

**BENQ MEDICAL TECHNOLOGY CORP.
AND SUBSIDIARIES**

**Consolidated Financial Statements and
Independent Auditors' Review Report**

For the Six Months Ended June 30, 2020 and 2019

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

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Independent Auditors' Review Report

The Board of Directors of BenQ Medical Technology Corp.

Foreword

We have reviewed the consolidated balance sheets as of June 30, 2020 and 2019, the consolidated statements of comprehensive income for the three months ended June 30, 2020 and 2019 and for the six months ended June 30, 2020 and 2019, the consolidated statements of changes in equity and consolidated statements of cash flows for the six months ended June 30, 2020 and 2019, and the notes to consolidated financial statements (including summary of significant accounting policies) of BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES. The Management is responsible for preparing the consolidated financial statements with fair representation in accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standards ("IAS") 34, "Interim Financial Reporting" as endorsed by Financial Supervisory Commission of the Republic of China ("FSC"). Our responsibility is to express a conclusion based on our review of the consolidated financial statements.

Scope of Review

We conducted our review in accordance with the Statement of Auditing Standards No. 65, "Review of Financial Information Performed by the Independent Auditor of the Entity." The process of reviewing the consolidated financial statements includes making enquiries (mainly to personnel in charge of financial and accounting matters), analyzing, and other reviewing procedures. The scope of review is substantially less than the scope of an audit. As such, we may not be able to obtain assurance on all significant matters that an audit could otherwise provide, and therefore we are unable to express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that the consolidated financial statements are in any incompliance of "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and International Accounting Standards ("IAS") 34, "Interim Financial Reporting" as endorsed by Financial Supervisory Commission of the Republic of China ("FSC"), such that the consolidated financial position of BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES as of June 30, 2020 and 2019, and the consolidated financial performance for the three months ended June 30, 2020 and 2019 and for the six months ended June 30, 2020 and 2019, as well as the consolidated cash flows for the six months ended June 30, 2020 and 2019 do not present fairly.

The engagement partners on the review resulting in this independent auditors' review report are Chang, Hui-Chen and Shin, Wei-Ming.

KPMG**Taipei, Taiwan (Republic of China)****August 7, 2020**Notes to Readers

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

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

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

June 30, 2020 and 2019. Reviewed but unaudited in pursuant to Generally Accepted Auditing Standards.
BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2020, December 31 and June 30, 2019

(Expressed in Thousands of New Taiwan Dollars)

| Assets | | June 30, 2020 | | December 31, 2019 | | June 30, 2019 | | | Liabilities and Equity | June 30, 2020 | | December 31, 2019 | | June 30, 2019 | |
|---------------------------------|--|---------------------|------------|-------------------|------------|------------------|------------|---|--|---------------------|------------|-------------------|------------|------------------|------------|
| | | Amount | % | Amount | % | Amount | % | | | Amount | % | Amount | % | Amount | % |
| Current assets: | | | | | | | | | Current liabilities: | | | | | | |
| 1100 | Cash and cash equivalents (Note VI(1)) | \$ 214,877 | 13 | 242,626 | 15 | 247,701 | 15 | 2100 | Short-term loans (Note VI(12)) | \$ 74,781 | 4 | 47,720 | 3 | 121,221 | 7 |
| 1150-1170 | Notes and accounts receivable (Note VI(3) and (21)) | 219,132 | 13 | 181,485 | 11 | 185,979 | 11 | 2150-2170 | Notes and accounts payable | 110,050 | 6 | 129,112 | 8 | 115,922 | 7 |
| 1181 | Accounts receivable - related parties (Note VI(3)(21) and VII) | 7,794 | - | 2,917 | - | 4,402 | - | 2181 | Accounts payable - related parties (Note VII) | 16,697 | 1 | 9,797 | - | 5,228 | - |
| 1200 | Other receivables | 1,623 | - | 2,438 | - | 2,739 | - | 2200 | Other payables (Note VI(22)) | 187,192 | 11 | 141,056 | 8 | 181,352 | 11 |
| 1212 | Other receivables - related parties (Note VII) | 49 | - | 3,144 | - | 52 | - | 2220 | Other payables - related parties (Note VII) | 2,454 | - | 2,973 | - | 1,337 | - |
| 130x | Inventories (Note VI(4)) | 193,614 | 11 | 174,938 | 10 | 146,457 | 9 | 2230 | Current income tax liabilities | 6,527 | - | 13,682 | 1 | 10,378 | 1 |
| 1410-1470 | Prepayments and other current assets | 28,460 | 2 | 28,139 | 2 | 27,983 | 2 | 2250 | Provision-current (Note VI(15)) | 10,710 | 1 | 10,641 | 1 | 11,101 | 1 |
| 1476 | Other financial assets-current (Note VI(2) and VIII) | 40,570 | 2 | 53,270 | 3 | 56,670 | 4 | 2280 | Lease liabilities-current (Note VI(14) and VII) | 30,763 | 2 | 30,352 | 2 | 19,988 | 1 |
| Total current assets | | 706,119 | 41 | 688,957 | 41 | 671,983 | 41 | 2300 | Other current liabilities (Note VI(21)) | 27,151 | 2 | 18,993 | 1 | 23,709 | 2 |
| Non-current assets: | | | | | | | | 2322 | Long-term loans due within a year (Note VI(13) and VIII) | 6,238 | - | 31,667 | 2 | 1,667 | - |
| 1550 | Investments accounted for using equity method (Note VI(5)) | 28,505 | 2 | 25,675 | 2 | 27,457 | 2 | Total current liabilities | | 472,563 | 27 | 435,993 | 26 | 491,903 | 30 |
| 1600 | Property, plant and equipment (Note VI(7), VII, and VIII) | 698,923 | 41 | 701,450 | 41 | 758,632 | 46 | Non-current liabilities: | | | | | | | |
| 1755 | Right-of-use assets (Note VI(8) and VII) | 93,996 | 5 | 98,354 | 6 | 56,873 | 4 | 2540 | Long-term loans (Note VI(13) and VIII) | 115,845 | 7 | 62,083 | 4 | 32,917 | 2 |
| 1760 | Investment properties - net (Note VI(9) and VIII) | 49,980 | 3 | 50,778 | 3 | - | - | 2570 | Deferred income tax liabilities | 10,507 | 1 | 10,243 | 1 | 11,282 | 1 |
| 1780 | Intangible assets (Note VI(10)) | 100,811 | 6 | 89,601 | 5 | 92,778 | 6 | 2640 | Net defined benefit liabilities - non-current | 3,593 | - | 3,943 | - | 4,218 | - |
| 1840 | Deferred income tax assets | 9,304 | - | 9,078 | - | 9,179 | - | 2580 | Lease liabilities-non-current (Note VI(14) and VII) | 64,092 | 4 | 68,891 | 4 | 37,499 | 2 |
| 1900 | Other non-current assets (Note VI(11)) | 36,090 | 2 | 27,197 | 2 | 25,786 | 1 | 2645 | Guarantee deposit received | 6,648 | - | 4,102 | - | 4,414 | - |
| Total non-current assets | | 1,017,609 | 59 | 1,002,133 | 59 | 970,705 | 59 | Total non-current liabilities | | 200,685 | 12 | 149,262 | 9 | 90,330 | 5 |
| | | | | | | | | Total liabilities | | 673,248 | 39 | 585,255 | 35 | 582,233 | 35 |
| | | | | | | | | Equity attributable to shareholders of the Company | | | | | | | |
| | | | | | | | | (Note VI(19)) | | | | | | | |
| | | | | | | | | 3110 | Common stock | 445,660 | 26 | 445,660 | 26 | 445,660 | 27 |
| | | | | | | | | 3200 | Capital surplus | 297,921 | 17 | 297,921 | 18 | 297,921 | 18 |
| | | | | | | | | 3300 | Retained earnings | 266,038 | 15 | 309,958 | 18 | 266,791 | 17 |
| | | | | | | | | 3400 | Other equity | (4,444) | - | (3,309) | - | (1,508) | - |
| | | | | | | | | Total equity attributable to shareholders of the Company | | 1,005,175 | 58 | 1,050,230 | 62 | 1,008,864 | 62 |
| | | | | | | | | Non-controlling interests | | 45,305 | 3 | 55,605 | 3 | 51,591 | 3 |
| | | | | | | | | Total equity interest | | 1,050,480 | 61 | 1,105,835 | 65 | 1,060,455 | 65 |
| Total assets | | \$ 1,723,728 | 100 | 1,691,090 | 100 | 1,642,688 | 100 | Total Liabilities and equity | | \$ 1,723,728 | 100 | 1,691,090 | 100 | 1,642,688 | 100 |

(Please see notes to consolidated financial statements)

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Reviewed but unaudited in pursuant to Generally Accepted Auditing Standards.
BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the Six Months Ended June 30, 2020 and 2019 and For the Three Months Ended June 30, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

| | | April to June 2020 | | April to June 2019 | | January to June 2020 | | January to June 2019 | |
|------|---|--------------------|----------|--------------------|----------|----------------------|----------|----------------------|----------|
| | | Amount | % | Amount | % | Amount | % | Amount | % |
| 4000 | Operating revenues (Note VI (21) and VII) | \$ 323,687 | 100 | 340,701 | 100 | 624,234 | 100 | 673,885 | 100 |
| 5000 | Costs of revenue (Note VI (4)(7)(8)(10)(14)(17)(22), VII and XII) | (209,874) | (65) | (210,763) | (62) | (395,176) | (63) | (416,528) | (62) |
| | Gross profit | 113,813 | 35 | 129,938 | 38 | 229,058 | 37 | 257,357 | 38 |
| | Operating expenses (Note VI (3)(7)(8)(9)(10)(14)(17)(22), VII and XII): | | | | | | | | |
| 6100 | Selling expenses | (66,485) | (20) | (69,642) | (21) | (127,788) | (21) | (133,356) | (20) |
| 6200 | General and administrative expenses | (27,983) | (9) | (28,262) | (8) | (60,077) | (10) | (56,502) | (8) |
| 6300 | Research and development expenses | (10,737) | (3) | (11,547) | (3) | (21,193) | (3) | (20,767) | (3) |
| | Total operating expenses | (105,205) | (32) | (109,451) | (32) | (209,058) | (34) | (210,625) | (31) |
| | Operating income | 8,608 | 3 | 20,487 | 6 | 20,000 | 3 | 46,732 | 7 |
| | Non-operating income and loss (Note VI(5)(14)(23)): | | | | | | | | |
| 7100 | Interest income | 197 | - | 349 | - | 445 | - | 589 | - |
| 7010 | Other income | 2,249 | - | 2,158 | - | 4,123 | 1 | 5,081 | - |
| 7020 | Other gains and losses | (642) | - | 49 | - | 88 | - | 164 | - |
| 7050 | Financing costs | (993) | - | (944) | - | (2,045) | - | (2,087) | - |
| 7375 | Share of losses of joint ventures accounted for using equity method | 4,412 | 1 | (732) | - | 3,599 | - | (886) | - |
| | Total non-operating income and loss | 5,223 | 1 | 880 | - | 6,210 | 1 | 2,861 | - |
| | Income before income tax | 13,831 | 4 | 21,367 | 6 | 26,210 | 4 | 49,593 | 7 |
| 7950 | less: Income tax expenses (Note VI(18)) | (2,758) | (1) | (5,036) | (1) | (5,707) | (1) | (10,154) | (1) |
| | Net income | 11,073 | 3 | 16,331 | 5 | 20,503 | 3 | 39,439 | 6 |
| | Other comprehensive income (Note VI (5)(19)): | | | | | | | | |
| 8360 | Items that may be reclassified subsequently to profit or loss | | | | | | | | |
| 8361 | Exchange differences on translation of foreign operations | (217) | - | (178) | - | (365) | - | 139 | - |
| 8370 | Share of other comprehensive income of joint ventures accounted for using equity method | (470) | - | (440) | - | (770) | - | 279 | - |
| 8399 | Income tax related to items that may be reclassified subsequently to profit or loss | - | - | - | - | - | - | - | - |
| | Total items that may be reclassified subsequently to profit or loss | (687) | - | (618) | - | (1,135) | - | 418 | - |
| | Other comprehensive income for the period | (687) | - | (618) | - | (1,135) | - | 418 | - |
| | Total comprehensive income for the period | <u>\$ 10,386</u> | <u>3</u> | <u>15,713</u> | <u>5</u> | <u>19,368</u> | <u>3</u> | <u>39,857</u> | <u>6</u> |
| | Net Income attributable to: | | | | | | | | |
| 8610 | Owners of the parent | \$ 8,375 | 2 | 11,927 | 4 | 16,244 | 2 | 32,288 | 5 |
| 8620 | Non-controlling interests | 2,698 | 1 | 4,404 | 1 | 4,259 | 1 | 7,151 | 1 |
| | | <u>\$ 11,073</u> | <u>3</u> | <u>16,331</u> | <u>5</u> | <u>20,503</u> | <u>3</u> | <u>39,439</u> | <u>6</u> |
| | Comprehensive income (loss) attributable to: | | | | | | | | |
| 8710 | Owners of the parent | \$ 7,688 | 2 | 11,309 | 4 | 15,109 | 2 | 32,706 | 5 |
| 8720 | Non-controlling interests | 2,698 | 1 | 4,404 | 1 | 4,259 | 1 | 7,151 | 1 |
| | | <u>\$ 10,386</u> | <u>3</u> | <u>15,713</u> | <u>5</u> | <u>19,368</u> | <u>3</u> | <u>39,857</u> | <u>6</u> |
| | Earnings per share (in New Taiwan dollars, Note VI (20)) | | | | | | | | |
| 9750 | Basic earnings per share | <u>\$ 0.19</u> | | <u>0.27</u> | | <u>0.36</u> | | <u>0.72</u> | |
| 9850 | Diluted earnings per share | <u>\$ 0.19</u> | | <u>0.27</u> | | <u>0.36</u> | | <u>0.72</u> | |

