subsidiaries
Alvogen Pharma India Pvt Ltd.	Subsidiaries
Taiwan Alvogen Ltd.	Subsidiaries
Lotus International Pte. Ltd.	Subsidiaries
Lotus Pharmaceutical, HK Inc.	Subsidiaries
Lotus Lab Ltd.	Subsidiaries
Lotus Japan Holdings Co., Ltd.	Subsidiaries
Lotus Jonson Biotech Limited.	Subsidiaries
Alvogen Korea Co., Ltd.	Sub-subsidiaries
Norwich Clinical Services Private Limited	Sub-subsidiaries
Lotus Pharmaceutical (Shanghai) Health Management Consulting Limited	Sub-subsidiaries
Alvogen Inc.	Other related parties
Alvogen PB Research & Development LLC. ("Alvogen PB R&D")	Other related parties
Alvogen Malta Group Services Limited	Other related parties
Alvogen Malta Operations (ROW) Limited ("AMOROW")	Other related parties
Alvogen Malta Operations Asia Limited	Other related parties
Alvogen Malta Operations Ltd.	Other related parties
Alvogen Malta (Out-Licensing) Ltd.	Other related parties
Alvogen Iceland ehf.	Other related parties
Alvogen CEE Kft.	Other related parties
Aramis Pharma Kft.	Other related parties
Alvogen Pharma Trading Europe EOOD	Other related parties
Alvogen Development Ltd.	Other related parties
Alvogen Group Inc.	Other related parties
Alvogen (Thailand) Ltd.	Other related parties
Alvogen Pharma DOO	Other related parties
Alvogen ehf	Other related parties

b. Operating transactions

Items	Related Party Name/Categories	For the Years Ended December 31	
		2019	2018
Sale of goods and services	Alvogen Inc.	$ 2,623,433	$ -
	Sub-subsidiaries	4,458	-
	Other related parties	213,801	2,759
		$ 2,841,692	$ 2,759
Purchase of goods	Alvogen Korea Holdings Ltd.	$ 161,926	$ 156,932
	Alvogen Malta Operations Ltd.	1,581,690	124,524
	Subsidiaries	-	532
	Other related parties	29,890	20,060
		$ 1,773,506	$ 302,048

c. Other transactions

Items	Related Party Name/Categories	For the Years Ended December 31	
		2019	2018
Capitalization of development expense	Norwich Clinical Services Private Limited	$ 13,505	$ 12,966
	AMOROW	-	6,731
	Other related parties	4,431	423
		$ 17,936	$ 20,120
Operating expense	Subsidiaries	$ 3,600	$ 2,600
	Sub-subsidiaries	27,529	19,957
	Other related parties	22,859	2,908
		$ 53,988	$ 25,465
Other income	Alvogen Malta Group Services Limited	$ 4,599	$ 17,956
	Sub-subsidiaries	15	-
	Other related parties	323	193
		$ 4,937	$ 18,149
Interest expense	Alvogen EMH	$ 111,024	$ 41,798
	Aramis Pharma Kft.	20,194	33,312
		$ 131,218	$ 75,110
Interest income	Lotus Japan Holdings Co., Ltd.	$ 9,233	$ -
	Taiwan Alvogen Ltd.	863	3,500
		$ 10,096	$ 3,500

(Continued)

Items	Related Party Name/Categories	For the Years Ended December 31 2019	2018
Purchase of property, plant and equipment	Alvogen Development Ltd.	$ -	$ 6,955
Promotion income recognized as an offset to operating expense	Alvogen EMH	$ -	$ (8,130)
Reimbursable income for development costs recognized as an offset to research and development expense (Note 1)	Alvogen PB R&D	$ (69,517)	$ (83,766)

(Concluded)

Note 1: 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.

d. Receivables from related parties

Items	Related Party Name/Categories	December 31 2019	2018
1) Trade receivables	Alvogen Inc.	$ 957,057	$ -
	Alvogen Malta (Out-Licensing) Ltd.	120,544	-
	Alvogen Pharma Trading Europe EOOD	56,758	2,761
	Other related parties	1,580	-
		$ 1,135,939	$ 2,761
2) Other receivables	Lotus Japan Holdings Co., Ltd.	$ 622,891	$ -
	Alvogen PB R&D	68,391	-
	Alvogen Malta Group Services Limited	28,285	24,143
	Taiwan Alvogen Ltd.	5	78,626
	Subsidiaries	6,863	4,193
	Sub-subsidiaries	2,132	2,204
	Other related parties	199	1,880
		$ 728,766	$ 111,046

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.

