

BENQ MATERIALS CORPORATION AND SUBSIDIARIES
Consolidated Financial Statements
With Independent Auditors' Report
For the Nine Months Ended September 30, 2019 and 2018

Address: No. 29 Jianguo E. Rd., Guishan, Taoyuan, Taiwan
Telephone: 886-3-374-8800

The independent auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. NOT AUDITED OR REVIEWED BY AUDITORS. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Independent Auditors' Report

To the Board of Directors of BenQ Materials Corporation:

Introduction

We have reviewed the accompanying consolidated balance sheets of BenQ Materials Corp. and its subsidiaries as of September 30, 2019 and 2018, and the related consolidated statements of comprehensive income, for the three months ended September 30, 2019 and 2018, and for the nine months ended September 30, 2019 and 2018, and changes in equity and cash flows for the nine months ended September 30, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard (“IASs”) 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the Basis for Qualified Conclusion paragraph, we conducted our reviews in accordance with Statement of Auditing Standards 65, “Review of Financial Information Performed by the Independent Auditor of the Entity”. A review of the consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the generally accepted auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As stated in Note 6 (6), the equity accounted investments of BenQ Materials Corp. and its subsidiaries in the investee companies amounted to \$172,504 thousand and \$128,092 thousand as of September 30, 2019 and 2018, respectively, as well as the equity in net earnings on the joint ventures using the equity method of \$13,314 thousand, \$9,133 thousand, \$27,158 thousand and \$23,016 thousand for the three months ended September 30, 2019 and 2018, and for the nine months ended September 30, 2019 and 2018, respectively, were recognized solely on the financial statements prepared by the investee companies, but not reviewed by independent auditors.

Qualified Conclusion

Based on our reviews, except for the effect of such adjustments, if any, as might have influenced by the financial statements of certain investee companies described in the Basis for Qualified Conclusion paragraph which were not reviewed by independent auditors, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of BenQ and its subsidiaries as of September 30, 2019 and 2018, and the consolidated financial performance for the three months ended September 30, 2019 and 2018, and for the nine months ended September 30, 2019 and 2018, and the consolidated cash flows for the nine months ended September 30, 2019 and 2018, in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and IAS No. 34 “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission of the Republic of China.

KPMG
Taipei, Taiwan
Republic of China
November 5th., 2019

Review only, not audited in accordance with generally accepted auditing standards as of September 30, 2019 and 2018

BENQ MATERIALS CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2019, December 31, 2018 and September 30, 2018

(Expressed in thousands of New Taiwan dollars)

	September 30, 2019		December 31, 2018		September 30, 2018			September 30, 2019		December 31, 2018		September 30, 2018	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
Assets													
Current assets:													
1100 Cash and cash equivalents (Note6(1))	\$ 202,888	2	169,013	2	296,066	3	2100 Short-term borrowings (Note 6(13))	\$ 363,650	3	50,000	-	352,837	3
1110 Financial assets measured at fair value through profit or loss – current (Note 6(2))	720	-	19,190	-	4,940	-	2120 Financial liabilities measured at fair value through Profit or loss – current (Note 6(2))	9,451	-	1,360	-	29,505	-
1170 Notes and accounts receivable, net (Note 6(3),(22))	2,134,234	20	1,681,148	16	1,840,639	18	2170 Notes and accounts payable	2,566,942	24	2,873,111	28	2,580,489	26
1180 Accounts receivable from related parties, net (Note 6(3),(22)&7)	257,462	2	611,739	6	336,843	3	2180 Notes and accounts payable to related parties (Note 7)	63,036	1	40,645	-	27,154	-
1200 Other receivable (Note 6(3),(4)&7)	206,803	2	142,469	1	227,213	2	2200 Other payables (Note 6(7),(23))	1,155,390	11	1,018,963	10	1,000,525	10
1210 Other receivable from related parties (Note 6(4)&7)	316	-	278	-	923	-	2220 Other payables to related parties (Note 7)	17,243	-	15,525	-	12,124	-
1310 Net inventories (Note 6(5))	1,872,061	18	1,930,668	19	1,712,994	17	2250 Provisions – current (Note 6(16))	1,000	-	1,000	-	1,000	-
1470 Other current assets	237,630	2	228,241	2	247,261	2	2320 Current portion of long-term loans payable (Note 6(14)&8)	22,361	-	22,070	-	47,811	-
1476 Other current financial assets	4,827	-	5,844	-	60,253	1	2281 Current lease liabilities (Note 6(15))	6,516	-	-	-	-	-
Total current assets	<u>4,916,941</u>	<u>46</u>	<u>4,788,590</u>	<u>46</u>	<u>4,727,132</u>	<u>46</u>	2282 Current lease liabilities – related parties (Note 6(15)&7)	78,343	1	-	-	-	-
Noncurrent assets:							2399 Other current liabilities	75,037	1	66,528	1	81,877	1
1550 Investment in equity-accounted investees (Note 6(6))	172,504	2	143,505	1	128,092	1	Total current liabilities	<u>4,358,969</u>	<u>41</u>	<u>4,089,202</u>	<u>39</u>	<u>4,133,322</u>	<u>40</u>
1600 Property, plant and equipment (Note 6(8),7&8)	4,301,420	40	4,331,733	42	4,363,820	43	Noncurrent liabilities:						
1755 Right-of-use asset (Note6(9)&7)	331,664	3	-	-	-	-	2540 Long-term borrowings, excluding current Installments (Note 6(14)&8)	2,011,307	19	2,028,151	20	2,048,915	20
1760 Investment Property (Note 6(10))	499,275	5	493,380	5	500,042	5	2570 Deferred tax liabilities	10,375	-	10,335	-	19,728	-
1780 Intangible assets (Note 6(11)&7)	54,967	-	44,663	-	44,593	-	2581 Noncurrent lease liabilities (Note6(15))	8,324	-	-	-	-	-
1840 Deferred tax assets	310,717	3	311,500	4	346,425	3	2582 Noncurrent lease liabilities – related Parties (Note 6(15)&7)	203,849	2	-	-	-	-
1920 Refundable deposits	17,805	-	21,870	-	21,093	-	2600 Other noncurrent liabilities	27,143	-	31,457	-	24,809	-
1985 Long-term prepaid rent (Note6(12))	-	-	105,464	1	105,314	1	Total noncurrent liabilities	<u>2,260,998</u>	<u>21</u>	<u>2,069,943</u>	<u>20</u>	<u>2,093,452</u>	<u>20</u>
1995 Other noncurrent assets	111,438	1	102,455	1	76,448	1	Total liabilities	<u>6,619,967</u>	<u>62</u>	<u>6,159,145</u>	<u>59</u>	<u>6,226,774</u>	<u>60</u>
Total noncurrent assets	<u>5,799,790</u>	<u>54</u>	<u>5,554,570</u>	<u>54</u>	<u>5,585,827</u>	<u>54</u>	Equity: (Note 6(20))						
							Equity attributable to shareholders of the parent:						
							3110 Ordinary stock	3,206,745	30	3,206,745	31	3,206,745	31
							3200 Capital surplus	5,618	-	2,734	-	2,730	-
							3310 Retained earnings						
							3350 Legal reserve	251,953	2	219,095	2	219,095	2
							3400 Unappropriated retained earnings	668,847	6	692,009	7	601,858	6
							3400 Other components of equity	(36,399)	-	5,280	-	(6,212)	-
							Total equity attributable to shareholders of the parent:	<u>4,096,764</u>	<u>38</u>	<u>4,125,863</u>	<u>40</u>	<u>4,024,216</u>	<u>39</u>
							36XX Non-controlling interests (Note 6(7),(20))	-	-	58,152	1	61,969	1
							Total equity	<u>4,096,764</u>	<u>38</u>	<u>4,184,015</u>	<u>41</u>	<u>4,086,185</u>	<u>40</u>
Total Assets	<u>\$ 10,716,731</u>	<u>100</u>	<u>10,343,160</u>	<u>100</u>	<u>10,312,959</u>	<u>100</u>	Total Liabilities and Equity	<u>\$ 10,716,731</u>	<u>100</u>	<u>10,343,160</u>	<u>100</u>	<u>10,312,959</u>	<u>100</u>

See accompanying notes to the consolidated financial statements

Review only, not audited in accordance with generally accepted auditing standards

BENQ MATERIALS CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2019 and 2018

(Expressed in thousands of New Taiwan dollars, except for earnings per share)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
4110 Revenue (Note 6(22),7&14)	\$ 3,526,475	100	3,374,985	100	10,577,508	100	9,354,060	100
5000 Cost of sales (Note 6(5),(8),(9),(10),(11),(15),(18),(23), 7&12)	(2,982,523)	(85)	(2,884,444)	(85)	(8,861,185)	(84)	(8,012,956)	(86)
Gross profit	543,952	15	490,541	15	1,716,323	16	1,341,104	14
Operating expenses: (Note 6(3),(8),(9),(11),(15),(16),(18),(23),7&12)								
6100 Marketing expenses	(224,454)	(6)	(160,568)	(5)	(637,592)	(6)	(407,267)	(4)
6200 General and administrative expenses	(54,595)	(2)	(59,599)	(2)	(169,487)	(1)	(164,498)	(2)
6300 Research and development expenses	(182,188)	(5)	(165,541)	(5)	(514,589)	(5)	(482,819)	(4)
6400 Other operating expenses	-	-	3,911	-	-	-	48,673	-
Total operating expenses	(461,237)	(13)	(381,797)	(12)	(1,321,668)	(12)	(1,005,911)	(10)
Operating income	82,715	2	108,744	3	394,655	4	335,193	4
Non-operating income and loss (Note 6(6),(7),(15),(24),(25)&7):								
7010 Other income	30,721	1	2,369	-	32,467	-	26,447	-
7020 Other gains and losses – net	(12,412)	-	18,049	1	(91,991)	(1)	(52,446)	-
7050 Finance costs	(22,763)	-	(23,618)	(1)	(61,638)	-	(53,319)	(1)
7370 Share of profit of associates accounted for using equity method	13,314	-	9,133	-	27,158	-	23,016	-
	8,860	1	5,933	-	(94,004)	(1)	(56,302)	(1)
7900 Income (loss) Before income tax	91,575	3	114,677	3	300,651	3	278,891	3
7950 Less: income tax expense (Note 6(19))	(22,967)	(1)	(12,905)	-	(75,612)	(1)	(39,870)	-
Net Income (loss)	68,608	2	101,772	3	225,039	2	239,021	3
Other comprehensive income:								
8360 Items that may be reclassified subsequently to profit or loss (Note 6(6),(20))								
8361 Exchange differences on translating the financial statements of foreign operations	(59,875)	(2)	(67,928)	(2)	(42,543)	-	(56,136)	(1)
8370 Equity-accounted investees – share of other comprehensive income (loss)	(1,989)	-	(2,111)	-	953	-	(330)	-
8399 Related tax	-	-	-	-	-	-	-	-
Total Items that may be reclassified subsequently to profit or loss	(61,864)	(2)	(70,039)	(2)	(41,590)	-	(56,466)	(1)
Other comprehensive income (loss), net of tax	(61,864)	(2)	(70,039)	(2)	(41,590)	-	(56,466)	(1)
8500 Total comprehensive income (loss)	\$ 6,744	-	31,733	1	183,449	2	182,555	2
Profit (loss) attributable to:								
8610 Shareholders of the company	\$ 68,608	2	101,179	3	225,423	2	238,428	3
8620 Non-controlling interests	-	-	593	-	(384)	-	593	-
	\$ 68,608	2	101,772	3	225,039	2	239,021	3
Total comprehensive income (loss) attributable to:								
8710 Shareholders of the company	\$ 6,744	-	31,216	1	183,744	2	182,038	2
8720 Non-controlling interests	-	-	517	-	(295)	-	517	-
	\$ 6,744	-	31,733	1	183,449	2	182,555	2
Earnings per share (expressed in New Taiwan dollars, Note 6(21))								
9750 Basic earnings per share	\$ 0.21		0.32		0.70		0.74	
9850 Diluted earnings per share	\$ 0.21		0.31		0.70		0.74	