(Please see notes to consolidated financial statements)

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Reviewed but unaudited in pursuant to Generally Accepted Auditing Standards.
BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
For the Six Months Ended June 30, 2020 and 2019
(Expressed in Thousands of New Taiwan Dollars)

Equity attributable to shareholders of the Company

| | | | | | | | Other equity | | | |
|---|------------|---------|---------|-------------------|----------------|----------|---------------------|-----------------|-----------------|--------------|
| | | | | Retained earnings | | | Financial statement | | | |
| | Common | Capital | Legal | Special | Unappropriated | | translation | Total equity | Non-controlling | Total equity |
| | stock | surplus | reserve | reserve | earnings | Subtotal | differences | attributed to | interest | |
| | | | | | | | attributable to | shareholders of | | |
| | | | | | | | of foreign | the Company | | |
| | | | | | | | operations | | | |
| Balance as of January 1, 2019 | \$ 445,660 | 297,921 | 81,764 | 626 | 212,696 | 295,086 | (1,926) | 1,036,741 | 55,611 | 1,092,352 |
| Effects of retrospective application | - | - | - | - | (419) | (419) | - | (419) | (204) | (623) |
| Balance as of January 1, 2019 after adjustments | 445,660 | 297,921 | 81,764 | 626 | 212,277 | 294,667 | (1,926) | 1,036,322 | 55,407 | 1,091,729 |
| Net income | - | - | - | - | 32,288 | 32,288 | - | 32,288 | 7,151 | 39,439 |
| Other comprehensive income for the period | - | - | - | - | - | - | 418 | 418 | - | 418 |
| Total comprehensive income for the period | - | - | - | - | 32,288 | 32,288 | 418 | 32,706 | 7,151 | 39,857 |
| Legal reserve | - | - | 6,668 | - | (6,668) | - | - | - | - | - |
| Special reserve | - | - | - | 1,299 | (1,299) | - | - | - | - | - |
| Cash dividends to shareholders | - | - | - | - | (60,164) | (60,164) | - | (60,164) | - | (60,164) |
| Cash dividends distributed to non-controlling interests by subsidiaries | - | - | - | - | - | - | - | - | (10,967) | (10,967) |
| Balance as of June 30, 2019 | \$ 445,660 | 297,921 | 88,432 | 1,925 | 176,434 | 266,791 | (1,508) | 1,008,864 | 51,591 | 1,060,455 |
| Balance as of January 1, 2020 | \$ 445,660 | 297,921 | 88,432 | 1,925 | 219,601 | 309,958 | (3,309) | 1,050,230 | 55,605 | 1,105,835 |
| Net income | - | - | - | - | 16,244 | 16,244 | - | 16,244 | 4,259 | 20,503 |
| Other comprehensive income for the period | - | - | - | - | - | - | (1,135) | (1,135) | - | (1,135) |
| Total comprehensive income for the period | - | - | - | - | 16,244 | 16,244 | (1,135) | 15,109 | 4,259 | 19,368 |
| Legal reserve | - | - | 7,541 | - | (7,541) | - | - | - | - | - |
| Special reserve | - | - | - | 1,384 | (1,384) | - | - | - | - | - |
| Cash dividends to shareholders | - | - | - | - | (60,164) | (60,164) | - | (60,164) | - | (60,164) |
| Cash dividends distributed to non-controlling interests by subsidiaries | - | - | - | - | - | - | - | - | (19,666) | (19,666) |
| Increase in non-controlling interests | - | - | - | - | - | - | - | - | 5,107 | 5,107 |
| Balance as of June 30, 2020 | \$ 445,660 | 297,921 | 95,973 | 3,309 | 166,756 | 266,038 | (4,444) | 1,005,175 | 45,305 | 1,050,480 |

(Please see notes to consolidated financial statements)

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Reviewed but unaudited in pursuant to Generally Accepted Auditing Standards.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

| | January to June 2020 | January to June 2019 |
|---|---------------------------------|---------------------------------|
| Cash flows from operating activities: | | |
| Income before income tax | \$ 26,210 | 49,593 |
| Adjustments: | | |
| Adjustments to reconcile (profits) losses | | |
| Depreciation | 35,481 | 30,093 |
| Amortization | 6,021 | 5,752 |
| Interest expense | 2,045 | 2,087 |
| Interest income | (445) | (589) |
| Share of (profits) losses of joint ventures accounted for using equity method | (3,599) | 886 |
| Gains on disposal of property, plant and equipment, net | (2) | - |
| Gains on lease modification | (423) | - |
| Total adjustments to reconcile profits (losses) | 39,078 | 38,229 |
| Changes in operating assets and liabilities: | | |
| Changes in operating assets: | | |
| Notes and accounts receivable | (32,223) | 10,337 |
| Accounts receivable - related parties | (4,877) | (4,312) |
| Other receivables | 785 | (199) |
| Other receivables - related parties | 3,095 | 279 |
| Inventories | (14,849) | 8,215 |
| Prepayments and other current assets | 329 | (53) |
| Total changes in operating assets | (47,740) | 14,267 |
| Changes in operating liabilities: | | |
| Notes and accounts payable | (21,006) | (22,247) |
| Accounts payable - related parties | 6,900 | (367) |
| Other payables | (18,799) | (6,104) |
| Other payables - related parties | (519) | 219 |
| Provisions for liabilities | 69 | 310 |
| Other current liabilities | 7,784 | 4,553 |
| Net defined benefit liabilities | (350) | (743) |
| Total changes in operating liabilities | (25,921) | (24,379) |
| Total changes in operating assets and liabilities | (73,661) | (10,112) |
| Total adjustments | (34,583) | 28,117 |
| Cash provided by (used in) operations | (8,373) | 77,710 |
| Interest received | 475 | 601 |
| Interest paid | (2,037) | (2,276) |
| Income tax refunded | (13,261) | (12,763) |
| Net cash provided by (used in) operating activities | (23,196) | 63,272 |

(Please see notes to consolidated financial statements)

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Reviewed but unaudited in pursuant to Generally Accepted Auditing Standards.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued from the preceding page)

For the Six Months Ended June 30, 2020 and 2019

(Expressed in Thousands of New Taiwan Dollars)

| | January to June 2020 | January to June 2019 |
|---|---------------------------------|---------------------------------|
| Cash flows from investing activities: | | |
| Net cash used in from merger and acquisition of subsidiaries | (10,219) | - |
| Acquisition of property, plant and equipment | (8,167) | (9,625) |
| Proceeds from disposal of property, plant and equipment | 2 | - |
| Decrease (Increase) in refundable deposits | 460 | (1,621) |
| Acquisition of intangible assets | (4,885) | (35) |
| Decrease in other financial assets | 12,700 | 3,770 |
| Increase in other non-current assets | <u>(11,902)</u> | <u>(5,045)</u> |
| Net cash used in investing activities | <u>(22,011)</u> | <u>(12,556)</u> |
| Cash flows from financing activities: | | |
| Decrease in short-term loans | 22,306 | 66,792 |
| Increase in long-term loans | 30,000 | 35,000 |
| Repayments of long-term loans | (1,667) | (200,416) |
| Increase in guarantee deposit received | 2,546 | 1,219 |
| Payment of lease liabilities | (15,746) | (12,301) |
| Cash dividends distributed to non-controlling interests by subsidiaries | <u>(19,666)</u> | <u>(10,967)</u> |
| Net cash provided by (used in) financing activities | <u>17,773</u> | <u>(120,673)</u> |
| Effect of changes in exchange rates | <u>(315)</u> | <u>104</u> |
| Net decrease in cash and cash equivalents | (27,749) | (69,853) |
| Cash and cash equivalents at beginning of period | <u>242,626</u> | <u>317,554</u> |
| Cash and cash equivalents at end of period | <u>\$ 214,877</u> | <u>247,701</u> |

(Please see notes to consolidated financial statements)

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Reviewed but unaudited in pursuant to Generally Accepted Auditing Standards.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the Six Months Ended June 30, 2020 and 2019

(Unless specified otherwise, all amounts are expressed in thousands of New Taiwan Dollars)

(I) History and Organization

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES (hereafter the Company), formerly known as Trident Medical Corp., received authorization from the Ministry of Economic Affairs for its incorporation on March 21, 1989, at 7F, No. 46, Zhouzi St., Neihu Dist., Taipei 11493, Taiwan. The Company and subsidiaries (hereafter “the Group”) are primarily engaging in the manufacturing, assembly, maintenance, repair and sales of medical equipment and consumables.

(II) Authorization of the Consolidated Financial Statements

These consolidated financial statements were approved by the Board of Directors on August 7, 2020 before being issued.

(III) Application of New Standards, Amendments, and Interpretations

- (1) Effects of the adoption of new standards, amendments, and interpretations as endorsed by Financial Supervisory Commission of the Republic of China

From 2020 onward, the Group shall adopt International Financial Reporting Standards (IFRSs) that take effect in 2020, as endorsed by Financial Supervisory Commission of the Republic of China (hereafter “FSC”) for the preparation of consolidated financial statements. The relevant new standards, amendments, and interpretation are as follows:

| New Standards, Amendments, and Interpretations | Effective date by International Accounting Standard Board |
|--|--|
| Amendments to IFRS 3, “Definition of a Business” | January 1, 2020 |
| Amendments to IFRS 9, IAS 39, and IFRS 7, “Interest Rate Benchmark Reform” | January 1, 2020 |
| Amendments to IAS 1 and IAS 8, “Definition of Material” | January 1, 2020 |
| Amendments to IFRS 16, “Covid-19-Related Rent Concessions” | June 1, 2020 |

Adoption of the IFRSs above will have no significant impact on the consolidated financial statements.