Details of the loans to related parties were as follows:

	For the Year Ended December 31, 2019				
Related Party Name	**Maximum Balance**	**Ending Balance**	**Interest**	**Interest Income**	**Interest Receivables**
Lotus Japan Holdings Co., Ltd.	$ 613,407	$ 613,407	2%	$ 9,233	$ 9,176
Taiwan Alvogen Ltd.	$ 70,000	$ -	5%	$ 863	$ -

	For the Year Ended December 31, 2018				
Related Party Name	**Maximum Balance**	**Ending Balance**	**Interest**	**Interest Income**	**Interest Receivables**
Taiwan Alvogen Ltd.	$ 70,000	$ 70,000	5%	$ 3,500	$ 2,407

e. 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 with amount 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 Company 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 $122,258 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).

f. Payables to related parties

Items	Related Party Name/Categories	December 31 2019	December 31 2018
1) Trade payables	Alvogen Malta Operations Ltd.	$ 193,448	$ 123,068
	Alvogen Korea Holdings Ltd.	64,508	44,508
	Subsidiaries	16,861	558
	Sub-subsidiaries	13,028	18,065
	Other related parties	29,301	11,620
		$ 317,146	$ 197,819
2) Other payables - current	Alvogen Group Inc.	$ 96,055	$ -
	Alvogen EMH	50,570	$ 41,551
	AMOROW	5,266	6,870
	Lotus International Pte. Ltd.	-	41,458
	Other related parties	34,657	19,690
		$ 186,548	$ 109,569
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 24. 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	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)	$ -	4.1% - 4.3% (Note 2)	$ 59,526	$ -

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

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.

g. Contract liabilities - current

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

h. Compensation of key management personnel

The remuneration of key executives for the years ended 2019 and 2018 were as follows:

Items	For the Years Ended December 31	
	2019	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.

24. ASSETS PLEDGED AS COLLATERALS OR FOR SECURITY

As described in Note 23(f), 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 were pledged as collaterals:

	December 31	
	2019	**2018**
Bank demand deposits (classified as other non-current assets)	$ 41,000	$ 26,000
Property, plant and equipment		
Land	-	293,959
Buildings and plant equipment	-	269,777
	$ 41,000	$ 589,736

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

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

26. 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 Company 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	$ 39,828	30.0460 (USD:NTD)	$ 1,196,672
EUR	6,636	33.6575 (EUR:NTD)	223,351
JPY	2,259,704	0.2757 (JPY:NTD)	622,891
Financial liabilities			
Monetary items			
USD	129,211	30.0460 (USD:NTD)	3,882,274
EUR	2,165	33.6575 (EUR:NTD)	72,869

December 31, 2018

	Foreign Currencies	Exchange Rate (Functional Currency)	Carrying Amount
Financial assets			
Monetary items			
USD	$ 61,602	30.5775 (USD:NTD)	$ 1,883,635
Financial liabilities			
Monetary items			
USD	96,891	30.5775 (USD:NTD)	2,962,685

27. 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%.

28. 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 (excluding investment in subsidiaries and associates): Table 3.

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

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 amounting to at least NT$100 million or 20% of the paid-in capital: Table 4.

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 5.

9) Trading in derivative instruments: NA.

10) Name, locations, and related information of investees over which the company exercises significant influence (excluding information on investment in mainland China): Table 6.

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 7.

LOTUS PHARMACEUTICAL CO., LTD. AND INVESTEES

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

LOTUS PHARMACEUTICAL CO., LTD. AND INVESTEES

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).

LOTUS PHARMACEUTICAL CO., LTD. AND INVESTEES

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

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

LOTUS PHARMACEUTICAL CO., LTD. AND INVESTEES

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 (Foreign Currencies in Thousands)	% to Total	
Lotus Pharmaceutical Co., Ltd.	Alvogen Inc.	Other related parties	Sales	$ 2,623,433	67.23	120 days from the end of the month of when invoice is issued	-	-	$ 957,057	65.23	
Lotus Pharmaceutical Co., Ltd.	Alvogen Malta Operations Ltd.	Other related parties	Purchases	(1,581,690)	70.00	120 days from invoice date	-	-	(193,448)	33.36	
Lotus Pharmaceutical Co., Ltd.	Alvogen Malta (Out-Licensing) Ltd.	Other related parties	Sales	141,603	3.63	120 days from the end of the month of when invoice is issued	-	-	120,544	8.22	
Alvogen Korea Holdings Ltd.	Lotus Pharmaceutical Co., Ltd.	Parent company	Sales	163,297	4.18	120 days from the end of the month of when invoice is issued	-	-	64,509	4.40	

LOTUS PHARMACEUTICAL CO., LTD. AND INVESTEES

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	-

LOTUS PHARMACEUTICAL CO., LTD. AND INVESTEES

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, Unless Specified Otherwise)

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 3
	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 3
	Lotus Japan Holdings Co., Ltd.	Japan	Sale of medicine, sale of clinical machine	-	-	-	100.00	(168,896)	(5,246)	(5,246)	Note 4
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: 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 4: Japan subsidiary - Lotus Japan Holdings Co., Ltd., as of December 31, 2019, the capital remittance has not been paid.