See accompanying notes to the consolidated financial statements

Review only, not audited in accordance with generally accepted auditing standards

BENQ MATERIALS CORP. AND SUBSIDIARIES
Consolidated Statements of Changes in Equity
For the nine months ended September 30, 2019 and 2018
(Expressed in thousands of New Taiwan dollars)

Equity attributable to shareholders of the parent

	Retained earnings					Other equity			Non-controlling interests	Total equity	
	Common shares	Capital surplus	Legal reserve	Unappropriated retained earnings	Subtotal	Exchange differences on translation of foreign financial statements	Remeasurement of defined benefit plans	Subtotal			Equity attributable to shareholders of the parent
Balance at January 1, 2018	\$ 3,206,745	2,723	166,582	704,580	871,162	64,015	(13,837)	50,178	4,130,808	-	4,130,808
Adjustments on initial application of new standards	-	-	-	(30)	(30)	-	-	-	(30)	-	30
Adjusted balance at January 1, 2018	\$ 3,206,745	2,723	166,582	704,550	871,132	64,015	(13,837)	50,178	4,130,778	-	4,130,778
Appropriation of earnings:											
Legal reserve	-	-	52,513	(52,513)	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(288,607)	(288,607)	-	-	-	(288,607)	-	(288,607)
Changes in other capital surplus:											
Changes in joint ventures accounted for under equity method	-	7	-	-	-	-	-	-	7	-	7
Acquired subsidiaries	-	-	-	-	-	-	-	-	-	61,452	61,452
Net income	-	-	-	238,428	238,428	-	-	-	238,428	593	239,021
Other comprehensive income (loss)	-	-	-	-	-	(56,390)	-	(56,390)	(56,390)	(76)	(56,466)
Total comprehensive income (loss)	-	-	-	238,428	238,428	(56,390)	-	(56,390)	182,038	517	182,555
Balance at September 30, 2018	\$ 3,206,745	2,730	219,095	601,858	820,953	7,625	(13,837)	(6,212)	4,024,216	61,969	4,086,185
Balance at January 1, 2019	\$ 3,206,745	2,734	219,095	692,009	911,104	21,284	(16,004)	5,280	4,125,863	58,152	4,184,015
Adjustments on initial application of new standards	-	-	-	(19,779)	(19,779)	-	-	-	(19,779)	(117)	(19,896)
Adjusted balance at January 1, 2019	\$ 3,206,745	2,734	219,095	672,230	891,325	21,284	(16,004)	5,280	4,106,084	58,035	4,164,119
Appropriation of earnings:											
Legal reserve	-	-	32,858	(32,858)	-	-	-	-	-	-	-
Cash dividends distributed to shareholders	-	-	-	(192,405)	(192,405)	-	-	-	(192,405)	-	(192,405)
Changes in other capital surplus:											
Changes in joint ventures accounted for under equity method	-	2,885	-	-	-	-	-	-	2,885	-	2,885
Difference between consideration and carrying amount of subsidiaries	-	(1)	-	(3,543)	(3,543)	-	-	-	(3,544)	(57,740)	(61,284)
Net income	-	-	-	225,423	225,423	-	-	-	225,423	(384)	225,039
Other comprehensive income (loss)	-	-	-	-	-	(41,679)	-	(41,679)	(41,679)	89	(41,590)
Total comprehensive income (loss)	-	-	-	225,423	225,423	(41,679)	-	(41,679)	183,744	(295)	183,449
Balance at September 30, 2019	\$ 3,206,745	5,618	251,953	668,847	920,800	(20,395)	(16,004)	(36,399)	4,096,764	-	4,096,764

See accompanying notes to the consolidated financial statements

Review only, not audited in accordance with generally accepted auditing standards

BENQ MATERIALS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2019 and 2018

(Expressed in thousands of New Taiwan dollars)

	nine months ended	
	September 30,	
	2019	2018
Cash flows from operating activities:		
Income before income tax	\$ 300,651	278,891
Adjustments for:		
Depreciation	483,508	370,066
Amortization	17,225	29,770
Reversal gains on expected credit impairment	(704)	(317)
Loss on financial instruments at fair value through profit or loss	26,561	46,831
Interest expense	61,638	53,319
Interest income	(990)	(786)
Share of profit of associates and joint ventures accounted for using equity method	(27,158)	(23,016)
Gains on disposals of property plant and equipment	(262)	(150)
Expense transferred from amortized other Non-Current assets	77,705	55,450
Amortization of syndication commission cost	1,425	5,544
Gain recognized in bargain purchase transaction	-	(253)
Subtotal of income and expense (loss) items	<u>638,948</u>	<u>536,458</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
- increase in notes and accounts receivable	(489,656)	(837,926)
- decrease in accounts receivables from related parties	334,313	1,453,910
- decrease (increase) in other accounts receivables	(7,096)	7,911
- increase in other accounts receivables from related parties	(38)	(69)
- decrease in inventories	58,607	92,969
- increase in other current assets	(7,397)	(20,061)
- increase in other non-current assets	(1,014)	-
Subtotal of changes in operating assets	<u>(112,281)</u>	<u>696,734</u>
Changes in operating liabilities:		
- increase in accounts payable	(306,169)	301,898
- increase (decrease) in accounts payable from related parties	22,391	14,395
- increase in other accounts payable	45,686	57,971
- increase in other accounts payable from related parties	1,718	6,498
- decrease in current provisions	-	(48,694)
- increase in other current liability	8,509	13,321
- decrease in defined provisions for benefits	(1,484)	(1,559)

(Continued)

See accompanying notes to the consolidated financial statements

Review only, not audited in accordance with generally accepted auditing standards

BENQ MATERIALS CORP. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
For the nine months ended September 30, 2019 and 2018
(Expressed in thousands of New Taiwan dollars)

	Nine months ended	
	September 30,	
	2019	2018
Subtotal of changes in operating liabilities	(229,349)	343,830
Subtotal of changes in operating assets and liabilities	(341,630)	1,040,564
Subtotal of adjustment items	297,318	1,577,022
Cash generated from operation	597,969	1,855,913
Cash received from interest income	990	819
Cash paid for interest	(60,782)	(53,110)
Cash paid for income taxes	(21,754)	(6,798)
Net cash provided by operating activities	516,603	1,796,824
Cash flows from investing activities:		
Net cash inflow (outflow) on acquisition of subsidiaries	-	(378,645)
Acquisitions of property, plant and equipment	(333,681)	(347,994)
Disposals of property plant and equipment	980	878
Decrease (increase) in refundable deposits	4,065	17,029
Increase in intangible assets	(32,500)	(14,612)
Decrease in other financial assets	1,017	23,853
Increase in other non-current assets	(104,299)	(76,841)
Dividend received	1,997	-
Net cash used in investing activities	(462,421)	(776,332)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	313,650	(791,396)
Increase in long-term debt	400,000	2,047,811
Repayments of long-term debt	(416,553)	(1,955,882)
Decrease in guarantee deposits received	(2,831)	(4,883)
Repayments of lease liabilities	(75,117)	-
Purchase subsidiary shares from non-controlling interests	(59,614)	-
Cash dividends paid	(192,405)	(288,607)
Net cash flows from financing activities	(32,870)	(992,957)
Effect of exchange rate changes on cash and cash equivalents	12,563	(7,167)
Net decrease in cash and cash equivalents	33,875	20,368
Cash and cash equivalents at beginning of period	169,013	275,698
Cash and cash equivalents at end of period	\$ 202,888	296,066

See accompanying notes to the consolidated financial statements

BENQ MATERIALS CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
For the nine months ended September 30, 2019 and 2018
(Expressed in thousands of New Taiwan dollars, unless otherwise indicated)

1. Organization and business

BenQ Materials Corp. (the “BenQ”, originally named as Daxon Technology Inc. before June 2010) was incorporated on July 16, 1998 and registered under the Ministry of Economic Affairs, R.O.C. The registered address is No. 29, Jianguo E. Rd., Guishan, Taoyuan, Taiwan. The company and subsidiaries (collectively as “the Company”) are primarily engaged in the products of optoelectronics and manufacture and sales of medical consumables and equipment.

2. Approval of financial statements

These consolidated financial statements were approved and authorized for issue by the Board of Directors of BenQ on November 5, 2019.

3. Application of New, Amended and Revised Standards, and Interpretations

(1) Impact of adoption of new, amended or revised standards endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”)

In preparing the accompanying consolidated financial statements, the Company has adopted the following International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”), and Interpretations that have been issued by the International Accounting Standards Board (“IASB”) (collectively, “IFRSs”) and endorsed by the FSC with effective date from January 1, 2019.

<u>New, Amended and Revised Standards, and Interpretations</u>	<u>Effective Date Issued by IASB</u>
International Financial Reporting Standards 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IFRS 9 “Prepayment features with negative compensation”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or settlement”	January 1, 2019
Amendments to IAS 28 “Long-term interests in associates and joint ventures”	January 1, 2019
Annual Improvements to IFRS Standards 2015-2017 Cycle	January 1, 2019

Except for the following, the adoption of the above standards has not had a material impact on the consolidated financial statements, relevant instructions are as follows:

(a) International Financial Reporting Standards 16 “Leases”

International Financial Reporting Standards 16 “Leases” (IFRS 16) replaces the existing leases guidance, including International Accounting Standards 17 “Leases” (IAS 17), IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC-15 “Operating Leases – Incentives” and SIC-27 “Evaluating the Substance of Transactions Involving the Legal Form of a lease.”

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below:

1) Definition of a lease

A contract on the commencement date, whether a lease (or inclusive), which has been identified as a lease by the Company based on the previous adoption of IFRIC 4 is subject to IFRS 16, as explained in Note 4(3).

For the first-time adoption of IFRS 16, the Company intends not to restate the financial statements of prior period (referred to hereinafter as the expedient exemption). The Company elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

2) As a lessee

As a lessee, the Company previously classified its leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes its lease contracts as right-of-use assets and lease liabilities in consolidated balance sheets.

The Company decided to apply the recognized exemptions to the current leases of its factories and vehicles.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. The right-of-use assets are measured at the carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

In addition, the Company used the following practical expedients when applying IFRS 16 to leases:

- a. The Company applies a single discount rate to a portfolio of leases with reasonably similar characteristics.
- b. The Company accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c. The Company excludes incremental costs of obtaining the lease from right-of-use assets on January 1, 2019.
- d. The Company determines lease periods based on the projected status on January 1, 2019, if the contract contains options to extend or terminate the lease.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

3) As a lessor

The Company does not make any adjustments for leases in which it is a lessor, and accounts for those leases under IFRS 16 starting from January 1, 2019.