- (2) New standards, amendments and interpretations that have yet endorsed by FSC

The following new standards, amendments and interpretations issued by International Accounting Standard Board (IASB) that have yet endorsed by FSC:

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

| | Effective date by International Accounting Standard Board |
|---|--|
| New Standards, Amendments, and Interpretations | |
| 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, 2023 |
| Amendments to IAS 1, "Classification of Liabilities as Current or Non-current" | January 1, 2022 |
| Amendments to IAS 16, "Property, Plant and Equipment-Proceeds before Intended Use" | January 1, 2022 |
| Amendments to IAS 37, "Onerous Contracts-Cost of Fulfilling a Contract" | January 1, 2022 |
| Annual Improvements to IFRS Standards 2018-2020 Cycle | January 1, 2022 |
| Amendments to IFRS 17 "Insurance Contracts" | January 1, 2023 |

The Group is evaluating the impact of the above IFRSs and Interpretation on the consolidated financial statements and business operating activities. The relevant impact shall be disclosed once the evaluation is concluded.

(IV) Summary of Significant Accounting Policies

(1) Statement of compliance

These consolidated financial statements are prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" (hereafter "the Preparation Regulations") and the IAS 34, "Interim Financial Reporting" as endorsed by FSC. These consolidated financial statements do not include all necessary disclosure as in the yearly consolidated financial statements prepared in accordance with IFRSs, IASs, Interpretations and SIC Interpretations as endorsed by FSC (hereafter "Taiwan-IFRSs").

Except for the following, the significant accounting policies of these consolidated financial statements are identical to the consolidated financial statements for 2019. For more information, please see Note IV to consolidated financial statements for 2019.

(2) Basis of consolidation

The basis of consolidation of these consolidated financial statements are identical to the consolidated financial statements for 2019. For more information, please see Note IV (3) to consolidated financial statements for 2019.

1. Subsidiaries included in the consolidated financial statements

Subsidiaries included in these consolidated financial statements:

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

| Investor | Subsidiary | Main business activities | Ownership (%) | | |
|--------------|--|---|---------------|-------------------|---------------|
| | | | June 30, 2020 | December 31, 2019 | June 30, 2019 |
| The Company | Asiacore International Co., Ltd. ("Asiacore") | Wholesaling and retailing of medical consumables and equipment and information software | 99.75% | 99.75% | 99.75% |
| The Company | Highview Investments Limited ("Highview") | Investment and holding company | 100.00% | 100.00% | 100.00% |
| The Company | LILY Medical Corporation ("LILY") | Wholesaling and retailing of medical consumables and equipment | 100.00% | 100.00% | 100.00% |
| The Company | BenQ AB DentCare Corporation ("BABD") | Wholesaling and retailing of medical consumables and equipment | 88.00% | 88.00% | 88.00% |
| The Company | BenQ Hearing Solution Corp. ("BenQ Hearing") | Wholesaling and retailing of medical consumables and equipment | 100.00% | 100.00% | 100.00% |
| The Company | Eastech Co., Ltd. ("Eastech") | Wholesaling and retailing of medical consumables and equipment | 70.00% (Note) | - % | - % |
| LILY | LILY Medical (Suzhou) Co., Ltd. ("ALS") | Wholesaling and retailing of medical consumables and equipment | 100.00% | 100.00% | 100.00% |
| Highview | BenQ Medical Technology (Shanghai) Ltd. ("BMTS") | Agency of international and entrepot trade business | 100.00% | 100.00% | 100.00% |
| BenQ Hearing | New Best Hearing International Trade Co., Ltd. ("NBHIT") | Wholesaling and retailing of medical consumables and equipment | 52.00% | 52.00% | 52.00% |

(Note): The Group obtained de facto control of the company in February 2020 and included it into consolidation.

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

(3) Employee benefits

The defined benefit pension plans of the interim period are computed based on the year-to-date pension cost rate derived using actuarial valuation at the end of the preceding year, adjusted for significant market fluctuation, reduction, settlement or other significant one-off events.

(4) Income tax

In pursuant to the IAS 34, "Interim Financial Reporting," paragraph B12, the Group measures and discloses the income tax expense for the interim period.

The income tax expense is computed by multiplying the net income before tax of the interim period with the effective tax rate for the full financial year best estimated by the Management, and fully recognized as the current income tax expense.

For income tax expenses recognized directly in equity or other comprehensive income, it is measured using the appropriate tax rate expected to realize or when settled, on the temporary difference arising between the carrying amount of assets and liabilities for financial reporting purposes, and their tax bases.

(V) Critical Accounting Judgments and Key Sources of Estimates and Assumptions on Uncertainty

In pursuant to the Preparation Regulations and the IAS 34, "Interim Financial Reporting"

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

as endorsed by FSC, when preparing for these consolidated financial statements, the Management are required to make judgment, estimates and assumptions, which will impact the adoption of accounting policies and the reporting of assets, liabilities, income, and expenses. The actual amount might differ from the estimated amount.

For the preparation of the consolidated financial statements, the Management makes critical accounting judgments, estimates and assumptions on uncertainty using the accounting policies of the Group, consistent with Notes V of the consolidated financial statements for 2019.

(VI) Details of Significant Accounts

Except for the following, the details of significant accounts of these consolidated financial statements does not differ with the consolidated financial statements for 2019. For more information, please see Note VI to the consolidated financial statements for 2019.

(1) Cash and cash equivalents

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> | <u>June 30, 2019</u> |
|---------------------------------------|----------------------|--------------------------|----------------------|
| Cash on hand and revolving funds \$ | 1,719 | 1,571 | 1,624 |
| Demand deposits and checking accounts | 160,913 | 175,898 | 178,670 |
| Time deposits | 52,245 | 65,157 | 67,407 |
| | <u>\$ 214,877</u> | <u>242,626</u> | <u>247,701</u> |

(2) Other financial assets-current

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> | <u>June 30, 2019</u> |
|---------------------------------|----------------------|--------------------------|----------------------|
| Domestic certificate of deposit | <u>\$ 40,570</u> | <u>53,270</u> | <u>56,670</u> |

The estimation of the Group is based on the collection of contractual cash flows when the asset reaches maturity. The cash flows of the financial asset consist of principal and interest on the principal amount outstanding. Therefore, it is measured at amortized cost.

(3) Notes and accounts receivable (measured at amortized cost)

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> | <u>June 30, 2019</u> |
|-------------------------------------|----------------------|--------------------------|----------------------|
| Notes receivable | \$ 9,728 | 11,931 | 6,579 |
| Accounts receivable | 211,250 | 171,934 | 181,743 |
| Less : Loss allowance | <u>(1,846)</u> | <u>(2,380)</u> | <u>(2,343)</u> |
| | 219,132 | 181,485 | 185,979 |
| Accounts receivable-related parties | <u>7,794</u> | <u>2,917</u> | <u>4,402</u> |
| | <u>\$ 226,926</u> | <u>184,402</u> | <u>190,381</u> |

The Group applies the simplified approach to provide for the expected credit losses of notes and accounts receivable, i.e. measuring the lifetime expected credit losses. Analysis of expected credit loss on notes and accounts receivable of the Group is as follows:

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

| | June 30, 2020 | | |
|-------------------------|---|---|--|
| | Gross carrying amount of notes and accounts receivable | Weighted average loss rate | Loss allowance for expected credit losses |
| Current | \$ 144,161 | 0.02% | 28 |
| Past due 0 - 90 days | 71,507 | 0.83% | 595 |
| Past due 91 - 180 days | 4,009 | 1.62% | 65 |
| Past due 181 - 270 days | 184 | 22.28% | 41 |
| Past due over 365 days | 1,117 | 100.00% | 1,117 |
| | <u>\$ 220,978</u> | | <u>1,846</u> |

| | December 31, 2019 | | |
|-------------------------|---|---|--|
| | Gross carrying amount of notes and accounts receivable | Weighted average loss rate | Loss allowance for expected credit losses |
| Current | \$ 142,433 | 0.02% | 31 |
| Past due 0 - 90 days | 37,652 | 1.01% | 381 |
| Past due 91 - 180 days | 1,736 | 1.21% | 21 |
| Past due 181 - 270 days | 131 | 25.95% | 34 |
| Past due over 365 days | 1,913 | 100.00% | 1,913 |
| | <u>\$ 183,865</u> | | <u>2,380</u> |

| | June 30, 2019 | | |
|-------------------------|---|---|--|
| | Gross carrying amount of notes and accounts receivable | Weighted average loss rate | Loss allowance for expected credit losses |
| Current | \$ 141,865 | 0.05% | 69 |
| Past due 0 - 90 days | 41,608 | 0.72% | 300 |
| Past due 91 - 180 days | 75 | 2.67% | 2 |
| Past due 181 - 270 days | 4,430 | 36.75% | 1,628 |
| Past due over 365 days | 344 | 100% | 344 |
| | <u>\$ 188,322</u> | | <u>2,343</u> |

As of June 30, 2020, December 31 and June 30, 2019, the Group has no expected credit losses from accounts receivable - related parties.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Movements of the loss allowance for notes and accounts receivable of the Group is as follows:

| | January to June 2020 | January to June 2019 |
|-------------------------------|----------------------|----------------------|
| Beginning balance | \$ 2,380 | 1,686 |
| Impairment losses | - | 657 |
| Reversal of impairment losses | (534) | - |
| End balance | <u>\$ 1,846</u> | <u>2,343</u> |

(4) Inventories

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|------------------------|-------------------|-------------------|----------------|
| Raw materials | \$ 76,827 | 66,754 | 57,193 |
| Work-in-progress | 22,123 | 25,234 | 18,678 |
| Finished goods | 20,546 | 28,097 | 17,138 |
| Merchandise | 68,376 | 53,228 | 47,461 |
| Inventories | | | |
| Inventories in transit | 5,742 | 1,625 | 5,987 |
| | <u>\$ 193,614</u> | <u>174,938</u> | <u>146,457</u> |

For the three months ended June 30, 2020 and 2019 and for the six months ended June 30, 2020 and 2019, the amount of inventories recognized as costs of revenue are as following:

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|-------------------------------|--------------------|--------------------|----------------------|----------------------|
| Cost of inventories sold | \$ 204,546 | 209,658 | 389,123 | 413,911 |
| Write-down of inventories | 4,376 | 758 | 5,448 | 2,435 |
| Gains on physical inventories | (662) | (873) | (1,009) | (1,038) |
| Write-off of inventories | 1,614 | 1,220 | 1,614 | 1,220 |
| | <u>\$ 209,874</u> | <u>210,763</u> | <u>395,176</u> | <u>416,528</u> |

For the six months ended June 30, 2020 and 2019, the write-down of inventories was resulted from the decrease in net realizable value.

(5) Investments accounted for using equity method

The joint ventures that the Group accounted for using the equity method are not significant. The financial information is listed below and the amounts integrated in the consolidated financial statements are as follows:

| Investee company | Main business activities | Carrying amount | | |
|---|--|------------------|-------------------|---------------|
| | | June 30, 2020 | December 31, 2019 | June 30, 2019 |
| TDX Medical Technology (Jiangsu) Co., Ltd (TDX) | Wholesaling and retailing of medical consumables and equipment | <u>\$ 28,505</u> | <u>25,675</u> | <u>27,457</u> |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The total comprehensive income or loss of the joint venture attributable to the Group is as follows:

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|----------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Net income (loss) | \$ 4,412 | (732) | 3,599 | (886) |
| Other comprehensive income | (470) | (440) | (770) | 279 |
| Total comprehensive income | <u>\$ 3,942</u> | <u>(1,172)</u> | <u>2,829</u> | <u>(607)</u> |

(6) Subsidiaries

1. Acquisition of subsidiary

On February 3, 2020, after the Board of Directors passed the resolution, the Group acquired a 70% stake in Eastech Co., Ltd (hereafter Eastech), and integrated Eastech into the consolidation since the acquisition date (February 11, 2020). The main business of Eastech comprises distribution and sales of branded medical imaging products. Via its sales channels, the acquisition of Eastech allows the Consolidated Company to venture into the medical imaging market and create a platform for human and veterinary medical imaging, furthering the development of the medical equipment industry.