LOTUS PHARMACEUTICAL CO., LTD. AND INVESTEES

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.

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, 2008.

LOTUS PHARMACEUTICAL CO., LTD.

THE CONTENTS OF STATEMENTS OF MAJOR ACCOUNTING ITEMS

LOTUS PHARMACEUTICAL CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

	Balance, January 1, 2019		Additions in Investment		Decrease in Investment		Share of Profit	Exchange Differences on Translating		Balance, December 31, 2019		
Investees	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	(Loss) of Associates	Foreign Operations	Other Adjustments	Shares (In Thousands)	%	Amount
The investment accounted for by using equity method												
Heng Kang Bio Medi Co., Ltd.	4,970	$ 9,035	-	$ -	-	$ -	$ (681)	$ -	$ -	4,970	33.69	$ 8,354
Lotus International Pte. Ltd.	790	38,930	-	-	-	-	(941)	-	-	790	100.00	37,989
Lotus Jonson Biotech Limited	110	126	-	-	-	-	(24)	-	-	110	100.00	102
Alvogen Korea Holdings Ltd.	1,922	3,812,254	-	-	-	-	250,976	(273,758)	(315,910)	1,922	100.00	3,473,562
Alvogen Pharma India Pvt Ltd.	502	78,960	-	-	-	-	14,764	(5,202)	-	502	98.00	88,522
Taiwan Alvogen Ltd.	2,500	-	7,900	79,000	-	-	(4,368)	-	(72,442)	10,400	100.00	2,190
Lotus Pharmaceutical, HK Ltd.	250	334	-	-	-	-	-	-	(334)	250	100.00	-
		3,939,639		79,000		-	259,726	(278,960)	(388,686)			3,610,719
Credit on investment accounted for by using equity method												
Lotus Lab, Ltd.	-	(1,084)	-	-	-	-	1,084	-	-	-	100.00	-
Lotus Pharmaceutical, HK Ltd.	250	-	-	-	-	-	(2,677)	122	334	250	100.00	(2,221)
Lotus Japan Holdings Co., Ltd.	-	-	-	-	-	-	(5,246)	6,799	(170,449)	-	100.00	(168,896)
Taiwan Alvogen Ltd.	2,500	(72,442)	7,900	-	-	-	-	-	72,442	10,400	100.00	-
		(73,526)		-		-	(6,839)	6,921	(97,673)			(171,117)
		$ 3,866,113		$ 79,000		$ -	$ 252,887	$ (272,039)	$ (486,359)			$ 3,439,602

LOTUS PHARMACEUTICAL CO., LTD.

STATEMENT OF CHANGES IN RIGHT OF USE ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Buildings	Office Equipment	Transportation Equipment	Total
Cost				
Balance at January 1, 2019	$ 32,675	$ 2,574	$ 2,217	$ 37,466
Additions	42,427	179	3,436	46,042
Disposals	(1,620)	-	(448)	(2,068)
Balance at December 31, 2019	$ 73,482	$ 2,753	$ 5,205	$ 81,440
Accumulated depreciation and impairment				
Balance at January 1, 2019	$ -	$ -	$ -	$ -
Disposals	(1,620)	-	(261)	(1,881)
Depreciation	19,216	470	1,733	21,419
Balance at December 31, 2019	$ 17,596	$ 470	$ 1,472	$ 19,538

LOTUS PHARMACEUTICAL CO., LTD.

STATEMENT OF BORROWINGS AND LOAN PAYABLES TO RELATED PARTIES - NON-CURRENT
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Type	Balance, End of Year	Contract Period	Range of Interest Rates (%)	Loan Commitments	Collateral
Short-term borrowings					
Unsecured loans					
Hua Nan Bank	$ 150,000	2019.08.05-2020.02.05	1.60%	$ 150,000	Nil
Chiang Hwa Bank	100,000	2019.09.12-2020.03.12	1.70%	100,000	Nil
Cathay United Bank	50,000	2019.09.06-2020.03.04	1.84%	50,000	Nil
Far East International Bank	60,000	2019.11.27-2020.02.14	1.74%	60,000	Nil
Bank SinoPac	100,000	2019.12.09-2020.03.06	1.50%	100,000	Nil
	$ 460,000				
Long-term borrowings					
Unsecured loans					
BNP PARIBA	$ 1,141,748	2019.08.12-2021.02.12	USD Libor + 0.85%	US$ 40,000	Nil
Loan payables to related parties - non-current (borrowings from related parties)					
Alvogen Emerging Markets Holdings Limited	$ 2,253,450	2019.07.29-2022.07.29	USD Libor + 3.25%	US$ 85,000	Note 24

LOTUS PHARMACEUTICAL CO., LTD.