4) Impacts on financial statements

On transition to IFRS 16, the Company recognized \$395,294 thousand and \$361,485 thousand of right-of-use assets and lease liabilities, respectively, increase \$51,759 thousand in investment property, and decrease \$105,464 thousand, \$19,779 thousand, and \$117 thousand in long-term prepaid rent, retained earnings and non-controlling interests, respectively, at the date of initial application. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized by the Company on January 1, 2019 is 1.78%.

The reconciliation between operating lease commitments measured at the present value of the remaining lease payments, and lease liabilities recognized on January 1, 2019 is as follows:

	<u>January 1, 2019</u>
Operating lease commitment on December 31, 2018 as disclosed in the Company's consolidated financial statements	\$ 380,035
Recognition exemption for:	
Short-term leases	(5,305)
	<u>\$ 374,730</u>
Discounted using the incremental borrowing rate on January 1, 2019 (Amounts of lease liabilities recognized as of January 1, 2019)	<u>\$ 361,485</u>

(2) The impact of IFRSs endorsed by the FSC but not yet adopted by the Company

The public issued company shall apply these standards prospectively for annual reporting periods beginning on or after January 1, 2020, in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019. New standards, interpretations and amendments endorsed by the FSC with effective date starting 2020 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Amendments to IFRS 3, "Definition of a business"	January 1, 2020
Amendments to IAS 1 and IAS 8, "Disclosure Initiative-Definition of Material"	January 1, 2020

The adoption of the standards or interpretations has no significant impact on the Company's consolidated financial statements based on the Company's evaluation.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(3) New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New standards, interpretations and amendments issued by International Accounting Standards Board (IASB) but not yet endorsed and issued into effect by the FSC are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by IASB</u>
Amendments to IFRS 10 and IAS 28, "Sale or contribution of assets between an investor and its associate or joint venture" IFRS 17, "Insurance contracts"	To be determined by IASB January 1, 2021
Amendments to IFRS 9, IAS 39 and IFRS 7, "Interest rate benchmark reform"	January 1, 2020

The Company continues in evaluating the impact on its financial position and financial performance as a result of the initial adoption of the standards or interpretations. The related impact will be disclosed when the Company completes the evaluation.

4. **Summary of Significant Accounting Policies:**

(1) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations") and the International Accounting Standards 34, "Interim financial reporting" as endorsed by the FSC. The Company's accompanying consolidated financial statements have been prepared in accordance with the IFRSs, IASs, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the FSC (collectively as "Taiwan-IFRSs").

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2018. Refer to Note 4 for the consolidated financial statements for the year ended December 31, 2018 for the details.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Basis of consolidation

(a) Subsidiaries included in the consolidated financial statements:

Investor	The name of subsidiaries	Business activities	Percentage of Ownership (%)			Description
			September 30, 2019	December 31, 2018	September 30, 2018	
BenQ	BenQ Materials (L) Co. (BMLB)	Holding company	100.00	100.00	100.00	-
BenQ	Sigma Medical Supplies Corp. ("SMS")	Manufacture and sales of medical consumables and equipment	100.00	89.06	89.03	(Note 1)
BMLB	BenQ Material Co., Ltd. ("BMS")	Manufacture of optoelectronics	100.00	100.00	100.00	-
BMLB	Daxon Biomedical (Suzhou) Co., Ltd. (DTB)	Sales of optoelectronics and medical consumables	100.00	100.00	100.00	-
BMLB	BenQ Materials (Wuhu) Co., Ltd	Manufacture and sales of optoelectronics	100.00	100.00	100.00	-
BMLB	BenQ Materials Medical (Suzhou) Co., Ltd. (BMM)	Manufacture and sales of medical consumables and equipment	100.00	-	-	(Note 2)
SMS	Suzhou Sigma Medical Supplies Co., Ltd. ("SMSZ")	Manufacture and sales of medical consumables and equipment	100.00	100.00	100.00	(Note 1)

(Note 1): On July 24, 2018, BenQ acquired the shareholdings and obtained control over the entities. Therefore, the entities have been included in consolidated financial statements.

(Note2): Subsidiary established on July 8, 2019.

(b) Subsidiaries not included in the consolidated financial statements: None.

(3) Leases (Policy applicable from January 1, 2019)

(a) Identifying a lease

At the commencement date, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract in exchange conveys the right to control the use of an identified asset for a period. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- 1) the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and

- 2) the Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- 3) the Company obtained an identified asset if either the following conditions is satisfied:
- a. The Company has the right to direct the use of identified asset throughout the period of use.
 - b. The main decision about how and the purpose of the asset is used is predetermined, and
 - the Company has the right to use the identified asset, and the supplier does not have a substantive right to substitute the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At the commencement date or reassessing whether the contract is a lease, the Company allocates the contract to each lease component on basis of their relative stand-alone prices. However, for the leases of land and buildings' contract that contains a lease component and non-lease component, the Company may elect to account for the lease and non-lease components as a single lease component.

(b) As a lessee

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial measurement of the lease liabilities, adjusted for any lease payments made at or before the commencement date, less any lease incentives received, plus any initial direct costs incurred and an estimate of costs needed to dismantle, remove and restore the underlying assets.

The depreciation expense of right-of-use assets is recognized when the service life of the right-of-use assets expires or when the lease term expires, whichever is earlier. When the lease liability is reassessed, the right-of-use assets will adjust any remeasurement of the lease liability.

The lease liability is initially measured at the present value of the lease payments at the commencement date, if the implicit rate is certain, the discount rate is used. If not, using the Company's incremental borrowing interest rate. Generally, the Company uses the incremental borrowing interest rate.

The lease payments are as follow:

- 1) fixed payments;
- 2) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- 3) the amounts expected to be payable under a residual value guarantee; and
- 4) the amounts or the penalties of the purchase option or lease termination option will be reasonably exercised.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The lease liability is subsequently measured at amortized cost using the effective interest method. It is measured:

- 1) if there is a change in future lease payments arising from a change in an index or a rate;
- 2) if there is a change in the amounts expected to be payable under a residual value guarantee;
- 3) if there is a change in the assessment of underlying asset purchase option;
- 4) if the Company changes its assessment of whether it will exercise a purchase, extension or termination option;
- 5) if there is a change in the lease term.

When the lease liability is remeasured in the mentioned circumstances, a corresponding adjustment is made to the carrying amount of the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss.

The lease liability is remeasured when lease modification occur that decrease the scope of the lease. The Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease.

Payments for leases of low-value assets and short-term leases are recognized as expenses on a straight-line basis during the lease term for which the recognition exemption is applied.

(c) As a lessor

Based on the extent to which the lease transfers the risks and rewards resulting from the Company of an underlying asset, if it does, a lease is classified as a financial lease. Conversely, an operating lease is a lease that does not transfer the risks and rewards resulting from the Company of an underlying asset.

Lease income from an operating lease is recognized in profit or loss on a straight-line basis over the lease term.

(4) Employee benefits

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

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Income taxes

The Company measures and discloses interim period income tax expense in accordance with paragraph B12 of IAS 34, “Interim Financial Reporting”. Income tax expense is best estimated by multiplying pre-tax income of the interim period by a projected annual effective tax rate and is recognized as current tax expense.

Income taxes that are recognized directly in equity or other comprehensive income are measured in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the corresponding tax bases at the tax rates that are expected to be applied in the year in which the asset is realized or the liability is settled.

5. **Critical Accounting Judgments and Key Sources of Estimation and Assumption Uncertainty**

The preparation of the consolidated financial statements in conformity with the Regulations and IAS 34, “Interim Financial Reporting”, as endorsed and issued into effect by the FSC requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing the consolidated financial statements, critical accounting judgments and key sources of estimation uncertainty used by management in the application of accounting policies are consistent with those described in note 5 of the consolidated financial statements for the year ended December 31, 2018.

6. **Description of Significant Accounts**

Except as described below, the description of significant accounts in the accompanying consolidated financial statements is not materially different from those described in note 6 of the consolidated financial statements for the year ended December 31, 2018.

(1) Cash and Cash Equivalents

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	\$ 683	678	793
Demand deposits and checking accounts	202,205	168,335	295,273
	\$ 202,888	169,013	296,066

BENQ MATERIALS CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(2) Financial assets and liabilities at fair value through profit or loss

	September 30, 2019	December 31, 2018	September 30, 2018
Financial assets mandatorily measured at fair value			
through profit or loss – current:			
Foreign currency forward contracts	\$ 230	14,691	40
Foreign exchange contracts	490	4,499	4,900
	<u>\$ 720</u>	<u>19,190</u>	<u>4,940</u>
Financial liabilities held for trading – current:			
Foreign currency forward contracts	\$ (9,451)	(1,360)	(29,505)
	<u>\$ (9,451)</u>	<u>(1,360)</u>	<u>(29,505)</u>

Refer to note 6 (24) for the amounts of gain (loss) recognized related to financial assets measured at fair value.

(a) Non-hedging derivative financial instruments

The Company incepted derivative contracts to manage foreign currency exchange risk resulting from operating and financing activities. The derivative financial instruments that did not conform to the criteria for hedge accounting. At each reporting date the outstanding derivative contracts consisted of the following:

1) Foreign currency forward contracts

September 30, 2019		
Contract amount	Contract item	Maturity date
(in thousands)		
USD1,000	Sell USD / Buy RMB	October 9, 2019
USD37,900	Sell USD / Buy JPY	October 24, 2019 – November 22, 2019
USD6,000	Sell USD / Buy NTD	October 24, 2019
December 31, 2018		
Contract amount	Contract item	Maturity date
(in thousands)		
USD3,300	Sell USD / Buy RMB	January 11, 2019
USD44,500	Sell USD / Buy JPY	January 24, 2019 – March 22, 2019
USD6,000	Sell USD / Buy NTD	January 24, 2019

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2018

Contract amount	Contract item	Maturity date
(in thousands)		
USD3,000	Sell USD / Buy RMB	October 12, 2018
USD46,000	Sell USD / Buy JPY	October 24, 2018 – December 21, 2018
USD5,000	Sell USD / Buy NTD	October 24, 2018

2) Foreign exchange contracts

September 30, 2019

Contract amount	Contract item	Maturity date
(in thousands)		
USD43,000	Sell USD / Buy NTD	October 31, 2019

December 31, 2018

Contract amount	Contract item	Maturity date
(in thousands)		
USD43,000	Sell USD / Buy NTD	January 31, 2019

September 30, 2018

Contract amount	Contract item	Maturity date
(in thousands)		
USD43,000	Sell USD / Buy NTD	October 31, 2018

(3) Notes and accounts receivable

	September 30, 2019	December 31, 2018	September 30, 2018
Notes receivable	\$ 26,582	31,441	40,591
Accounts receivable	2,131,157	1,674,480	1,825,529
Less: loss allowance	(23,505)	(24,773)	(25,481)
	2,134,234	1,681,148	1,840,639
Accounts receivable from related parties	257,462	611,739	336,843
	\$ 2,391,696	2,292,887	2,177,482

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (a) The Company measures the loss allowance for notes and accounts receivable using the simplified approach with the lifetime expected credit losses including forward-looking information. Analysis of expected credit losses of notes and accounts receivable (including related parties) as of September 30, 2019, December 31, 2018 and September 30, 2018 were as follows:

September 30, 2019			
	Carrying amount of accounts and note receivable	Weighted- average loss rate	Loss allowance for lifetime expected credit losses
Not past due	\$ 2,391,940	0.01%	312
Past due 1~30 days	64	12.50%	8
Past due 31~90 days	18	33.33%	6
Past due over 91 days	23,179	100%	23,179
	\$ 2,415,201		23,505

December 31, 2018			
	Carrying amount of accounts and note receivable	Weighted- average loss rate	Loss allowance for lifetime expected credit losses
Not past due	\$ 2,292,171	0.02%	450
Past due 1~30 days	973	1.95%	19
Past due 31~90 days	397	46.60%	185
Past due over 91 days	24,119	100%	24,119
	\$ 2,317,660		24,773

September 30, 2018			
	Carrying amount of accounts and note receivable	Weighted- average loss rate	Loss allowance for lifetime expected credit losses
Not past due	\$ 2,163,783	0.0004%	8
Past due 1~30 days	6,375	1.43%	91
Past due 31~90 days	8,766	15.32%	1,343
Past due over 91 days	24,039	100%	24,039
	\$ 2,202,963		25,481

BENQ MATERIALS CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) The movement of the loss allowance for notes and accounts receivable was as follows:

	Nine Months Ended September 30,	
	2019	2018
Balance at beginning of the period (per IAS 39)	\$ 24,773	20,092
Adjustment on initial application of IFRS 9	-	30
Balance at beginning of the period (per IFRS 9)	24,773	20,122
Reversal of loss	(704)	(317)
Effect of exchange rate changes	(564)	(666)
Effect of initial consolidated of subsidiaries	-	6,342
Balance at end of the period	\$ 23,505	25,481

(c) The Company signed a contract with the financial institution to sell certain accounts receivable without recourse. According to the contract, the Company does not have to bear the risk that the accounts receivable cannot be recovered, only needs to bear the losses caused by commercial disputes. Therefore, the contract met the condition of financial asset derecognition, details of the contract was as follows:

September 30, 2019						
Underwriting bank	Factored amount	Amount of advance available	Advance amount	Amount of transferred other accounts receivable	Range of interest rates	Other important matters
Taipei Fubon Commercial Bank	\$ 186,369	-	149,095	37,274	3.04%	None

Refer to Note 7 for the information of transferred claim of accounts receivable from related parties which met the condition of derecognition.

(4) Other accounts receivable

	September 30, 2019	December 31, 2018	September 30, 2018
Other accounts receivable – factored accounts receivable, net of advance amounts (Note 6(3)&7)	\$ 192,042	134,804	169,753
Other accounts receivable – other	14,761	7,665	57,460
Other accounts receivable – related parties	316	278	923
	<u>207,119</u>	<u>142,747</u>	<u>228,136</u>
Less: loss allowance	-	-	-
	\$ 207,119	142,747	228,136

As of September 30, 2019, December 31, 2018 and September 30, 2018, no expected credit impairment for other accounts receivable based on the Company's assessment.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Inventories

	September 30, 2019	December 31, 2018	September 30, 2018
Raw materials	\$ 613,447	857,688	674,275
Work in process	791,350	572,945	546,552
Finished goods	467,264	500,035	492,167
	\$ 1,872,061	1,930,668	1,712,994

The amounts recognized as cost of sales in relation to inventories were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	Inventories sold	\$ 2,952,700	2,934,500	8,856,847
Allowance for inventories written down to net realizable value	16,808	(64,121)	(34,385)	(100,997)
	\$ 2,969,508	2,870,379	8,822,462	7,974,197

Inventory valuation loss is the written down of inventories to net realizable value. The amounts of inventories due to sale of obsolete inventories or arising market price that were charged to gain from price recovery of inventory will cause decreases in the allowance for inventories.

(6) Investments accounted for using equity method

	September 30, 2019 (Not audited)	December 31, 2018	September 30, 2018 (Not audited)
Joint ventures	\$ 172,504	143,505	128,092

Share of profit (loss) of joint ventures accounted for using equity method (not audited) was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Joint ventures	\$ 13,314	9,133	27,158	23,016

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(a) Joint ventures

None of the joint ventures is considered individually material to the Company, the financial information was summarized as follows. The financial information was included in the Company's consolidated financial statements:

	September 30, 2019	December 31, 2018	September 30, 2018
Carrying amount of joint ventures not individually material to The Company – end of period	\$ 172,504	143,505	128,092

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	The Company's share of:			
Net income	\$ 13,314	9,133	27,158	23,016
Other comprehensive income	(1,989)	(2,111)	953	(330)
Total comprehensive income	\$ 11,325	7,022	28,111	22,686

(b) Investments accounted for using equity method not reviewed

The Company's share of the profit and other comprehensive income from the investments accounted for using equity method of the financial statements which were not reviewed by independent auditors.

(7) Acquisition of subsidiaries

(a) The cost of acquisition

On July 24, 2018 (acquisition date), the Company obtained control over Sigma Medical Supplies Corp. and its subsidiaries ("SMS") by acquired 89.03% of shareholdings of it for cash \$498,579 thousand. SMS is engaged in manufacture and sales of medical consumables and equipment. Through the acquisition of SMS, the Company expects to enhance the core R&D capabilities and the manufacturing technology to expend the development of medical consumables and equipment industry.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Identifiable net assets acquired in a business combination

The following table summarized the fair value of identifiable assets acquired and liabilities assumed recognized at the acquisition date:

Items	Amount
Cash and cash equivalents	\$ 119,934
Notes and accounts receivable, net	151,802
Other accounts receivable	57,515
Inventories	180,463
Other current assets	40,612
Other current financial assets	64,337
Property, plant and equipment	360,560
Intangible assets – software	295
Deferred tax assets	28,717
Other non-current assets	27,203
Short-term borrowings	(219,193)
Accounts payable	(97,187)
Other current liabilities	(46,843)
Long-term borrowings	(104,797)
Deferred income tax liabilities	(2,780)
Other non-current liabilities	(354)
Identifiable net assets at fair value	\$ 560,284

The needed market evaluation and other calculations of the fair values of the net assets are finished, and the amounts recognized have been measured on original accounting process to adjustments upon completion of independent valuation of SMS.

(c) Gain recognized in bargain purchase transaction

Gain recognized in bargain purchase of acquisition:	
Transfer consideration – cash	\$ 498,579
Add: non-controlling interests (Identifiable net assets at fair value measured by non-equity method)	61,452
Less: acquired Identifiable net assets at fair value	(560,284)
Gain recognized in bargain purchase (refer to other gains and losses)	\$ (253)

(d) Changes in equities of subsidiaries

The Company acquired additional ordinary shares of SMS with cash of \$38,889 thousand. As a result, the percentage of ownership in SMS was increased to 96.00% in the second quarter of 2019.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the purpose of aggregating the group's resources and improving operating efficiency, BenQ's board of directors approved on May 6, 2019, in accordance with Business Mergers and Acquisitions Act Ruling No. 30, to purchase SMS's ordinary shares at NT\$14 per share held by the shareholders dissenting (as of September 30, 2019, cash of \$20,725 thousand was paid, the residual amount of \$1,670 thousand recognized in other accounts payable) on the share exchange transaction on June 17, 2019. As a result, BenQ acquired 100% shareholdings of SMS.

In the second half of 2018, the Company acquired additional ordinary shares of SMS with cash of \$137 thousand, as a result, the percentage of ownership in SMS was increased to 89.06%.

(8) Property, plant and equipment

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other</u>	<u>Total</u>
Cost:					
Balance at January 1, 2019	\$ 1,477,219	3,128,759	5,594,506	1,882,875	12,083,359
Additions	-	12,830	65,251	295,851	373,932
Disposals	-	-	(33,353)	(20,602)	(53,955)
Reclassification and effect of exchange rate changes	-	(15,561)	135,310	(179,512)	(59,763)
Balance at September 30, 2019	<u>\$ 1,477,219</u>	<u>3,126,028</u>	<u>5,761,714</u>	<u>1,978,612</u>	<u>12,343,573</u>
Balance at January 1, 2018	\$ 1,344,108	3,823,777	4,918,691	2,131,612	12,218,188
Business mergers and acquisitions (Note 6(7))	133,111	24,329	288,922	34,123	480,485
Additions	-	53,745	70,188	223,801	347,734
Disposals	-	-	(20,097)	(9,315)	(29,412)
Reclassification to investment property (Note 6(10))	-	(930,215)	-	-	(930,215)
Reclassification and effect of exchange rate changes	-	121,454	288,252	(491,056)	(81,350)
Balance at September 30, 2018	<u>\$ 1,477,219</u>	<u>3,093,090</u>	<u>5,545,956</u>	<u>1,889,165</u>	<u>12,005,430</u>
Accumulated depreciation:					
Balance at January 1, 2019	\$ -	1,672,239	4,659,081	1,420,306	7,751,626
Depreciation	-	90,361	182,632	104,550	377,543
Disposals	-	-	(33,345)	(19,892)	(53,237)
Reclassification and effect of exchange rate changes	-	(14,543)	(16,076)	(3,160)	(33,779)
Balance at September 30, 2019	<u>\$ -</u>	<u>1,748,057</u>	<u>4,792,292</u>	<u>1,501,804</u>	<u>8,042,153</u>
Balance at January 1, 2018	\$ -	1,943,354	4,410,512	1,278,306	7,632,172
Business mergers and acquisitions (Note 6(7))	-	10,440	93,482	16,003	119,925
Depreciation	-	81,974	146,374	108,923	337,271
Disposals	-	-	(19,418)	(9,266)	(28,684)
Reclassification to investment property (Note 6(10))	-	(382,181)	-	-	(382,181)
Reclassification and effect of exchange rate changes	-	(16,816)	(16,290)	(3,787)	(36,893)
Balance at September 30, 2018	<u>\$ -</u>	<u>1,636,771</u>	<u>4,614,660</u>	<u>1,390,179</u>	<u>7,641,610</u>
Carrying amount:					
January 1, 2019	<u>\$ 1,477,219</u>	<u>1,456,520</u>	<u>935,425</u>	<u>462,569</u>	<u>4,331,733</u>
September 30, 2019	<u>\$ 1,477,219</u>	<u>1,377,971</u>	<u>969,422</u>	<u>476,808</u>	<u>4,301,420</u>
January 1, 2018	<u>\$ 1,344,108</u>	<u>1,880,423</u>	<u>508,179</u>	<u>853,306</u>	<u>4,586,016</u>
September 30, 2018	<u>\$ 1,477,219</u>	<u>1,456,319</u>	<u>931,296</u>	<u>498,986</u>	<u>4,363,820</u>

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

In January 2018, the Company made the plan of partial of Suzhou industrial district into investment property for lease. After January 1, 2018, income and expenses were recognized in operating revenue and operating cost.

Details of property, plant and equipment were pledged as collateral of long-term borrowings and loans, please refer to note 8.