(i) Consideration transferred

According to the equity interest transfer agreement, on February 11, 2020, the Company purchased a 70% stake of Eastech with cash payment of NT\$20,300 thousand, and without contingent consideration or other equity instrument as consideration transferred.

(ii) According to IFRS, the identifiable assets and liabilities arising from the acquisition at fair value should be measured as at the acquisition date. The valuation conducted by experts appointed by the Company is as follows:

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Consideration transferred:

| | | |
|--|----|--------|
| Cash | \$ | 20,300 |
| Add: Non-controlling interests (measured at non-controlling interests' proportionate share of the fair value of identifiable net assets) | | 5,107 |

Identifiable net assets acquired at fair value:

| | | |
|---|----|------------------------|
| Cash and cash equivalents | \$ | 10,081 |
| Notes and accounts receivable | | 5,424 |
| Inventories | | 3,827 |
| Prepayments and other current assets | | 650 |
| Property, plant and equipment | | 895 |
| Right-of-use assets | | 2,661 |
| Intangible asset - distribution agreement | | 3,302 |
| Deferred income tax assets | | 226 |
| Refundable Deposits | | 945 |
| Short-term loans | | (4,755) |
| Notes and accounts payable | | (1,944) |
| Other payables | | (1,234) |
| Lease liabilities (current and non-current) | | (2,678) |
| Other current liabilities | | (374) |
| Deferred income tax liabilities | | (663) |
| Goodwill | | <u><u>16,363</u></u> |
| | | <u><u>\$ 9,044</u></u> |

(iii) Intangible asset

Goodwill mainly comprises the profitability of Eastech medical imaging products and teamwork of the employees. None of the goodwill recognized is expected to be taxable.

Intangible asset - The distribution agreement is amortized over the estimated future economic useful life of 2.9 years according to straight-line amortization.

(iv) Pro forma information

Since February 11, 2020 (acquisition date) to June 30, 2020, the operating results of Eastech has been consolidated into the consolidated statements of comprehensive income of the Group, in which the sales revenue and net income amounted to NT\$9,911 thousand and NT\$(594) thousand respectively. If the acquisition had occurred on January 1, 2020, the pro forma projection for sales revenue and net income of the Group in the first half of 2020 would have amounted to NT\$624,253 thousand and NT\$19,330 thousand respectively.

2. Subsidiaries that the Group has material non-controlling interests

Subsidiaries in which the Group has material non-controlling interests were as

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

follows:

| Subsidiary | Principal place of business/ Country of incorporation | The Percentage of ownership and voting rights held by non-controlling interests | | |
|------------|--|--|-------------------|---------------|
| | | June 30, 2020 | December 31, 2019 | June 30, 2019 |
| NBHIT | Taiwan | 48% | 48% | 48% |

The summarized financial information of subsidiaries prepared in accordance with Taiwan-IFRSs was as follows. The information includes the fair value adjustment made by the Group during the acquisition as at the acquisition date:

The summarized financial information of NBHIT:

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|--|------------------|-------------------|----------------|
| Current assets | \$ 64,035 | 106,537 | 84,818 |
| Non-current assets | 139,209 | 141,136 | 143,709 |
| Current liabilities | (69,831) | (82,501) | (70,433) |
| Non-current liabilities | (37,670) | (38,432) | (38,179) |
| Net assets | <u>\$ 95,743</u> | <u>126,740</u> | <u>119,915</u> |
| The carrying amount of non-controlling interests | <u>\$ 32,437</u> | <u>47,316</u> | <u>42,920</u> |

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|--|-----------------------|-----------------------|-------------------------|-------------------------|
| Operating sales | <u>\$ 68,857</u> | <u>72,049</u> | <u>130,793</u> | <u>131,423</u> |
| Net income | \$ 6,179 | 8,281 | 9,973 | 12,883 |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | <u>\$ 6,179</u> | <u>8,281</u> | <u>9,973</u> | <u>12,883</u> |
| Net income attributable to non-controlling interests | <u>\$ 2,966</u> | <u>3,975</u> | <u>4,787</u> | <u>6,184</u> |
| Total comprehensive income attributable to non-controlling interests | <u>\$ 2,966</u> | <u>3,975</u> | <u>4,787</u> | <u>6,184</u> |

| | January to June 2020 | January to June 2019 |
|--|----------------------|----------------------|
| Cash flow from operating activities | \$ 6,602 | 17,132 |
| Cash flow from investing activities | 4,749 | (9,793) |
| Cash flow from financing activities | (50,167) | (30,090) |
| Effect of changes in exchange rates | - | - |
| Net increase (decrease) in cash and cash equivalents | <u>\$ (38,816)</u> | <u>(22,751)</u> |
| Cash dividends paid to non-controlling interests | <u>\$ 19,666</u> | <u>10,963</u> |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(7) Property, plant and equipment

Movements of the costs, accumulated depreciation and impairment loss of property, plant and equipment of the Group are as follows:

| | <u>Land</u> | <u>Buildings</u> | <u>Machinery</u> | <u>Other equipment</u> | <u>Total</u> |
|---|--------------------------|-----------------------|-----------------------|----------------------------|-----------------------|
| Cost: | | | | | |
| Balance as of January 1, 2020 | \$ 314,314 | 361,765 | 149,105 | 111,370 | 936,554 |
| Acquisition through business combination (Note VI(6)) | - | - | - | 1,494 | 1,494 |
| Additions | - | 950 | 5,253 | 5,493 | 11,696 |
| Disposals | - | - | (296) | (96) | (392) |
| Reclassification | - | - | 2,358 | 1,136 | 3,494 |
| Effect of changes in exchange rates | - | - | - | (45) | (45) |
| Balance as of June 30, 2020 | <u><u>\$ 314,314</u></u> | <u><u>362,715</u></u> | <u><u>156,420</u></u> | <u><u>119,352</u></u> | <u><u>952,801</u></u> |
| Balance as of January 1, 2019 | \$ 314,314 | 412,629 | 142,318 | 108,201 | 977,462 |
| Additions | - | 2,449 | 923 | 6,117 | 9,489 |
| Disposals | - | - | (68) | (244) | (312) |
| Reclassification | - | 840 | 1,890 | 106 | 2,836 |
| Effect of changes in exchange rates | - | - | - | 15 | 15 |
| Balance as of June 30, 2019 | <u><u>\$ 314,314</u></u> | <u><u>415,918</u></u> | <u><u>145,063</u></u> | <u><u>114,195</u></u> | <u><u>989,490</u></u> |
| Accumulated depreciation and impairment loss: | | | | | |
| Balance as of January 1, 2020 | \$ - | 48,229 | 111,235 | 75,640 | 235,104 |
| Acquisition through business combination (Note VI(6)) | - | - | - | 599 | 599 |
| Depreciation | - | 5,440 | 7,104 | 6,066 | 18,610 |
| Disposals | - | - | (296) | (96) | (392) |
| Effect of changes in exchange rates | - | - | - | (43) | (43) |
| Balance as of June 30, 2020 | <u><u>\$ -</u></u> | <u><u>53,669</u></u> | <u><u>118,043</u></u> | <u><u>82,166</u></u> | <u><u>253,878</u></u> |
| Balance as of January 1, 2019 | \$ - | 39,907 | 101,411 | 72,071 | 213,389 |
| Depreciation | - | 6,100 | 5,844 | 5,822 | 17,766 |
| Disposals | - | - | (68) | (244) | (312) |
| Effect of changes in exchange rates | - | - | - | 15 | 15 |
| Balance as of June 30, 2019 | <u><u>\$ -</u></u> | <u><u>46,007</u></u> | <u><u>107,187</u></u> | <u><u>77,664</u></u> | <u><u>230,858</u></u> |
| Carrying amount: | | | | | |
| June 30, 2020 | <u><u>\$ 314,314</u></u> | <u><u>309,046</u></u> | <u><u>38,377</u></u> | <u><u>37,186</u></u> | <u><u>698,923</u></u> |
| January 1, 2020 | <u><u>\$ 314,314</u></u> | <u><u>313,536</u></u> | <u><u>37,870</u></u> | <u><u>35,730</u></u> | <u><u>701,450</u></u> |
| June 30, 2019 | <u><u>\$ 314,314</u></u> | <u><u>369,911</u></u> | <u><u>37,876</u></u> | <u><u>36,531</u></u> | <u><u>758,632</u></u> |

For information on the property, plant and equipment of the Group serving as collaterals for bank loans, please see Note VIII.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(8) Right-of-use assets

Movements of the costs and depreciation of buildings that the Group leases as office spaces and branch offices, and transportation equipment are as follows:

| | Buildings | Transportation equipment | Total |
|--|--------------------------|-------------------------------------|-----------------------|
| Cost of right-of-use assets: | | | |
| Balance as of January 1, 2020 | \$ 127,230 | 8,521 | 135,751 |
| Acquisition through business combination (Note VI(6)) | 2,970 | - | 2,970 |
| Additions | 10,919 | 1,788 | 12,707 |
| Write-off | (6,461) | - | (6,461) |
| Effect of changes in exchange rates | (111) | - | (111) |
| Balance as of June 30, 2020 | <u>\$ 134,547</u> | <u>10,309</u> | <u>144,856</u> |
| Balance as of January 1, 2019 | \$ 93,715 | 6,281 | 99,996 |
| Additions | 19,825 | 911 | 20,736 |
| Write-off | (1,510) | - | (1,510) |
| Effect of changes in exchange rates | 42 | - | 42 |
| Balance as of June 30, 2019 | <u>\$ 112,072</u> | <u>7,192</u> | <u>119,264</u> |
| Accumulated depreciation of right-of-use assets: | | | |
| Balance as of January 1, 2020 | \$ 33,984 | 3,413 | 37,397 |
| Acquisition through business combination (Note VI(6)) | 309 | - | 309 |
| Depreciation | 14,916 | 1,157 | 16,073 |
| Write-off | (2,857) | - | (2,857) |
| Effect of changes in exchange rates | (62) | - | (62) |
| Balance as of June 30, 2020 | <u>\$ 46,290</u> | <u>4,570</u> | <u>50,860</u> |
| Balance as of January 1, 2019 | \$ 48,898 | 2,669 | 51,567 |
| Depreciation | 11,485 | 842 | 12,327 |
| Write-off | (1,510) | - | (1,510) |
| Effect of changes in exchange rates | 7 | - | 7 |
| Balance as of June 30, 2019 | <u>\$ 58,880</u> | <u>3,511</u> | <u>62,391</u> |
| Carrying amount: | | | |
| Balance of June 30, 2020 | <u>\$ 88,257</u> | <u>5,739</u> | <u>93,996</u> |
| January 1, 2020 | <u>\$ 93,246</u> | <u>5,108</u> | <u>98,354</u> |
| June 30, 2019 | <u>\$ 53,192</u> | <u>3,681</u> | <u>56,873</u> |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(9) Investment properties

| | <u>Buildings</u> |
|---|------------------|
| Costs or costs identified: | |
| Balance as of January 1, 2020 (i.e. balance as of June 30, 2020) | <u>\$ 54,762</u> |
| Depreciation and impairment loss: | |
| Balance as of January 1, 2020 | \$ 3,984 |
| Depreciation | 798 |
| Balance as of June 30, 2020 | <u>\$ 4,782</u> |
| Carrying amount: | |
| January 1, 2020 | <u>50,778</u> |
| Balance of June 30, 2020 | <u>\$ 49,980</u> |

Investment properties comprise factories leased out. The fair value of the investment properties of the Group does not differ significantly from the disclosure at Note VI (8) of the consolidated financial statements for 2019.