STATEMENT OF LEASE LIABILITIES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Item	Description	Lease Term	Discount Rate	Balance at December 31, 2019	Notes
Buildings	Offices and staff dormitory	10 months-5 years	2%	$ 56,717	
Office equipment	For operation use	2-5 years	2%	2,305	
Transportation equipment	For operation use	5 years-5 years and 8 months	2%	3,763	
				$ 62,785	

STATEMENT 5

LOTUS PHARMACEUTICAL CO., LTD.

STATEMENT OF NET REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Amount
Hospital	$ 460,344
Clinic	314,696
Export sales	3,067,116
Others	60,296
Net revenue	$3,902,452

LOTUS PHARMACEUTICAL CO., LTD.

STATEMENT OF COST OF REVENUE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Amount
Balance of merchandise, beginning of year	$ 213,231
Add: merchandise purchased	1,810,303
Less: Transferred to other accounts	(8,870)
Disposal of merchandise	(433)
Balance of merchandise, end of year	(231,677)
Merchandise cost	1,782,554
Balance of raw materials and supplies, beginning of year	86,738
Add: Raw materials and supplies purchased	189,382
Inventory overage of raw materials and supplies	191
Less: Transferred to other accounts	(497)
Inventory shrinkage of raw materials and supplies	(465)
Disposal of raw materials and supplies	(6,245)
Balance of raw materials and supplies, end of year	(125,458)
Direct materials	143,646
Direct labor	35,147
Overhead	229,720
Costs of goods manufactured	408,513
Add: Balance of work in progress, beginning of year	51,603
Less: Transferred to other accounts	(1,117)
Disposal of work in progress	(3,752)
Balance of work in progress, end of year	(70,613)
Costs of finished goods	384,634
Add: balance of finished goods, beginning of the year	123,911
Outsourced processing fees	8,714
Inventory overage of finished goods	553
Less: Transferred to other accounts	(49,496)
Disposal of finished goods	(7,737)
Balance of finished goods, end of year	(102,794)
Production cost	357,785
Cost of selling and purchasing	1,782,554
Others cost of goods sold	72,808
	$ 2,213,147

LOTUS PHARMACEUTICAL CO., LTD.

STATEMENT OF OPERATING EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Item	Selling and Marketing Expenses	General and Administrative Expenses	Research and Development Expenses	Total
Payroll and related expense	$ 127,999	$ 94,344	$ 40,628	$ 262,971
Research expense	3,600	-	76,085	79,685
Service fee	30,823	56,645	1,973	89,441
Depreciation and amortization	178,789	907	61,578	241,274
Impairment loss on non-financial assets	-	-	150,119	150,119
Others (Note)	149,941	79,199	36,481	265,621
	$ 491,152	$ 231,095	$ 366,864	$ 1,089,111

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

LOTUS PHARMACEUTICAL CO., LTD.

STATEMENT OF LABOR, DEPRECIATION AND AMORTIZATION BY FUNCTION
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

	2019			2018		
	Classified as Cost of Revenue	Classified as Operating Expenses	Total	Classified as Cost of Revenue	Classified as Operating Expenses	Total
Labor cost (Note)						
Salary and bonus	$ 125,937	$ 260,683	$ 386,620	$ 114,691	$ 260,161	$ 374,852
Labor and health insurance	11,459	17,197	28,656	9,975	17,486	27,461
Pension	5,933	8,384	14,317	5,379	8,740	14,119
Board compensation	-	2,288	2,288	-	2,028	2,028
Others	7,376	18,494	25,870	6,883	19,736	26,619
	$ 150,705	$ 307,046	$ 457,751	$ 136,928	$ 308,151	$ 445,079
Depreciation	$ 63,038	$ 42,623	$ 105,661	$ 51,772	$ 21,312	$ 73,084
Amortization	$ 1,437	$ 241,274	$ 242,711	$ 958	$ 33,470	$ 34,428

Note 1: As of December 31, 2019 and 2018, the Company had 444 and 409 employees, respectively. There were 6 non-employee directors for both years.

Note 2: Listed Company at Taiwan Stock Exchange and over-the-counter company at Taipei Exchange should disclose additional information below:

a. The average amount of labor cost for the years ended December 31, 2019 and 2018 was NT$1,040 thousand and NT$1,099 thousand, respectively.

("Total labor cost - Total board compensation"/"Total employee count - Total non-employee director count")

b. The average amount of salary and bonus for the years ended December 31, 2019 and 2018 was NT$883 thousand and NT$930 thousand, respectively.

(Total salary and bonus/"Total employee count - Total non-employee director count")

c. The average salary and bonus decreased by 5% year over year.

("Average salary and bonus in current year - Average salary and bonus in previous year"/Average salary and bonus in previous year)