(9) Right-of-use assets

	<u>Land use right</u>	<u>Buildings</u>	<u>Total</u>
Cost of right-of-use assets:			
Balance at January 1, 2019	\$ -	-	-
Adjustment on initial application of IFRS 16	65,183	454,371	519,554
Balance at January 1, 2019 – restatement	65,183	454,371	519,554
Additions	-	10,664	10,664
Effect of exchange rate changes	(1,687)	-	(1,687)
Balance at September 30, 2019	<u>\$ 63,496</u>	<u>465,035</u>	<u>528,531</u>
Accumulated depreciation - right-of-use assets:			
Balance at January 1, 2019	\$ -	-	-
Adjustment on initial application of IFRS 16	11,478	112,782	124,260
Balance at January 1, 2019	11,478	112,782	124,260
Depreciation	1,011	71,932	72,943
Effect of exchange rate changes	(336)	-	(336)
Balance at September 30, 2019	<u>\$ 12,153</u>	<u>184,714</u>	<u>196,867</u>
Carrying amount:			
September 30, 2019	<u>\$ 51,343</u>	<u>280,321</u>	<u>331,664</u>

On December 31, 2018 and September 30, 2018, land right-of use assets was recognized in long-term prepaid rents.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(10) Investment property

	<u>Buildings</u>	<u>Land use right</u>	<u>Total</u>
Cost:			
Balance at January 1, 2019	\$ 909,777	-	909,777
Adjustment on initial application of IFRS 16	-	69,667	69,667
Balance at January 1, 2019 – restatement	909,777	69,667	979,444
Effect of exchange rate changes	(23,527)	(1,802)	(25,329)
Balance at September 30, 2019	<u>\$ 886,250</u>	<u>67,865</u>	<u>954,115</u>
Balance at January 1, 2018	\$ -	-	-
Reclassification from fixed asset	930,215	-	930,215
Effect of exchange rate changes	(27,642)	-	(27,642)
Balance at September 30, 2018	<u>\$ 902,573</u>	<u>-</u>	<u>902,573</u>
Depreciation:			
Balance at January 1, 2019	\$ 416,397	-	416,397
Adjustment on initial application of IFRS 16	-	17,908	17,908
Balance at January 1, 2019 – restatement	416,397	17,908	434,305
Depreciation	31,934	1,088	33,022
Effect of exchange rate changes	(11,982)	(505)	(12,487)
Balance at September 30, 2019	<u>\$ 436,349</u>	<u>18,491</u>	<u>454,840</u>
Balance at January 1, 2018	\$ -	-	-
Depreciation	32,795	-	32,795
Reclassification from fixed asset	382,181	-	382,181
Effect of exchange rate changes	(12,445)	-	(12,445)
Balance at September 30, 2019	<u>\$ 402,531</u>	<u>-</u>	<u>402,531</u>
Carrying amount:			
January 1, 2019	<u>\$ 493,380</u>	<u>-</u>	<u>493,380</u>
September 30, 2019	<u>\$ 449,901</u>	<u>49,374</u>	<u>499,275</u>
January 1, 2018	\$ -	-	-
September 30, 2018	<u>\$ 500,042</u>	<u>-</u>	<u>500,042</u>

The fair value of the Company's investment property was not materially different from those disclosed in Note 6(9) of the consolidated financial statements for the year ended December 31, 2018.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(11) Intangible assets

	Patents	Outside purchased software	Other	Total
Cost:				
Balance at January 1, 2019	\$ 51,046	152,669	8,525	212,240
Additions	-	32,500	-	32,500
Less for the period (Note)	-	-	(7,002)	(7,002)
Reclassification and effect of exchange rate changes	540	(41)	(26)	473
Balance at September 30, 2019	<u>\$ 51,586</u>	<u>185,128</u>	<u>1,497</u>	<u>238,211</u>
Balance at January 1, 2018	\$ 49,592	129,125	8,549	187,266
Business mergers and acquisitions (Note 6(7))	-	707	-	707
Additions	-	14,612	-	14,612
Reclassification and effect of exchange rate changes	1,138	(32)	(32)	1,074
Balance at September 30, 2018	<u>\$ 50,730</u>	<u>144,412</u>	<u>8,517</u>	<u>203,659</u>
Amortization:				
Balance at January 1, 2019	\$ 21,624	141,533	4,420	167,577
Amortization	5,944	13,033	(1,752)	17,225
Less of the period (Note)	-	-	(1,752)	(1,752)
Reclassification and effect of exchange rate changes	245	(34)	(17)	194
Balance at September 30, 2019	<u>\$ 27,813</u>	<u>154,532</u>	<u>899</u>	<u>183,244</u>
Balance at January 1, 2018	\$ 13,369	121,022	2,720	137,111
Business mergers and acquisitions (Note 6(7))	-	412	-	412
Amortization	5,719	14,134	1,282	21,135
Reclassification and effect of exchange rate changes	448	(27)	(13)	408
Balance at September 30, 2018	<u>\$ 19,536</u>	<u>135,541</u>	<u>3,989</u>	<u>159,066</u>
Carrying amount:				
Balance at January 1, 2019	<u>\$ 29,422</u>	<u>11,136</u>	<u>4,105</u>	<u>44,663</u>
Balance at September 30, 2019	<u>\$ 23,773</u>	<u>30,596</u>	<u>598</u>	<u>54,967</u>
Balance at January 1, 2018	<u>\$ 36,223</u>	<u>8,103</u>	<u>5,829</u>	<u>50,155</u>
Balance at September 30, 2018	<u>\$ 31,194</u>	<u>8,871</u>	<u>4,528</u>	<u>44,593</u>

(Note): The relevant other accounts payable is written off.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(12) Long-term prepayments for lease

Long-term prepayments for lease mainly represented land use rights located in Mainland China. The company signed a contract with Land and Resources Bureau of P.R.C. to acquire the land use right of Suzhou Industrial Park and High-tech-based Industrial Development Zone in Gejiang district, Wuhu city, for the construction of plant, from 2005 to 2055, and from 2012 to 2062, respectively. For the first-time adoption of IFRS 16 on January 1, 2019, the amounts of long-term prepayments for lease was reclassified as right-of-use assets by the Company.

(13) Short-term borrowings

	September 30, 2019	December 31, 2018	September 30, 2018
Letters of credit borrowings	\$ 2,218	-	30,837
Secured borrowings	-	-	140,000
Unsecured borrowings	361,432	50,000	182,000
	<u>\$ 363,650</u>	<u>50,000</u>	<u>352,837</u>
Unused credit facility	<u>\$ 8,230,152</u>	<u>6,833,360</u>	<u>7,159,270</u>
Interest rate	1.44%~2.70%	1.44%	1.10%~2.86%

(14) Long-term borrowings

	September 30, 2019	December 31, 2018	September 30, 2018
Collateral borrowings	\$ 2,033,668	2,050,221	2,096,726
Less: current portion of long-term debt	(22,361)	(22,070)	(47,811)
Total	<u>\$ 2,011,307</u>	<u>2,028,151</u>	<u>2,048,915</u>
Unused credit facility	<u>\$ 1,400,000</u>	<u>1,300,000</u>	<u>1,300,000</u>
Maturity year	2020~2023	2019~2023	2018~2023
Interest rate	1.43%~1.79%	1.43%~1.79%	1.43%~3.00%

(a) Borrowings and repayments

For the nine months ended September 30, 2019 and 2018, the Company's gains on long-term borrowings were \$400,000 thousand and \$2,047,811 thousand, respectively, and repay amount of long-term loan principal were \$416,553 thousand and \$1,955,882 thousand, respectively.

(b) Collateral for bank borrowings

Refer to note 8 for a description of the Company's assets pledged as collateral to secure the bank loans.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) Compliance with loan agreement

According to the syndicated loan agreement signed between the Company and the banks, the Company has promised to maintain certain ratios such as current ratio, liabilities ratio and minimum tangible net value based on the Company's annual audited consolidated financial statements. If the Company violates any of the related financial ratios, according to the syndicated loan agreement, the Company shall file an application for waiver and financial improvement plan to the managing bank. Failure to maintain the required financial ratios would not be considered a default unless a resolution is made by most of the banks to refuse to grant a waiver to the Company.

On December 31, 2018, the Company's financial ratio was following the syndicated loan agreement.

(15) Lease liabilities

The Company's lease liabilities are summarized as follows:

	September 30, 2019
Current:	
Related parties	\$ 78,343
Non-related parties	\$ 6,516
Non-current:	
Related parties	\$ 203,849
Non-related parties	\$ 8,324

Refer to note 6 (25) for the maturity analysis for lease liabilities.

Amounts recognized in profit and loss:

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Expense of short-term lease	\$ 4,487	5,626
Interest expense of lease liabilities	\$ 1,425	4,492

Amounts recognized in cash flows:

	Nine months ended September 30, 2019
Total cash outflow of lease	\$ 85,235

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(a) Lease of buildings

The Company leased buildings for plants. The leases typically run for a period of five years, new lease agreement and rental payment will be discussed at the end of lease period. Then, the Company will reassess the right-of-use assets and lease liabilities.

(b) Other leases

The Company applies the recognition exemption to account for short-term leases instead of recognizing as right-of-use assets and lease liabilities, primarily for less than one-year leases of factory building and vehicles.

(16) Provisions – current

	Nine Months Ended September 30,	
	2019	2018
Balance at the beginning for the period	\$ 1,000	93,456
Business mergers and acquisitions	-	1,000
Provisions made	-	2,476
Amount utilized	-	(47,259)
Amount reversed	-	(48,673)
Balance at the end for the period	\$ 1,000	1,000

On September 1, 2016, for enhancing market competitiveness and reducing operating costs, the Company terminated certain production lines in Tainan Science-based Industrial Park and related lease contracts of the factory building, which resulted in a disagreement with the lessor. In the first quarter of 2018, the Company reached a settlement with the lessor. The Company recognized an adjustment of restructuring provision of \$(48,673) thousand, in other operating expenses.

(17) Operating lease

There was no significant addition in the Company's operating lease contracts for the nine months ended September 30, 2018. Refer to Note 6(15) for the consolidated financial statements for the year ended December 31, 2018 for the details.

(18) Employee benefits

(a) Defined benefit plans

Subsequent to December 31, 2018, there was no significant market volatility, significant curtailment, reimbursement and settlement or other significant one-time events. Therefore, the pension cost in the consolidated interim financial statements was measured and disclosed by the Company according to the pension cost valued by actuary as of December 31, 2018 and 2017.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The expenses recognized were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating costs	\$ 65	11	196	42
Operating expenses	20	177	60	199
	\$ 85	188	256	241

(b) Defined contribution plans

Pension expenses under contribution rate of defined pension:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Operating costs	\$ 11,684	9,156	34,557	28,902
Operating expenses	6,644	6,030	19,118	17,324
	\$ 18,328	15,186	53,675	46,226

(19) Income taxes

(a) Income tax expenses:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Current year	\$ 22,967	12,905	75,612	39,870

(b) For the nine months ended September 30, 2019 and 2018, the Company's income taxes unrecognized directly in equity or other comprehensive income.

(c) The tax authorities have completed the examination of income tax returns of BenQ through 2017.

(20) Capital and other equity

(a) Common stock

As of September 30, 2019, December 31, 2018 and September 30, 2018, BenQ's authorized shares of common stock consisted of 400,000 thousand shares, with par value of \$10 per share, all amounted to \$4,000,000 thousand, of which 320,675 thousand shares were issued and outstanding.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Capital surplus

	September 30, 2019	December 31, 2018	September 30, 2018
Changes in equity of associates accounted for using equity method	\$ 5,618	2,733	2,730
Difference between consideration and carrying amount from acquisition of shares in subsidiaries	-	1	-
	\$ 5,618	2,734	2,730

Pursuant to the Company Act, any realized capital surplus is initially used to cover an accumulated deficit, and the balance, if any, could be transferred to common stock as stock dividends based on the original shareholding ratio or distributed as cash dividends based on a resolution approved by the stockholders. Realized capital surplus includes the premium derived from the issuance of shares of stock in excess of par value and donations from stockholders received by the Company. In accordance with the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, distribution of stock dividends from capital surplus in any one year shall not exceed 10% of paid-in capital.