For investment properties serving as collateral for bank loans, please see Note VIII.

(10) Intangible asset

The change of intangible asset is as follows:

| | <u>Goodwill</u> | <u>Computer software</u> | <u>Customer relationships and sales channels</u> | <u>Other Intangible asset</u> | <u>Total</u> |
|---|------------------|--------------------------|--|-------------------------------|----------------|
| Costs: | | | | | |
| Balance as of January 1, 2020 | \$ 47,829 | 25,005 | 48,011 | 24,375 | 145,220 |
| Acquisition through business combination (Note VI(6)) | 9,044 | - | 3,302 | - | 12,346 |
| Addition | - | 2,980 | - | 1,905 | 4,885 |
| Write-off | - | (1,438) | - | - | (1,438) |
| Balance as of June 30, 2020 | <u>\$ 56,873</u> | <u>26,547</u> | <u>51,313</u> | <u>26,280</u> | <u>161,013</u> |
| Balance as of January 1, 2019 | \$ 47,829 | 30,134 | 48,011 | 22,661 | 148,635 |
| Addition | - | 35 | - | - | 35 |
| Write-off | - | (889) | - | - | (889) |
| Balance as of June 30, 2019 | <u>\$ 47,829</u> | <u>29,280</u> | <u>48,011</u> | <u>22,661</u> | <u>147,781</u> |
| Accumulated amortization: | | | | | |
| Balance as of January 1, 2020 | \$ - | 19,985 | 18,659 | 16,975 | 55,619 |
| Amortization | - | 1,988 | 2,940 | 1,093 | 6,021 |
| Write-off | - | (1,438) | - | - | (1,438) |
| Balance of June 30, 2020 | <u>\$ -</u> | <u>20,535</u> | <u>21,599</u> | <u>18,068</u> | <u>60,202</u> |
| Balance as of January 1, 2019 | \$ - | 21,042 | 13,722 | 15,376 | 50,140 |
| Amortization for the current period | - | 2,508 | 2,468 | 776 | 5,752 |
| Write-off | - | (889) | - | - | (889) |
| Balance as of June 30, 2019 | <u>\$ -</u> | <u>22,661</u> | <u>16,190</u> | <u>16,152</u> | <u>55,003</u> |
| Carrying amount: | | | | | |
| Balance of June 30, 2020 | <u>\$ 56,873</u> | <u>6,012</u> | <u>29,714</u> | <u>8,212</u> | <u>100,811</u> |
| January 1, 2020 | <u>\$ 47,829</u> | <u>5,020</u> | <u>29,352</u> | <u>7,400</u> | <u>89,601</u> |
| June 30, 2019 | <u>\$ 47,829</u> | <u>6,619</u> | <u>31,821</u> | <u>6,509</u> | <u>92,778</u> |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

According to IAS 36, the goodwill acquired by the Group must undergo assessment for impairment at least once a year. Pursuant to the assessment for impairment conducted by the Group on December 31, 2019, goodwill has not suffered any impairment. For details, please see Note VI (9) to the consolidated financial statements for 2019. On June 30, 2020, the Group conducted an assessment based on the sales revenue meeting target in the second quarter of 2020, and concluded that no impairment was incurred.

(11) Other non-current assets

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|---------------------------|----------------------|--------------------------|----------------------|
| Prepayments for equipment | \$ 21,383 | 12,975 | 11,159 |
| Pension plan assets | 129 | 129 | - |
| Refundable Deposits | 14,578 | 14,093 | 14,627 |
| | \$ 36,090 | 27,197 | 25,786 |

(12) Short-term loans

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|--------------------------|----------------------|--------------------------|----------------------|
| Unsecured bank loans | \$ 74,781 | 47,720 | 121,221 |
| Unused credit facilities | \$ 1,227,477 | 1,263,643 | 1,556,717 |
| Interest rate bracket | 0.88%~2.09% | 2.70%~2.94% | 1.28%~3.34% |

(13) Long-term loans

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|--|----------------------|--------------------------|----------------------|
| Unsecured bank loans | \$ 122,083 | 93,750 | 34,584 |
| less: current portion of long-term loans | (6,238) | (31,667) | (1,667) |
| | \$ 115,845 | 62,083 | 32,917 |
| Unused credit facilities | \$ 565,000 | 395,000 | 95,000 |
| Interest rate bracket | 1.13%~1.60% | 1.29%~1.60% | 1.45%~1.60% |

For assets pledged as collateral to secure the bank loans, please see Note VIII.

(14) Lease liabilities

The lease liabilities of the Group are as follows:

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|-------------|----------------------|--------------------------|----------------------|
| Current | \$ 30,763 | 30,352 | 19,988 |
| Non-current | \$ 64,092 | 68,891 | 37,499 |

Please see Note VI (24) for the maturity profile of financial instruments.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Profit and loss recognized are as follows:

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
| Interest expense of lease liabilities | <u>\$ 406</u> | <u>218</u> | <u>816</u> | <u>438</u> |
| Current lease payments not included as lease liability measurement | <u>\$ 416</u> | <u>384</u> | <u>854</u> | <u>830</u> |
| Short-term lease expense | <u>\$ 724</u> | <u>649</u> | <u>1,261</u> | <u>1,362</u> |

Items recognized in Cash Flows Statement:

| | January to June 2020 | January to June 2019 |
|-------------------------------|-------------------------|-------------------------|
| Total cash outflow for leases | <u>\$ 18,677</u> | <u>14,931</u> |

1. Lease of buildings

As at June 30, 2020, pertaining to office spaces and branch offices of the Group, the lease tenors for office spaces range from three to eight years, and branch offices, three to nine years, of which some of the leases have a renewal option for tenor as per the original lease contract.

2. Other leases

The lease tenors of transportation equipment of the Group range from two to five years. Further, some lease tenor of transportation equipment is one year and thus deemed as short-term lease. The Group chooses to adopt recognition exemption and does not recognize the relevant right-of-use assets and lease liabilities.

(15) Provision for product warranty

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|--------------------------------|------------------|-------------------|---------------|
| Provision for product warranty | <u>\$ 10,710</u> | <u>10,641</u> | <u>11,101</u> |

During the six months ended June 30, 2020 and 2019, the Group did not have major changes in the provision for product warranty. For details, please see Note VI (14) to consolidated financial statements for 2019.

(16) Operating leases

During the six months ended June 30, 2020 and 2019, the Group did not have a new addition of a significant operating leasing contract. For details, please see Notes VI (15) of the consolidated financial statements for 2019.

(17) Employee benefits

1. Defined benefit plans

As no significant market fluctuation, reduction, settlement or other significant one-off events have occurred since the last yearly reporting date, the Group has adopted actuarial valuation as at December 31, 2019 and 2018 for pension cost measurement and pension cost for interim period disclosure.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Under the defined benefit plans of the Group, the details of pension expenses are as follows:

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|--------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Costs of revenue | \$ - | 17 | 39 | 34 |
| Operating expenses | - | - | (5) | 5 |
| | <u>\$ -</u> | <u>17</u> | <u>34</u> | <u>39</u> |

2. Defined contribution plans

Under the procedure for defined contribution plans of the Group, the pension expenses reported are as follows:

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|--------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Costs of revenue | \$ 1,034 | 1,017 | 2,081 | 1,998 |
| Operating expenses | 2,473 | 2,111 | 4,958 | 4,121 |
| | <u>\$ 3,507</u> | <u>3,128</u> | <u>7,039</u> | <u>6,119</u> |

(18) Income tax

1. Income tax expense

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|----------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Current income tax expense | <u>\$ 2,758</u> | <u>5,036</u> | <u>5,707</u> | <u>10,154</u> |

2. For the six months ended June 30, 2020 and 2019, no income tax had been directly recognized under equity and other comprehensive income or loss items.

3. Income tax audit

The Company's income tax returns for the years through 2017 have been examined and approved by the R.O.C. income tax authorities.

(19) Capital and other equity

Except for the following, during the six months ended June 30, 2020 and 2019, there was no major change in capital and other equity. For details, please see Notes VI (18) of the consolidated financial statements for 2019.

1. Common stock

As of June 30, 2020, and December 31 and June 30, 2019, the Company's authorized shares of common stock consisted of 52,000 thousand shares, with par value of NT\$10 per share, of which 44,566 thousand shares were issued and outstanding.

The reconciliation of common stock outstanding is as follows (in thousands):

| | January to June 2020 | January to June 2019 |
|--------------------------------------|-------------------------|-------------------------|
| Beginning balance (i.e. end balance) | <u>\$ 44,566</u> | <u>44,566</u> |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES**Notes to Consolidated Financial Statements (continued)****2. Capital surplus**

The balances of capital surplus of the Company are as follows:

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|----------------------------|----------------------|--------------------------|----------------------|
| Additional paid-in capital | \$ 297,921 | 297,921 | 297,921 |
| in excess of par issued | | | |

3. Retained earnings

According to the Article of Incorporation, any profit that the Company makes shall be first appropriated for tax payment, recovering of past losses, and 10% of the appropriation goes to legal reserve, as well as setting aside for or reversing special reserve. The remaining balance of the annual net income, together with unappropriated earnings from the beginning of the year, if any, can be distributed as dividends after the profit distribution or loss off-setting plan proposed by the Board of Directors is approved during the Shareholders' meeting. For the aforementioned earning distribution, if a cash dividend is distributed, the Board of Directors is authorized to approve and report to the Shareholders' meeting.

The Company adopts a residual dividend policy to enhance future growth and sustainable development. If profit is available, the distribution of dividend shall not be lower than 10% of the net income after tax for the year. The dividend distribution should take into account the future development of operational scale and the cash flows need. The yearly cash dividend distributed shall not be lower than 10% of the cash and stock dividends combined.