(c) Retained earnings

In accordance with BenQ's Articles of Incorporation, where 10% of the annual earnings, after payment of income taxes and offsetting accumulated deficits, if any, shall be set aside as 10% legal reserve. In addition, a special reserve in accordance with applicable laws and regulations shall also be set aside. The remaining current-year earnings together with accumulated undistributed earnings from preceding years can be distributed after the earnings distribution plan proposed by the board of directors is approved by resolution of the shareholders' meeting.

In accordance with BenQ's Articles of Incorporation, BenQ is currently in the mature growth stage. Therefore, BenQ's dividend policy is to pay dividends from surplus considering factors such as BenQ's current and future investment environment, competitive conditions, while considering shareholders' interest, maintenance of balanced dividend and BenQ's long-term financial plan. If the current year retained earnings available for distribution, dividend to be distributed shall be no less than 10% of the current year retained earnings available for distribution.

Pursuant to the Company Act, 10% of the annual earnings after payment of income taxes shall be allocated as legal reserve until the accumulated legal reserve equals the paid-in capital. When a company incurs no loss, it may, pursuant to a resolution to be adopted by a shareholders' meeting, distribute its legal reserve by issuing new shares or by cash, only the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed.

IN accordance with Ruling No. 1010012865 issued by the Financial Supervisory Commission on April 6, 2012, special reserve equal to the total amount of items that were accounted for as deduction from stockholders' equity was set aside from current and prior-year earnings. This special reserve shall revert to the retained earnings and be made available for distribution when the items that are accounted for as deductions from stockholders' equity are reversed in subsequent periods.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The appropriation of 2018 and 2017 earnings were approved by the stockholders at the meetings on June 19, 2019, and June 20, 2018, respectively. The resolved appropriation of the dividend per share were as follows:

	2018		2017	
	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)	Amount
Dividends per share:				
Cash dividends	\$ 0.60	192,405	\$ 0.90	288,607

Related information can be accessed on the Market Observation Post System website.

(d) Other equity

	Exchange differences on translation of foreign financial statements	Remeasurement of defined benefit plans	Total
Balance at January 1, 2019	\$ 21,284	(16,004)	5,280
Foreign exchange differences arising from translation of foreign operation net assets:			
Consolidated company	(42,632)	-	(42,632)
Joint venture	953	-	953
Balance at September 30, 2019	\$ (20,395)	(16,004)	(36,399)
Balance at January 1, 2018	\$ 64,015	(13,837)	50,178
Foreign exchange differences arising from translation of foreign operation net assets:			
Consolidated company	(56,060)	-	(56,060)
Joint venture	(330)	-	(330)
Balance at September 30, 2018	\$ 7,625	(13,837)	(6,212)

(e) Non-controlling interests, net of tax

	Nine Months Ended September 30,	
	2019	2018
Balance at the beginning for the period	\$ 58,152	-
Effects of retrospective application	(117)	-
Restated balance at the beginning for the period	58,035	-
Acquisition of subsidiaries	-	61,452
Equity attributable to non-controlling interests:		
Net income (loss)	(384)	593
Changes in equities of subsidiaries	(57,740)	-
Exchange differences on translation of foreign financial statements	89	(76)
	\$ -	61,969

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(21) Earnings per share

(a) Basic earnings per share

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Profit attributable to shareholders of the company	\$ 68,608	101,179	225,423	238,428
Weighted-average number of ordinary shares outstanding (in thousands)	320,675	320,675	320,675	320,675
Basic earnings per share (in dollars)	\$ 0.21	0.32	0.70	0.74

(b) Diluted earnings per share

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Profit attributable to shareholders of company	\$ 68,608	101,179	225,423	238,428
Weighted-average number of ordinary shares outstanding (in thousands)	320,675	320,675	320,675	320,675
Effect of dilutive potential common stock (in thousands):				
Employee bonuses	1,628	1,676	2,060	2,357
Weighted-average number of ordinary shares outstanding (in thousands) (including effect of dilutive potential common stock)	322,303	322,351	322,735	323,032
Diluted earnings per share (in dollars)	\$ 0.21	0.31	0.70	0.74

(22) Revenue from contracts with customers

(a) Disaggregation of revenue

	Three Months Ended September 30, 2019		
	Optoelectronics	Others	Total
Primary geographical market:			
Mainland China	\$ 2,085,080	147,243	2,232,323
Taiwan	1,061,041	121,931	1,182,972
Other country	26,990	84,190	111,180
	<u>\$ 3,173,111</u>	<u>353,364</u>	<u>3,526,475</u>
Major products/services:			
Optoelectronics	\$ 3,173,111	-	3,173,111
Others	-	353,364	353,364
	<u>\$ 3,173,111</u>	<u>353,364</u>	<u>3,526,475</u>

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Three Months Ended September 30, 2018			
	Optoelectronics	Others	Total
Primary geographical market:			
Mainland China	\$ 1,723,529	82,394	1,805,923
Taiwan	1,350,177	139,273	1,489,450
Other country	45,118	34,494	79,612
	\$ 3,118,824	256,161	3,374,985
Major products/services:			
Optoelectronics	\$ 3,118,824	-	3,118,824
Others	-	256,161	256,161
	\$ 3,118,824	256,161	3,374,985

Nine Months Ended September 30, 2019			
	Optoelectronics	Others	Total
Primary geographical market:			
Mainland China	\$ 6,008,624	428,669	6,437,293
Taiwan	3,438,954	385,354	3,824,308
Other country	74,548	241,359	315,907
	\$ 9,522,126	1,055,382	10,577,508
Major products/services:			
Optoelectronics	\$ 9,522,126	-	9,522,126
Others	-	1,055,382	1,055,382
	\$ 9,522,126	1,055,382	10,577,508

Nine Months Ended September 30, 2018			
	Optoelectronics	Others	Total
Primary geographical market:			
Mainland China	\$ 4,870,097	170,541	5,040,638
Taiwan	3,860,172	240,660	4,100,832
Other country	127,321	85,269	212,590
	\$ 8,857,590	496,470	9,354,060
Major products/services:			
Optoelectronics	\$ 8,857,590	-	8,857,590
Others	-	496,470	496,470
	\$ 8,857,590	496,470	9,354,060

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Contract balances

	September 30, 2019	December 31, 2018	September 30, 2018
Notes and accounts receivable (including related parties)	\$ 2,415,201	2,317,660	2,202,963
Less: loss allowance	(23,505)	(24,773)	(25,481)
Total	\$ 2,391,696	2,292,887	2,177,482

Refer to Note 6(3) for disclosure of decrease in accounts receivable.

(23) Remuneration to employees and directors

According to BenQ's Articles of Incorporation, BenQ should distribute remuneration to employees and directors from 5% to 20% and no more than 1% of annual profits before income tax, respectively, after offsetting accumulated deficits, if any. Only employees, including employees of affiliate companies that meet certain conditions are entitled to the abovementioned remuneration which to be distributed in stock or cash.

For the three months ended September 30, 2019 and 2018, and for the nine months ended September 30, 2019 and 2018, BenQ accrued the remuneration to employees amounting to \$10,242 thousand, \$11,864 thousand, \$32,485 thousand, and \$29,329 thousand, respectively, remuneration to directors amounting to \$768 thousand, \$892 thousand, \$2,436 thousand, and \$2,226 thousand, respectively, and the remuneration to directors were estimated based on the amount expected to pay and recognized together with the remuneration to employees as cost of sales or operating expenses. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are accounted for as a change in accounting estimate and adjusted prospectively to next year's profit or loss.

Remuneration to employees for 2018 and 2017, in the amounting to \$40,742 thousand and \$58,880 thousand, respectively, remuneration to directors amounting to \$3,056 thousand and \$4,416 thousand, respectively, in cash for payment had been approved in the meeting of board of directors. The information about the remuneration to employees and directors is available at the Market Observation Post System website.

(24) Non-operating income and expenses

(a) Other Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest income on bank deposits	\$ 283	194	959	775
Imputed interest of deposits	31	-	31	11
Government grants income	30,407	2,175	31,477	25,661
Total	\$ 30,721	2,369	32,467	26,447

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Other gains and losses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Gains (losses) on disposals of property, plant and equipment	\$ (8)	-	262	150
Foreign exchange gains (losses), net	807	54,807	(47,607)	75,678
Gains (losses) on valuation of financial instruments at FVTPL, net	(16,670)	(43,809)	(53,607)	(164,628)
Gain recognized in bargain purchase (note 6(7))	-	253	-	253
Others	3,459	6,798	8,961	36,101
	<u>\$ (12,412)</u>	<u>18,049</u>	<u>(91,991)</u>	<u>(52,446)</u>

(c) Finance costs

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest expense on bank borrowings	\$ (21,338)	(23,618)	(57,146)	(53,319)
Lease liabilities	(1,425)	-	(4,492)	-
	<u>\$ (22,763)</u>	<u>(23,618)</u>	<u>(61,638)</u>	<u>(53,319)</u>

(25) Categories of financial instruments and fair value

Except as described below, both the goals and policies of the Company's financial risk management and the Company's exposure to credit risk, liquidity risk and market risk were not materially different from those disclosed in Note 6(24)(25) of the consolidated financial statements for the year ended December 31, 2018.

(a) Categories of financial instruments

I) Financial assets

	September 30, 2019	December 31, 2018	September 30, 2018
Financial assets at fair value through profit or loss:			
Foreign exchange forward contract	\$ 230	14,691	40
Currency swap contract	490	4,499	4,900
Subtotal	<u>720</u>	<u>19,190</u>	<u>4,940</u>
Financial assets measured at amortized cost:			
Cash and cash equivalents	202,888	169,013	296,066
Notes and accounts receivable and other receivables (including related parties)	2,598,815	2,435,634	2,405,618
Other financial assets - current	4,827	5,844	60,253
Refundable deposits	17,805	21,870	21,093
Subtotal	<u>2,824,335</u>	<u>2,632,361</u>	<u>2,783,030</u>
Total	<u>\$ 2,825,055</u>	<u>2,651,551</u>	<u>2,787,970</u>

BENQ MATERIALS CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

2) Financial liabilities

	September 30, 2019	December 31, 2018	September 30, 2018
Financial liabilities at fair value through profit or loss:			
Foreign exchange forward contract	\$ 9,451	1,360	29,505
Subtotal	9,451	1,360	29,505
Financial liabilities measured at amortized cost:			
Short-term borrowings	363,650	50,000	352,837
Notes and accounts payable and other payables (including related parties)	3,246,639	3,389,849	3,055,110
Long-term debt (including current portion)	2,033,668	2,050,221	2,096,726
Lease liabilities (including related parties)	297,032	-	-
Guarantee deposit received	20,372	23,203	19,196
Subtotal	5,961,361	5,513,273	5,523,869
Total	<u>\$ 5,970,812</u>	<u>5,514,633</u>	<u>5,553,374</u>

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in settling its financial liabilities by delivering cash or other financial assets. The Company manages liquidity risk by monitoring regularly the current and mid- to long-term cash demand, maintaining adequate cash and banking facilities, and ensuring compliance with the terms of the loan agreements.

As of September 30, 2019, December 31, 2018 and September 30, 2018, the Company had unused credit facilities of \$9,630,152 thousand, \$8,133,360 thousand and \$8,459,270 thousand, respectively.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments, including principal and interest.

	Contractual cash flows	Within 6 months	6-12 months	1-5 years	More than 5 years
September 30, 2019					
Non-derivative financial liabilities					
Short-term borrowings	\$ 363,675	363,675	-	-	-
Accounts payable (including related parties)	2,629,978	2,629,978	-	-	-
Other payables (including related parties)	616,661	616,661	-	-	-
Long-term debt					
(including current portion) (floating rate)	2,125,401	24,163	26,176	2,075,062	-
Lease liabilities (including related parties)	306,270	41,491	48,054	216,725	-
Guarantee deposit received	20,372	1,333	4,397	14,361	281
	<u>\$ 6,062,357</u>	<u>3,677,301</u>	<u>78,627</u>	<u>2,306,148</u>	<u>281</u>
Derivative financial instruments					
Foreign exchange forward contracts – total:					
Inflow	\$ (1,381,227)	(1,381,227)	-	-	-
Outflow	1,390,448	1,390,448	-	-	-
Currency swap contracts – net	(490)	(490)	-	-	-
	<u>\$ 8,731</u>	<u>8,731</u>	<u>-</u>	<u>-</u>	<u>-</u>

(continued)

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	<u>Contractual cash flows</u>	<u>Within 6 months</u>	<u>6-12 months</u>	<u>1-5 years</u>	<u>More than 5 years</u>
December 31, 2018					
Non-derivative financial liabilities					
Short-term borrowings	\$ 50,046	50,046	-	-	-
Accounts payable (including related parties)	2,913,756	2,909,380	388	3,988	-
Other payables (including related parties)	476,093	476,093	-	-	-
Long-term debt (including current portion) (floating rate)	2,164,333	16,639	26,151	2,121,543	-
Guarantee deposit received	23,203	6,061	3,383	13,513	246
	<u>\$ 5,627,431</u>	<u>3,458,219</u>	<u>29,922</u>	<u>2,139,044</u>	<u>246</u>
Derivative financial instruments					
Foreign exchange forward contracts – total:					
Inflow	\$ (1,660,048)	(1,660,048)	-	-	-
Outflow	1,646,717	1,646,717	-	-	-
Currency swap contracts – net	(4,499)	(4,499)	-	-	-
	<u>\$ (17,830)</u>	<u>(17,830)</u>	<u>-</u>	<u>-</u>	<u>-</u>
September 30, 2018					
Non-derivative financial liabilities					
Short-term borrowings	\$ 352,948	352,948	-	-	-
Accounts payable (including related parties)	2,607,643	2,599,631	5,833	2,172	7
Other payables (including related parties)	447,467	447,467	-	-	-
Long-term debt (including current portion) (floating rate)	2,217,357	48,518	39,677	2,129,162	-
Guarantee deposit received	19,196	1,932	14,346	2,675	243
	<u>\$ 5,644,611</u>	<u>3,450,496</u>	<u>59,856</u>	<u>2,134,009</u>	<u>250</u>
Derivative financial instruments					
Foreign exchange forward contracts – total:					
Inflow	\$ (1,614,732)	(1,614,732)	-	-	-
Outflow	1,644,197	1,644,197	-	-	-
Currency swap contracts – net	(4,900)	(4,900)	-	-	-
	<u>\$ 24,565</u>	<u>24,565</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(c) Currency risk

The Company's exposure to foreign currency risk arises from cash and cash equivalents, notes and accounts receivable (including related parties), notes and accounts payable (including related parties), and borrowings that are denominated in a currency other than the respective functional currencies of the Company. At the reporting date, the carrying amount of the Company's significant monetary assets and liabilities denominated in a currency other than the respective functional currencies of the Company (including the monetary items that have been eliminated in the accompanying consolidated financial statements):

September 30, 2019					
	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>	<u>Change in magnitude</u>	<u>Effect on profit or loss</u>
	(in thousands)		(in thousands)		(in thousands)
<u>Financial assets</u>					
<u>Monetary items</u>					
USD	\$ 86,454	31.040	2,683,532	1%	26,835
JPY	22,342	0.2877	6,428	1%	64
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD	43,753	31.040	1,358,093	1%	13,581
JPY	5,638,890	0.2877	1,622,309	1%	16,223

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2018

	Foreign currency	Exchange rate	TWD	Change in magnitude	Effect on profit or loss
	(in thousands)		(in thousands)		(in thousands)
<u>Financial assets</u>					
<u>Monetary items</u>					
USD	\$ 78,252	30.715	2,403,510	1%	24,035
JPY	67,681	0.2780	18,815	1%	188
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD	27,104	30.715	832,499	1%	8,325
JPY	6,329,343	0.2780	1,759,557	1%	17,596

September 30, 2018

	Foreign currency	Exchange rate	TWD	Change in magnitude	Effect on profit or loss
	(in thousands)		(in thousands)		(in thousands)
<u>Financial assets</u>					
<u>Monetary items</u>					
USD	\$ 95,029	30.525	2,900,760	1%	29,008
JPY	53,849	0.2692	14,496	1%	145
<u>Financial liabilities</u>					
<u>Monetary items</u>					
USD	33,999	30.525	1,037,819	1%	10,378
JPY	6,162,656	0.2692	1,658,987	1%	16,590

As the Company deal in diverse functional currencies, gains and losses on monetary items were summarized as a single amount. The aggregate of realized and unrealized foreign exchange gains (losses) for the three months ended September 30, 2019 and 2018, and the nine months ended September 30, 2019 and 2018, were \$807 thousand, \$54,807 thousand, \$(47,607) thousand, and \$75,678 thousand, respectively.

(d) Fair value information

1) Financial instruments not measured at fair value

The Company's management considers that the carrying amount in consolidated financial statements of financial assets and financial liabilities measured at amortized cost approximate their fair value.

2) Financial instruments measured at fair value

When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- a. Level 1 inputs: Unadjusted quoted prices for identical assets or liabilities in active markets.

- b. Level 2 inputs: Other than quoted prices included within Level 1, inputs are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- c. Level 3 inputs: Derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	September 30, 2019				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL:					
Foreign exchange forward contract	\$ 230	-	230	-	230
Currency swap contract	490	-	490	-	490
Subtotal	<u>\$ 720</u>	<u>-</u>	<u>720</u>	<u>-</u>	<u>720</u>
Financial liabilities at FVTPL:					
Foreign exchange forward contract	\$ (9,451)	-	(9,451)	-	(9,451)
	December 31, 2018				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial assets at FVTPL:					
Foreign exchange forward contract	\$ 14,691	-	14,691	-	14,691
Currency swap contract	4,499	-	4,499	-	4,499
Subtotal	<u>\$ 19,190</u>	<u>-</u>	<u>19,190</u>	<u>-</u>	<u>19,190</u>
Financial liabilities at FVTPL:					
Foreign exchange forward contract	\$ (1,360)	-	(1,360)	-	(1,360)
	September 30, 2018				
	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
Financial liabilities at FVTPL:					
Foreign exchange forward contract	\$ 40	-	40	-	40
Currency swap contract	4,900	-	4,900	-	4,900
Subtotal	<u>\$ 4,940</u>	<u>-</u>	<u>4,940</u>	<u>-</u>	<u>4,940</u>
Financial liabilities at FVTPL:					
Foreign exchange forward contract	\$ (29,505)	-	(29,505)	-	(29,505)

BENQ MATERIALS CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(e) Valuation techniques and assumptions applied in fair value measurement

1) Non-derivative financial instruments

The Company holds certain non-publicly listed stocks which are not traded in an active market. The Company reviews the net value, the current operating and future expected performance of these private companies based on evaluation of the changes in the similar companies. However, the major unobservable inputs were primarily liquidity discounts, the changes of liquidity discounts do not lead to significant potential financial impact, therefore, the Company does not intend to disclose the quantitative information.

2) Derivative financial instruments

The fair value of derivative financial instruments is determined using a valuation technique, with estimates and assumptions consistent with those used by market participants. The fair value of foreign currency forward contracts and foreign exchange swaps is computed by current forward exchange rate using the valuation technique.

(f) Transfers between levels of the fair value hierarchy

There were no transfers among fair value hierarchies for the nine months ended September 30, 2019 and 2018.

(26) Financial risk management

Both the goals and policies of the Company's financial risk management were not materially different from those disclosed in Note 6(25) of the consolidated financial statements for the year ended December 31, 2018.

(27) Capital management

The objectives, policies and procedures of the Company's capital management have been applied consistently with those described in the consolidated financial statements for the year ended December 31, 2018. Refer to note 6(26) for the consolidated financial statements for the year ended December 31, 2018 for the relevant information.

(28) Non-cash transactions of investments and financing activities

(a) Refer to Note 6(9) for The Company acquired the right-of-use assets by lease for the nine months ended September 30, 2019.

BENQ MATERIALS CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(b) The reconciliation of liabilities from financing activities was as follows:

	January 1, 2019	Cash flows	Changes in non-cash Rent adjustment	September 30, 2019
Short-term borrowings	\$ 50,000	313,650	-	363,650
Long-term borrowings (including current portion)	2,050,221	(16,553)	-	2,033,668
Guarantee deposit received	23,203	(2,831)	-	20,372
Lease liabilities (including related parties)	361,485	(75,117)	10,664	297,032
Total liabilities from financing activities	<u>\$ 2,484,909</u>	<u>219,149</u>	<u>10,664</u>	<u>2,714,722</u>

	January 1, 2018	Cash flows	Changes in non-cash Rent adjustment	September 30, 2018
Short-term borrowings	\$ 925,040	(791,396)	219,193	352,837
Long-term borrowings (including current portion)	1,900,000	91,929	104,797	2,096,726
Guarantee deposit received	23,959	(4,883)	120	19,196
Total liabilities from financing activities	<u>\$ 2,848,999</u>	<u>(704,350)</u>	<u>324,110</u>	<u>2,468,759</u>

7. Related-party Transactions

(1) Name and relationship of related parties

Name of related party	Relationship with the Company
Qisda Corporation (“Qisda”)	Parent of the Company
Visco Vision Inc. (“Visco Vision”)	Joint venture of the Company
Cenefom Corp. (“CENEFOM”)	Joint venture of the Company
Visco Technology Sdn. Bhd.	Subsidiary of Visco Vision
Other related parties:	
BenQ foundation	Substantive related party of Qisda
AU Optronics Corp. (“AU”)	Joint venture of Qisda
Dafon Electronics Corp. (“DFN”)	Joint venture of Qisda
Dafon Electronics (Suzhou) Co., Ltd. (“DFS”)	Subsidiary of DFN
AU Optronics (L) Co. (“AUL”)	Subsidiary of AU
AFPD Pte., Ltd.	Subsidiary of AU
AU Optronics (Suzhou) Corp. (“AUS”)	Subsidiary of AU
AU Optronics (Kunshan) Corp.	Subsidiary of AU
AU Optronics (Xiamen) Corp. (“AUX”)	Subsidiary of AU
AU Optronics (Shanghai) Corp.	Subsidiary of AU
AU Optronics (Slovakia) Corp.	Subsidiary of AU
AUO Care Corp.	Subsidiary of AU
BriView (Hefei) Co., Ltd.	Subsidiary of AU
Darwin Precisions (Xiamen) Corp.	Subsidiary of AU
Darwin Precisions (Suzhou) Corp.	Subsidiary of AU
Darwin Precisions Corp.	Subsidiary of AU