The proposals of profit distribution for 2019 and 2018 were approved by the shareholders' meetings on June 10, 2020 and June 6, 2019 respectively. The cash dividends distributed to shareholders were as follows:

| | 2019 | | 2018 | |
|----------------------|---|---------------|---|---------------|
| | Dividend per share (NTD) | Amount | Dividend per share (NTD) | Amount |
| Dividends per share: | | | | |
| Cash | \$ 1.35 | 60,164 | 1.35 | 60,164 |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

4. Other equity (net after tax)

Exchange differences on translation from foreign operations

| | January to June 2020 | January to June 2019 |
|---|---------------------------------|---------------------------------|
| Beginning balance | \$ (3,309) | (1,926) |
| Foreign exchange differences arising from translation of foreign operations | (365) | 139 |
| Shares of foreign currency translation differences of associates and joint ventures | (770) | 279 |
| End balance | <u><u>\$ (4,444)</u></u> | <u><u>(1,508)</u></u> |

5. Non-controlling interests (net after tax)

| | January to June 2020 | January to June 2019 |
|---|---------------------------------|---------------------------------|
| Beginning balance | \$ 55,605 | 55,611 |
| Effects of retrospective application | - | (204) |
| Beginning balance after adjustment | 55,605 | 55,407 |
| Equity attributable to non-controlling interests: | | |
| Net income | 4,259 | 7,151 |
| Cash dividend | (19,666) | (10,967) |
| Increase in non-controlling interests | 5,107 | - |
| | <u><u>\$ 45,305</u></u> | <u><u>51,591</u></u> |

(20) Earnings per share (EPS)

1. Basic EPS

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|---|-------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Net income attributable to shareholders of the Company | <u><u>\$ 8,375</u></u> | <u><u>11,927</u></u> | <u><u>16,244</u></u> | <u><u>32,288</u></u> |
| Weighted-average number of ordinary shares outstanding (in thousands) | <u><u>44,566</u></u> | <u><u>44,566</u></u> | <u><u>44,566</u></u> | <u><u>44,566</u></u> |
| Basic EPS (NT\$) | <u><u>\$ 0.19</u></u> | <u><u>0.27</u></u> | <u><u>0.36</u></u> | <u><u>0.72</u></u> |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

2. Diluted EPS

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
| Net income attributable to shareholders of the Company | \$ 8,375 | 11,927 | 16,244 | 32,288 |
| Weighted-average number of ordinary shares outstanding (basic) (in thousands) | 44,566 | 44,566 | 44,566 | 44,566 |
| Effect of dilutive potential common stock (in thousands) | | | | |
| Effect of employee bonuses | 50 | 98 | 140 | 180 |
| Weighted-average number of ordinary shares outstanding (diluted) (in thousands) | 44,616 | 44,664 | 44,706 | 44,746 |
| Diluted EPS (NT\$) | \$ 0.19 | 0.27 | 0.36 | 0.72 |

(21) Revenue from contracts with customers

1. Disaggregation of revenue

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|-------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Primary geographical markets: | | | | |
| Taiwan | \$ 169,447 | 174,319 | 342,370 | 328,716 |
| Mainland China | 106,948 | 117,416 | 187,854 | 246,835 |
| India | 17,284 | 14,625 | 31,365 | 37,206 |
| Others | 30,008 | 34,341 | 62,645 | 61,128 |
| | \$ 323,687 | 340,701 | 624,234 | 673,885 |
| Main products: | | | | |
| Medical equipment | \$ 146,519 | 157,139 | 274,958 | 313,633 |
| Medical services | 95,438 | 103,960 | 175,006 | 202,065 |
| Medical consumables | 81,730 | 79,602 | 174,270 | 158,187 |
| | \$ 323,687 | 340,701 | 624,234 | 673,885 |

2. Contract balances

| | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|--|---------------|-------------------|---------------|
| Notes and accounts receivable | \$ 228,772 | 186,782 | 192,724 |
| less: Loss allowance | (1,846) | (2,380) | (2,343) |
| | \$ 226,926 | 184,402 | 190,381 |
| Contract liabilities (listed as other current liabilities) | \$ 22,583 | 14,577 | 19,026 |

For disclosure on notes and accounts receivable and related loss allowance, please refer to Note VI (3).

The changes in contract liabilities are mainly due to the timing difference between product transferred or service rendered, i.e. satisfying contractual obligations by the

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

Group, and payment made by customers.

The Group recognized revenue from the beginning balance of contract liability as of January 1, 2020 and 2019, which amounted to NT\$686 thousand and NT\$435 thousand for the three months ended June 30, 2020 and 2019 respectively and NT\$11,446 thousand and NT\$12,865 thousand for the six months ended June 30, 2020 and 2019 respectively.

(22) Remuneration to employees and Directors

According to the Article of Incorporation, if any profit is available, 5% to 20% thereof should be set aside as employee compensation and no more than 1% should be set aside as Directors' remuneration. However, the profit should be appropriated to deduct the accumulated deficit first, if any. The aforementioned employees that are eligible for stock options or cash compensation may include employees of affiliated companies that meet certain conditions.

The compensation of employees for the three months ended June 30, 2020 and 2019 amounted to NT\$966 thousand and NT\$1,417 thousand respectively and for the six months ended June 30, 2020 and 2019 amounted to NT\$1,907 thousand and NT\$3,794 thousand respectively; and, the remuneration of Directors for the three months ended June 30, 2020 and 2019 amounted to NT\$81 thousand and NT\$118 thousand respectively and for the six months ended June 30, 2020 and 2019 amounted to NT\$159 thousand and NT\$316 thousand respectively. The Group accrued the remuneration to employees and Directors by multiplying pre-tax income prior to being deducted by remuneration to employees and Directors of the period with the distribution percentage of remuneration to employees and Directors. The compensation and remuneration were classified as the costs of revenue or expenses for the period. If the actual disbursement in the following year differs from the estimated amount, the difference is treated as change in accounting estimation, and recognized in the profit and loss in the next annual period.

The estimated amounts of employee compensation for 2019 and 2018 amounted to NT\$8,511 thousand and NT\$7,243 thousand respectively; and the estimated amounts of Director remuneration amounted to NT\$709 thousand and NT\$523 thousand respectively. The aforementioned amounts did not differ from the employee compensation and Director remuneration approved by the Board on March 6, 2020 and March 7, 2019 respectively, and were all disbursed in cash. For details, please see the Market Observation Post System.

(23) Non-operating income and loss

1. Interest income

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|------------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Interest income from bank deposits | \$ 197 | 349 | 445 | 589 |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

2. Other income

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|---------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Rental income | \$ 1,698 | 2,062 | 3,448 | 4,305 |
| Others | 551 | 96 | 675 | 776 |
| | <u>\$ 2,249</u> | <u>2,158</u> | <u>4,123</u> | <u>5,081</u> |

3. Other gains and losses

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|--|-----------------------|-----------------------|-------------------------|-------------------------|
| Gains on disposal of property, plant and equipment, net | \$ 2 | - | 2 | - |
| Foreign currency exchange (losses) gains | (1,058) | 49 | (337) | 164 |
| Gains on lease modification | 414 | - | 423 | - |
| | <u>\$ (642)</u> | <u>49</u> | <u>88</u> | <u>164</u> |

4. Financing costs

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|---|-----------------------|-----------------------|-------------------------|-------------------------|
| Interest expense of bank loans | \$ 587 | 726 | 1,229 | 1,649 |
| Financial expense of lease liabilities | 406 | 218 | 816 | 438 |
| | <u>\$ 993</u> | <u>944</u> | <u>2,045</u> | <u>2,087</u> |

(24) Financial instruments

Except for the following, the fair value of the financial instruments and the credit, liquidity and market risks exposed due to the financial instruments have no significant changes. For details, please see Notes VI (23) and (24) of the consolidated financial statements for 2019.

1. Categories of financial instruments

(i) Financial assets

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> | <u>June 30, 2019</u> |
|---|----------------------|--------------------------|----------------------|
| Financial assets measured at amortized cost: | | | |
| Cash and cash equivalents | \$ 214,877 | 242,626 | 247,701 |
| Notes and accounts receivable and other receivables (including related parties) | 228,598 | 189,984 | 193,172 |
| Other financial assets-current | 40,570 | 53,270 | 56,670 |
| Other non-current assets - refundable deposits | 14,578 | 14,093 | 14,627 |
| | <u>\$ 498,623</u> | <u>499,973</u> | <u>512,170</u> |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(ii) Financial liabilities

| | <u>June 30, 2020</u> | <u>December 31, 2019</u> | <u>June 30, 2019</u> |
|---|----------------------|--------------------------|----------------------|
| Financial liabilities measured at amortized cost: | | | |
| Short-term loans | \$ 74,781 | 47,720 | 121,221 |
| Notes and accounts payable and other payables (including related parties) | 316,393 | 189,984 | 167,381 |
| Lease liabilities (current and non-current) | 94,855 | 99,243 | 57,487 |
| Long-term loans (including current portion) | 122,083 | 93,750 | 34,584 |
| Guarantee deposit received | 6,648 | 4,102 | 4,414 |
| | <u>\$ 614,760</u> | <u>434,799</u> | <u>385,087</u> |

(iii) Fair value of financial instruments

The Management of the Group opines that carrying values of financial assets and liabilities measured at amortized cost is similar to their fair values.

2. Credit risk

Credit risk is the risk of financial loss to the Group when a counterparty of a financial asset transaction fails to meet its contractual obligations, and arises primarily from cash and cash equivalents, receivables from customers, and other financial assets. The maximum exposure to credit risk amounts to the carrying amount of the Group's financial assets.

The Group deposits its cash in reputable financial institutions, resulting in no significant credit risk, in the Group's opinion.

The Group has established credit policy and determined the credit limit of each customer according to its financial status in pursuant to the policy. As of June 30, 2020 and 2019, 43% and 37% of the balances of notes and accounts receivable are made up by three customers combined. The Group evaluates the financial status of the customers on a regular basis to mitigate the credit risk. For information on maximum exposure to credit risk arises from notes and accounts receivable, please see Notes VI (3).

Other financial assets-current measured at amortized cost include other receivables and certificate of deposit (certificate of deposit is classified as other financial assets-current. For details, please see Notes VI (2)). The above financial assets carry low credit risk. As such, the loss allowance is measured as 12-month expected credit loss. As at June 30, 2020 and 2019, after evaluation, no expected credit loss was incurred.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

3. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in settling its financial liabilities by delivering cash or other financial assets. The Group manages liquidity risk by monitoring the current and mid- to long-term cash demand regularly, and maintaining adequate cash and cash equivalents, and line of credit at banking facilities. As at June 30, 2020, and December 31 and June 30, 2019, the unused credit facilities of the Group amounted to NT\$1,792,477 thousand, NT\$1,658,643 thousand and NT\$1,651,717 thousand respectively.

The following table summarizes the maturity profile of the Group's financial liabilities based on the earliest repayment dates, and is prepared according to the contractual undiscounted payments.

| | Contractual Cash flows | Within 6 months | 6-12 months | 1-2 years | More than 2 years |
|---|---------------------------|--------------------|----------------|----------------|----------------------|
| June 30, 2020 | | | | | |
| Non-derivative financial liabilities: | | | | | |
| Short-term loans | \$ 74,781 | 66,781 | 8,000 | - | - |
| Long-term loans (including current portion) | 125,616 | 3,325 | 4,520 | 81,273 | 36,498 |
| Notes and accounts payable and other payables (including related parties) | 316,393 | 316,393 | - | - | - |
| Guarantee deposit received | 6,648 | 40 | - | - | 6,608 |
| Lease liabilities | 98,004 | 16,395 | 15,761 | 26,447 | 39,401 |
| | <u>\$ 621,442</u> | <u>402,934</u> | <u>28,281</u> | <u>107,720</u> | <u>82,507</u> |
| December 31, 2019 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term loans | \$ 47,720 | 47,720 | - | - | - |
| Long-term loans | 95,365 | 1,465 | 31,427 | 62,055 | 418 |
| Notes and accounts payable and other payables (including related parties) | 189,984 | 189,984 | - | - | - |
| Guarantee deposit received | 4,102 | 10 | - | - | 4,092 |
| Lease liabilities | 102,318 | 16,036 | 15,694 | 28,406 | 42,182 |
| | <u>\$ 439,489</u> | <u>255,215</u> | <u>47,121</u> | <u>90,461</u> | <u>46,692</u> |
| June 30, 2019 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Short-term loans | \$ 121,221 | 121,221 | - | - | - |
| Long-term loans | 35,313 | 1,086 | 1,079 | 31,887 | 1,261 |
| Notes and accounts payable and other payables (including related parties) | 167,381 | 167,381 | - | - | - |
| Guarantee deposit received | 4,414 | 323 | - | - | 4,091 |
| Lease liabilities | 59,063 | 10,688 | 10,080 | 18,184 | 20,111 |
| | <u>\$ 387,392</u> | <u>300,699</u> | <u>11,159</u> | <u>50,071</u> | <u>25,463</u> |

The Group does not expect that the cash flows included in the maturity analysis would occur significantly earlier or at significantly different amounts.

4. Market risk

(i) Foreign exchange risk

The financial assets and liabilities of the Group that exposed to significant

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

foreign exchange risk:

| | June 30, 2020 | | | | December 31, 2019 | | | June 30, 2019 | | |
|----------------------------------|---------------------|------------------|-------|---------|---------------------|------------------|---------|---------------------|------------------|---------|
| | Foreign currency | Exchange rate | NTD | | Foreign currency | Exchange rate | NTD | Foreign currency | Exchange rate | NTD |
| <u>Financial assets</u> | | | | | | | | | | |
| <u>Monetary Items</u> | | | | | | | | | | |
| USD | \$ | 5,568 | 29.66 | 165,147 | 3,705 | 30.11 | 111,558 | 4,284 | 31.06 | 133,061 |
| <u>Financial liabilities</u> | | | | | | | | | | |
| <u>Monetary Items</u> | | | | | | | | | | |
| USD | | 2,350 | 29.66 | 69,701 | 2,294 | 30.11 | 69,072 | 2,798 | 31.06 | 86,906 |

The foreign exchange risk of the Group is mainly due to translation differences, gains, or losses of cash and cash equivalents, accounts receivable (including related-party transactions), accounts payable (including related-party transactions), other receivables (including related-party transactions), other payables (including related-party transactions), and bank loans in foreign currencies. As of June 30, 2020 and 2019, if NTD depreciated/appreciated 1% against USD and all variables remained unchanged, the net income before tax for the six months ended June 30, 2020 and 2019 would increase/decrease NT\$954 thousand and NT\$462 thousand respectively. Both periods adopted the same basis for analysis.

As the Group deals in diverse foreign currencies, gains and losses on foreign exchange were summarized as a single amount. The aggregate of foreign exchange gains or losses (realized and unrealized) for the three months ended June 30, 2020 and 2019 were NT\$(1,058) thousand and NT\$49 thousand respectively and for the six months ended June 30, 2020 and 2019 were NT\$(337) thousand and NT\$164 thousand respectively.

(ii) Interest rate risk

The Group's bank loans carried floating interest rates. To mitigate the interest rate risk, the Group periodically assesses the interest rates of different banks and currencies, and maintains good relationships with financial institutions for a lower financing cost. The Group also strengthens the management of working capital to reduce the dependence on bank loans and diversify the risk arising from fluctuation of interest rates.

The following sensitivity analysis is based on the risk exposure to floating-interest-rate of bank loans as at the reporting date. The sensitivity analysis assumes the liabilities recorded as of the reporting date had been outstanding for the entire period. The internal reporting of the Group to the Management on the fluctuation of 1% increase or decrease in yearly interest rate also represents the evaluation of the Management on the reasonable changes of the interest rate.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

If the yearly interest rate increases/decreases 1%, and all variables remained unchanged, the net income before tax of the Group for the six months ended June 30, 2020 and 2019 would decrease/increase NT\$984 thousand and NT\$779 thousand respectively.

(25) Financial risk management

The goal and policy of the financial risk management of the Group and the disclosure made at Notes VI (24) of the consolidated financial statements for 2019 undergo no significant changes.

(26) Capital management

The goal, policy and procedures of capital management of the Group does not differ from the disclosure made at the consolidated financial statements. For details, please see Notes VI (25) of the consolidated financial statements for 2019.

(27) Changes in liabilities from financing activities

Reconciliation of liabilities arising from financing activities was as follows:

| | | | Non-cash changes | | |
|---------------------------------------|------------------------|-------------------|--------------------------------------|---|----------------------|
| | January 1, 2020 | Cash flows | Addition of lease liabilities | Acquisition through business combination | June 30, 2020 |
| Short-term loans | \$ 47,720 | 22,306 | - | 4,755 | 74,781 |
| Long-term loans | 93,750 | 28,333 | - | - | 122,083 |
| Lease liabilities | 99,243 | (15,746) | 8,680 | 2,678 | 94,855 |
| Guarantee deposit received | 4,102 | 2,546 | - | - | 6,648 |
| Liabilities from financing activities | \$ 244,815 | 37,439 | 8,680 | 7,433 | 298,367 |

| | January 1, 2019 | Cash flows | Non-cash changes | June 30, 2019 |
|---------------------------------------|------------------------|-------------------|-------------------------|----------------------|
| Short-term loans | \$ 54,429 | 66,792 | - | 121,221 |
| Long-term loans | 200,000 | (165,416) | - | 34,584 |
| Lease liabilities | 49,052 | (12,301) | 20,736 | 57,487 |
| Guarantee deposit received | 3,195 | 1,219 | - | 4,414 |
| Liabilities from financing activities | \$ 306,676 | (109,706) | 20,736 | 217,706 |

(VII) Related-party Transactions

(1) Parent company and ultimate controlling company

BenQ Corporation is the parent company of the Company, directly and indirectly holding a 43.43% stake in ordinary shares outstanding. Qisda Corporation is the ultimate controlling company of the Company and its consolidated financial statements are made available to the public.

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(2) Related party name and categories

During the reporting period of these consolidated financial statements, the related parties that transacted with the Group were as follows:

| Name of related party | Relationship with the Group |
|---|---|
| Qisda Corporation (Qisda) | Ultimate controlling company of the Group |
| BenQ Corporation (BenQ) | The parent company of the Group |
| TDX Medical Technology (Jiangsu) Co., Ltd | Joint venture of the Group |
| Other related parties: | |
| BenQ Asia Pacific Corp. | Subsidiary of BenQ |
| BenQ GURU Corp. | Subsidiary of BenQ |
| BenQ Co., Ltd. | Subsidiary of BenQ |
| BenQ Technology (Shanghai) Co., Ltd. | Subsidiary of BenQ |
| BenQ Intelligent Technology (Shanghai) Co., Ltd | Subsidiary of BenQ |
| BenQ Materials Corporation (BMC) | Subsidiary of Qisda |
| BenQ Materials Medical Supplies (Suzhou) Co., Ltd | Subsidiary of BMC |
| Sigma Medical Supplies Corporation (SMS) | Subsidiary of BMC |
| BenQ Medical (Shanghai) Co., Ltd. | Subsidiary of Qisda |
| K2 Medical Co., Ltd. (Thailand) | Subsidiary of Qisda |
| Q.S.Control Corporation | Associates of Qisda |
| BenQ Foundations | Substantive related party of Qisda |

(3) Related-party transactions

1. Operating revenues

The sales to related parties were as follows:

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|------------------------------|-------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Ultimate controlling company | \$ 17 | 166 | 417 | 166 |
| Joint venture | 743 | 1,849 | 956 | 2,718 |
| Other related parties | 4,757 | 402 | 18,857 | 457 |
| | \$ 5,517 | 2,417 | 20,230 | 3,341 |

As the specifications of some products were different, the sales prices of those to related parties by the Group were not comparable to the sales prices to third-party customers; other than those products, the sales prices to related parties did not significantly differ from the sales prices to third-party customers. Meanwhile, the conditions of the transactions to related parties did not significantly differ from the conditions to third-party customers as well.

2. Purchases

The purchases made by the Group with related parties were as follows:

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Ultimate controlling company | \$ 15,234 | 5,175 | 20,074 | 10,971 |
| Joint venture | 1,621 | 1,226 | 2,452 | 3,711 |
| Other related parties | 3,960 | 1,616 | 7,257 | 1,909 |
| | \$ 20,815 | 8,017 | 29,783 | 16,591 |

The conditions of procurement between the Group and the related parties above do not differ significantly from transactions with an external party.

3. Leases

- (i) The Group leases factory plant and offices from Qisda and the rental was set by referring to the rental market of the area. The interest expense recognized for the three months and for the six months ended June 30, 2019 amounted to NT\$4 thousand and NT\$13 thousand respectively. The lease had expired on June 30, 2019. On August 7, 2019, the Group entered into a new 5-year contract with Qisda. For the three months and the six months ended June 30, 2020, the interest expense recognized amounted to NT\$146 thousand and NT\$307 thousand respectively. As of June 30, 2020 and December 31, 2019, the balances of lease liabilities amounted to NT\$33,781 thousand and NT\$40,718 thousand respectively.
- (ii) The Group has leased offices from other related parties and the agreements are short-term leases. The Group opted for exemption of recognition and did not recognize the related right-of-use assets and lease liabilities. For the three months ended June 30, 2020 and 2019, the rental expense amounted to NT\$353 thousand and NT\$302 thousand respectively; and, for the six months ended June 30, 2020 and 2019, the rental expense amounted to NT\$711 thousand and NT\$603 thousand respectively. On June 30, 2020 and 2019, the related payables were classified under other payables.

4. Acquisition and disposal of property, plant and equipment

For the six months ended June 30, 2020, the Group purchased fixed assets from other related parties which amounted to NT\$720 thousand. As of June 30, 2020, the related payables were classified under other payables.

5. Others

- (i) The service rendered to the Group by the ultimate controlling company, the parent company and other related parties for the three months ended June 30, 2020 and 2019 amounted to NT\$407 thousand and NT\$838 thousand respectively and those for the six months ended June 30, 2020 and 2019 amounted to NT\$927 thousand and NT\$1,672 thousand respectively. As of June 30, 2020 and 2019, the related payables were classified under other payables.
- (ii) The Company and the parent company, BenQ Corp., entered into a trademark licensing agreement. BenQ Corp. authorized the Company to use its trademark on

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

products and services. The trademark licensing stipulated by the contract took effect on June 10, 2014 and shall end upon termination by either party.

6. Receivables from related parties

The receivables from related parties of the Group are as follows:

| Account | Related-party categories | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|---------------------|---------------------------------|----------------------|--------------------------|----------------------|
| Accounts receivable | Ultimate controlling company | \$ - | - | 175 |
| Accounts receivable | Joint venture | 3,267 | 2,570 | 3,817 |
| Accounts receivable | Other related parties | 4,527 | 347 | 410 |
| Other receivables | Ultimate controlling company | - | 3,094 | - |
| Other receivables | Other related parties | 49 | 50 | 52 |
| | | \$ 7,843 | 6,061 | 4,454 |

7. Payables to related parties

The payables to related parties of the Group are as follows:

| Account | Related-party categories | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|---------------------------------|---------------------------------|----------------------|--------------------------|----------------------|
| Accounts payable | Ultimate controlling company | \$ 10,314 | 1,907 | 3,606 |
| Accounts payable | Joint venture | 1,105 | 4,466 | 1,198 |
| Accounts payable | Other related parties | 5,278 | 3,424 | 424 |
| Other payables | Ultimate controlling company | 1,403 | 1,467 | 836 |
| Other payables | Parent company | 593 | 189 | 485 |
| Other payables | Other related parties | 458 | 1,317 | 16 |
| Lease liabilities - current | Ultimate controlling company | 8,242 | 8,795 | - |
| Lease liabilities - non-current | Ultimate controlling company | 25,539 | 31,923 | - |
| | | \$ 52,932 | 53,488 | 6,565 |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(4) Transaction with key management personnel

Compensation for key management personnel:

| | April to June 2020 | April to June 2019 | January to June 2020 | January to June 2019 |
|------------------------------|-----------------------|-----------------------|-------------------------|-------------------------|
| Short-term employee benefits | \$ 2,495 | 2,865 | 5,151 | 5,023 |
| Post-employment benefits | 27 | 27 | 54 | 54 |
| | <u>\$ 2,522</u> | <u>2,892</u> | <u>5,205</u> | <u>5,077</u> |

(VIII) Pledged Assets

The carrying value of pledged assets of the Group is as follows:

| Pledged Assets | Pledged to secure | June 30, 2020 | December 31, 2019 | June 30, 2019 |
|--------------------------------|----------------------------|-------------------|-------------------|----------------|
| Other financial assets-current | Performance bond | \$ 733 | 80 | 80 |
| Land and buildings | Credit lines of bank loans | 558,248 | 563,440 | 568,938 |
| | | <u>\$ 558,981</u> | <u>563,520</u> | <u>569,018</u> |

(IX) Significant Commitments and Contingencies

In addition to those in Note VII, the Group has no significant commitments and contingencies.

(X) Significant Loss from Disaster: None.

(XI) Significant Subsequent Events: None.

(XII) Others

(1) Employee benefits, depreciation, and amortization are as follows:

| Category | Item | April to June 2020 | | | April to June 2019 | | |
|---------------------------|------|---------------------|-----------------------|--------|--------------------|---------------------|--------|
| | | Costs of revenue | Operating expenses | Total | Cost of sales | Cost of expenses | Total |
| Employee benefits | | | | | | | |
| Salaries | | 24,088 | 49,903 | 73,991 | 23,416 | 49,722 | 73,138 |
| Insurance | | 2,326 | 4,058 | 6,384 | 2,196 | 3,512 | 5,708 |
| Pension | | 1,034 | 2,473 | 3,507 | 1,034 | 2,111 | 3,145 |
| Remuneration to Directors | | - | 1,357 | 1,357 | - | 1,334 | 1,334 |
| Other employee benefits | | 1,642 | 1,799 | 3,441 | 1,348 | 1,057 | 2,405 |
| Depreciation | | 8,698 | 9,402 | 18,100 | 8,127 | 7,272 | 15,399 |
| Amortization | | 361 | 2,812 | 3,173 | 197 | 2,683 | 2,880 |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

| Category | Item | January to June 2020 | | | January to June 2019 | | |
|---------------------------|------|----------------------|--------------------|---------|----------------------|------------------|---------|
| | | Costs of revenue | Operating expenses | Total | Cost of sales | Cost of expenses | Total |
| Employee benefits | | | | | | | |
| Salaries | | 48,617 | 98,060 | 146,677 | 46,168 | 97,634 | 143,802 |
| Insurance | | 4,655 | 8,779 | 13,434 | 4,302 | 7,499 | 11,801 |
| Pension | | 2,120 | 4,953 | 7,073 | 2,032 | 4,126 | 6,158 |
| Remuneration to Directors | | - | 2,598 | 2,598 | - | 2,632 | 2,632 |
| Other employee benefits | | 3,323 | 3,265 | 6,588 | 2,624 | 2,086 | 4,710 |
| Depreciation | | 17,168 | 18,313 | 35,481 | 16,237 | 13,856 | 30,093 |
| Amortization | | 678 | 5,343 | 6,021 | 389 | 5,363 | 5,752 |

(2) The operation of the Group is not subjected to the impact of seasonal or cyclical factors.

(XIII) Additional Disclosures

(1) Information on significant transactions

For the six months ended June 30, 2020, according to the Preparation Regulations, the information on significant transactions is as follows:

1. Financing provided to other parties: None.
2. Guarantees and endorsements provided to other parties: None.
3. Marketable securities held at the reporting date (excluding investments in subsidiaries, associates, and joint ventures): None.
4. Marketable securities for which the accumulated purchase or sale amounts for the year exceed \$300 million or 20% of the paid-in capital: None.
5. Acquisition of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
6. Disposal of real estate which exceeds \$300 million or 20% of the paid-in capital: None.
7. Total purchases from and sales to related parties which exceed \$100 million or 20% of the paid-in capital: None.
8. Receivables from related parties which exceed \$100 million or 20% of the paid-in capital: None.
9. Transactions about derivative instruments: None.
10. Business relationships and significant intercompany transactions: None.

(2) Information on investees:

For the six months ended June 30, 2020, the information on investees is as follows (excluding investments in Mainland China):

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(Amounts in thousands of New Taiwan dollars / shares, unless specified otherwise)

| Investor | Investee | Location | Main Business Activities | Original investment Amount | | Balance as of Mar 31, 2020 | | | Net Income (Loss) of the Investee | Investment Income (Loss) | Note |
|-----------------------------|--|---------------|---|----------------------------|-------------------|----------------------------|-------------------------|-----------------|-----------------------------------|--------------------------|--------|
| | | | | June 30, 2020 | December 31, 2019 | Shares | Percentage of Ownership | Carrying Amount | | | |
| The Company | Asiacconnect International Co., Ltd. | Neihu, Taipei | Wholesaling and retailing of medical consumables and equipment and information software | 21,984 | 21,984 | 1,995 | 99.75% | 25,016 | 63 | 63 | (Note) |
| The Company | Highview Investments Limited | Samoa Islands | Investment and holding company | 36,211 | 36,211 | 1,062 | 100.00% | 7,895 | 75 | 75 | (Note) |
| The Company | Lily Medical Corporation | Taiwan | Wholesaling and retailing of medical consumables and equipment | 185,000 | 185,000 | 10,000 | 100.00% | 227,638 | 2,685 | 2,199 | (Note) |
| The Company | BenQ AB DentCare Corporation | Taiwan | Wholesaling and retailing of medical consumables and equipment | 88,000 | 88,000 | 8,800 | 88.00% | 57,760 | (2,916) | (2,566) | (Note) |
| The Company | BenQ Hearing Solution Corp. | Taiwan | Wholesaling and retailing of medical consumables and equipment | 100,000 | 100,000 | 10,000 | 100.00% | 108,909 | 5,102 | 5,102 | (Note) |
| The Company | Eastech Co., Ltd | Taiwan | Wholesaling and retailing of medical consumables and equipment | 20,300 | - | 700 | 70.00% | 19,884 | (1,314) | (416) | (Note) |
| BenQ Hearing Solution Corp. | New Best Hearing International Trade Co., Ltd. | Taiwan | Wholesaling and retailing of medical consumables and equipment | 59,280 | 59,280 | 1,092 | 52.00% | 63,306 | 11,459 | 5,186 | (Note) |

(Note) The above intercompany transactions have been eliminated when preparing the consolidated financial statements.

(3) Information on investments in Mainland China:

1. Name, main businesses and products of investee in Mainland China:

(Amounts in thousands of New Taiwan Dollars, unless specified otherwise)

| Investee Company Name | Main Business Activities | Total Amount of Paid-in Capital | Method of Investment (Note 1) | Accumulated Outflow of Investment from Taiwan as of January 1, 2020 (Note 2) | Investment Flows | | Accumulated Outflow of Investment from Taiwan as of June 30, 2020 | Net Income (Loss) of the Investee | % of Ownership of Direct or Indirect Investment | Investment Income (Loss) | Carrying Amount as of June 30, 2020 (Note 2 and 3) | Accumulated Inward Remittance of Earnings as of June 30, 2020 |
|---|--|---------------------------------|-------------------------------|--|------------------|--------|---|-----------------------------------|---|--------------------------|--|---|
| | | | | | Outflow | Inflow | | | | | | |
| BenQ Medical Technology (Shanghai) Ltd. | Agency of international and entrepot trade business | 29,660 (USD 1,000 thousand) | (1) | 29,660 (USD 1,000 thousand) | - | - | 29,660 (USD 1,000 thousand) | 74 | 100.00% | 74 | 8,980 | - |
| LILY Medical (Suzhou) Co., Ltd. | Wholesaling and retailing of medical consumables and equipment | 6,229 (USD 210 thousand) | (2) | 6,229 (USD 210 thousand) | - | - | 6,229 (USD 210 thousand) | (215) | 100.00% | (215) | 2,918 | - |
| TDX Medical Technology (Jiangsu) Co., Ltd | Wholesaling and retailing of medical consumables and equipment | 83,786 (RMB 20,000 thousand) | (2) | 33,514 (RMB 8,000 thousand) | - | - | 33,514 (RMB 8,000 thousand) | 8,998 | 40.00% | 3,599 | 28,505 | - |

(Note 1) (1) Indirect investment in Mainland China through a holding company established in a third country; (2) Direct investment in Mainland China companies.

(Note 2) The above amounts are translated as per the following exchange rates: USD: NTD = 1:29.66 and RMB: NTD = 1:4.1893.

(Note 3) The above amounts have been eliminated when preparing the consolidated financial statements.

(Note 4) The company is a limited liability company and shareholding information is unavailable.

2. Limits on investments in Mainland China:

| | Accumulated Investment in Mainland China as of June 30, 2020 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment |
|-------------|--|--|---------------------------|
| The Company | 63,174 (USD 1,000 and RMB 8,000) | 83,849 (USD2,827) | 603,105 |
| LILY | 6,229 (USD210) | 6,229 (USD210) | 101,046 |

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

3. Significant transactions with investee companies in Mainland China:

For the six months ended June 30, 2020, the direct or indirect transactions between the Group and investee companies in Mainland China have been eliminated when preparing the consolidated financial statements. Please see (1) “Information on significant transactions,” section 10 “Business relationships and significant intercompany transactions” for more information.

(4) Information on Major Shareholders:

| (Express in shares) | | |
|---------------------|-------|-------------------------|
| Shareholder's Name | Share | Number of shares held |
| BenQ Corporation | | 19,353,427 |
| Darby Venture Inc. | | 3,548,646 |
| | | Shareholding Percentage |
| | | 43.43% |
| | | 7.95% |

(XIV) Segment Information

(1) General information

The reportable segments of the operational divisions of the Group consist of R&D and manufacturing divisions, and retail divisions. R&D and manufacturing divisions engage in manufacturing, assembly, maintenance and repair of medical equipment and facilities. Retail divisions engage in sales of various medical services and products.

The profit and loss of operating segments are mainly measured by the operating income, which also serves as the basis for performance evaluation. The reported amounts are consistent with the reporting to the operational decision makers. In addition to the aforementioned, the accounting policies of the operating segments do not significantly differ from the material policies of the Group.

The Group's operating segment information and reconciliation are as follows:

BENQ MEDICAL TECHNOLOGY CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(Expressed in Thousands of New Taiwan Dollars)

| April to June 2020 | | | | |
|-----------------------------|--|----------------------------|---|----------------|
| | R&D and Manufacturing Divisions | Retail Division | Adjustment and Elimination | Total |
| External revenue | \$ 254,830 | 68,857 | - | 323,687 |
| Intra-group revenue | - | - | - | - |
| Total segment revenue | \$ 254,830 | 68,857 | - | 323,687 |
| Segment profit (loss) | \$ 5,508 | 6,179 | (614) | 11,073 |
| April to June 2019 | | | | |
| | R&D and Manufacturing Divisions | Retail Division | Adjustment and Elimination | Total |
| External revenue | \$ 268,651 | 72,050 | - | 340,701 |
| Intra-group revenue | - | - | - | - |
| Total segment revenue | \$ 268,651 | 72,050 | - | 340,701 |
| Segment profit (loss) | \$ 8,459 | 8,281 | (409) | 16,331 |
| January to June 2020 | | | | |
| | R&D and Manufacturing Divisions | Retail Division | Adjustment and Elimination | Total |
| External revenue | \$ 493,411 | 130,793 | - | 624,234 |
| Intra-group revenue | - | - | - | - |
| Total segment revenue | \$ 493,411 | 130,793 | - | 624,234 |
| Segment profit (loss) | \$ 11,702 | 9,973 | (1,172) | 20,503 |
| January to June 2019 | | | | |
| | R&D and Manufacturing Divisions | Retail Division | Adjustment and Elimination | Total |
| External revenue | \$ 542,462 | 131,423 | - | 673,885 |
| Intra-group revenue | - | - | - | - |
| Total segment revenue | \$ 542,462 | 131,423 | - | 673,885 |
| Segment profit (loss) | \$ 27,162 | 12,883 | (606) | 39,439 |