(Continued)

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of related party	Relationship with the Company
Fortech Electronics (Suzhou) Co., Ltd.	Subsidiary of AU
Mega insight (Suzhou) Corp.	Subsidiary of AU
Edgetech Data (Suzhou) Co., Ltd.	Subsidiary of AU
Lextar Electronics Corporation	Joint venture of AU
Daxin Materials Corporation	Joint venture of AU
DFI Inc.	Subsidiary of Qisda
Nanjing BenQ Hospital Co., Ltd. (NMH)	Subsidiary of Qisda
Suzhou BenQ Hospital Co., Ltd. (SMH)	Subsidiary of Qisda
LILY Medical (Suzhou) Co., Ltd.	Subsidiary of Qisda
LILY Medical Corporation	Subsidiary of Qisda
Darly Venture (L) Ltd.	Subsidiary of Qisda
Darly Consulting Corporation	Subsidiary of Qisda
BenQ Asia Pacific Corp.	Subsidiary of Qisda
BenQ Asia Pacific Malaysia Co., Ltd.	Subsidiary of Qisda
BenQ Asia Pacific Singapore Co., Ltd.	Subsidiary of Qisda
BenQ Asia Pacific India Co., Ltd.	Subsidiary of Qisda
BenQ ESCO Corp.	Subsidiary of Qisda
BenQ GURU Corp.	Subsidiary of Qisda
BenQ Corp.	Subsidiary of Qisda
BenQ Technology (Shanghai) Co., Ltd.	Subsidiary of Qisda
BenQ Dialysis Technology Corp.	Subsidiary of Qisda
Partner Tech Corp.	Subsidiary of Qisda
BenQ Medical Technology Corp.	Subsidiary of Qisda
BenQ AB DentCare Corporation	Subsidiary of Qisda
BenQ Hearing Solution Corporation	Subsidiary of Qisda
BenQ Intelligent Technology (Shanghai) Co.,Ltd	Subsidiary of Qisda
Qisda Optronics (Suzhou) Co., Ltd.	Subsidiary of Qisda
Qisda Electronics (Suzhou) Co., Ltd.	Subsidiary of Qisda
Qisda (Suzhou) Co., Ltd.	Subsidiary of Qisda
Qisda Precision Industry (Suzhou) Co., Ltd.	Subsidiary of Qisda
SYSAGE Technology Co., Ltd.	Subsidiary of Qisda

(2) The Company's significant related party transactions

(a) Operating income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Other related parties:				
AU	\$ 977,654	1,305,949	3,189,501	3,739,271
AUS	340,628	727	965,697	1,165
AUX	197,333	1,320	656,085	1,397
AUL	-	482,832	3,731	1,582,049
Others	1,754	2,943	7,535	5,693
Joint ventures	10,941	14,721	34,857	30,238
Parent	120	-	129	-
	\$ 1,528,430	1,808,492	4,857,535	5,359,813

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The sales prices for the transactions of related parties were not comparable to the sales prices for third-party customers as the specifications of products were different. For the other transactions, there were no significant differences between the sales prices for related parties and those for third-party customers. The payment terms of 90 to 120 days showed no significant difference between related parties and third-party customers.

(b) Purchases

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	Joint ventures	\$ 72,864	45,401	199,680
Other related parties	170	-	627	-
	\$ 73,034	45,401	200,307	118,877

The purchase prices for the transactions of related parties were not comparable to the purchase prices for third-party customers as the specifications of products were different. The purchase prices were under the purchase arrangement and conditions.

(c) Acquisition of property, plant and equipment

The aggregated prices of the Company acquired other assets of related parties were as follows:

Related-party categories	Account	Three Months Ended September 30,		Nine Months Ended September 30,	
		2019	2018	2019	2018
Parent	Intangible assets	\$ -	-	1,031	982
Other related parties	Equipment	-	-	672	-
Other related parties	Intangible assets	2,363	-	2,363	-
Other related parties	Computer equipment	-	-	-	289
		\$ 2,363	-	4,066	1,271

(d) Lease

The Company rented the plants and offices from AU and referred to neighboring areas for the rental. The rental expenses for the three months ended September 30, 2018, and the nine months ended September 30, 2018, amounted to \$17,931 thousand and \$53,383 thousand, respectively. There was no prepaid rental as of December 31, 2018, and September 30, 2018. First-time adoption of IFRS 16 on January 1, 2019, the lease transaction was recognized in right-of-use assets and lease liabilities of \$327,330 thousand and \$346,090 thousand, respectively. Interest expense for the nine months ended September 30, 2019, amounted to \$4,305 thousand. As of September 30, 2019, the lease liabilities amounted to \$282,192 thousand.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company rented out its plants and offices to related parties. The aggregated rental income was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Other related parties	\$ 333	364	1,041	1,658

(e) Accounts receivable – related parties

In summary, the Company's accounts receivable of related parties are detailed below:

Account	Related-party categories	September 30, 2019	December 31, 2018	September 30, 2018
Net accounts receivable – related parties	Other related Parties - AUL	\$ -	425,857	174,254
	Other related Parties - AU	89,243	152,988	140,055
	Other related Parties - AUX	70,139	1,999	1,316
	Other related Parties - AUS	80,797	1,988	1,045
	Other related Parties - others	2,392	5,076	3,250
	Joint ventures	14,755	23,831	16,923
	Parent	136	-	-
		257,462	611,739	336,843
Other receivables – related parties	Other related parties	316	278	923
		\$ 257,778	612,017	337,766

The Company signed contracts with financial institutions to sell certain accounts receivable from related parties without recourse. These contracts met the condition of financial asset derecognition, details of these contracts were as follows:

September 30, 2019						
Underwriting bank	Factored amount	Amount of advance available	Advance amount	Amount of transferred other accounts receivable (Note 4)	Range of interest rates	Other important matters
Mega International Commercial Bank	\$ 1,016,554	-	914,899	101,655	2.72%~2.78%	Promissory note 150,000
Chinatrust Commercial Bank	531,131	-	478,018	53,113	3.00%~3.04%	Promissory note 55,872
	\$ 1,547,685	-	1,392,917	154,768		205,872
December 31, 2018						
Underwriting bank	Factored amount	Amount of advance available	Advance amount	Amount of transferred other accounts receivable (Note 4)	Range of interest rates	Other important matters
Mega International Commercial Bank	\$ 1,194,472	-	1,075,025	119,447	3.65%	Promissory note 200,000
Chinatrust Commercial Bank	153,575	-	138,218	15,357	3.90%	Promissory note 55,287
	\$ 1,348,047	-	1,213,243	134,804		255,287
September 30, 2018						
Underwriting bank	Factored amount	Amount of advance available	Advance amount	Amount of transferred other accounts receivable (Note 4)	Range of interest rates	Other important matters
Mega International Commercial Bank	\$ 1,243,046	-	1,118,741	124,305	3.0127%~3.0444%	Promissory note 200,000
Chinatrust Commercial Bank	454,483	-	409,035	45,448	3.33%	Promissory note 54,945
	\$ 1,697,529	-	1,527,776	169,753		254,945

BENQ MATERIALS CORP. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(f) Accounts payable – related parties

In summary, the Company's accounts payable – related parties are detailed below:

<u>Account</u>	<u>Related-party categories</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts payable – related parties	Joint ventures	\$ 62,858	40,645	27,154
	Other related Parties	178	-	-
		<u>63,036</u>	<u>40,645</u>	<u>27,154</u>
Other payables – related parties	Other related Parties	17,107	15,520	12,124
	Parent	136	5	-
		<u>17,243</u>	<u>15,525</u>	<u>12,124</u>
		<u>\$ 80,279</u>	<u>56,170</u>	<u>39,278</u>

(3) Compensation for key management personnel

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Short-term employee benefits	\$ 10,842	11,650	34,696	33,933
Post-employment benefits	81	81	243	243
	<u>\$ 10,923</u>	<u>11,731</u>	<u>34,939</u>	<u>34,176</u>

8. Pledged assets

The carrying amount of the assets pledged as collateral are detailed below:

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Land and buildings	Long-term debt	\$ 703,916	720,446	731,345
Machinery and equipment	Long-term debt	112,404	118,930	136,956
		<u>\$ 816,320</u>	<u>839,376</u>	<u>868,301</u>

9. Significant commitments and contingencies

Significant unrecognized commitments:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Unused letters of credit	\$ 1,242,885	971,528	864,152
Unpaid payments of major construction and equipment	280,603	157,620	115,055

10. Significant loss from disaster: None

11. Significant subsequent events: None

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Others

(1) Functional aggregation of employee benefits, depreciation, depletion and amortization:

Function	Three months ended September 30,					
	2019			2018		
	Recognized in cost of sales	Recognized in operating expenses	Total	Recognized in cost of sales	Recognized in operating expenses	Total
Nature						
Employee benefits expenses:						
Salaries and wages	296,354	156,005	452,359	286,987	131,609	418,596
Labor and health insurances	22,928	9,692	32,620	18,164	8,343	26,507
Retirement benefits	11,749	6,664	18,413	9,167	6,207	15,374
Other employee benefits	15,648	7,729	23,377	13,958	5,468	19,426
Depreciation	133,359	30,189	163,548	93,581	31,216	124,797
Amortization	3,105	5,036	8,141	4,502	6,267	10,769

Function	Nine months ended September 30,					
	2019			2018		
	Recognized in cost of sales	Recognized in operating expenses	Total	Recognized in cost of sales	Recognized in operating expenses	Total
Nature						
Employee benefits expenses:						
Salaries and wages	914,074	447,390	1,361,464	831,946	384,310	1,216,256
Labor and health insurances	68,798	30,506	99,304	56,758	25,833	82,591
Retirement benefits	34,753	19,178	53,931	28,944	17,523	46,467
Other employee benefits	48,028	18,495	66,523	41,167	15,489	56,656
Depreciation	391,213	92,295	483,508	276,468	93,598	370,066
Amortization	6,156	11,069	17,225	12,149	17,621	29,770

(2) The Company's operations are not materially influenced by seasonality or cyclicity.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

13. Additional disclosures

(1) Information on significant transactions:

For the nine months ended September 30, 2019, the Company should disclose relevant information on significant transactions in accordance with Preparation of Financial Reports:

(a) Financing provided to other parties:

(Expressed in thousands of New Taiwan dollars)

No.	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the period		Ending balance	Actual amount drawn down	Interest rate
1	BMS (Note 1)	BenQ Materials (Wuhu) Co., Ltd	Other receivables – related parties	Yes	920,700 (RMB200,000)	871,060 (RMB200,000)	871,060 (RMB200,000)	2.8750%	
Nature of loan (Note 2)	Amount of transaction with the borrower	Reason for short-term financing	Amount of allowance	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted		
				Item	Value				
2	-	Business operation	-		-	1,173,334	1,955,556		

(Note 1): The aggregate financing amount to subsidiaries wholly owned by the parent and the individual financing amount of BMS shall not exceed 100% and 60%, respectively, of the most recent audited net worth of BMS.

(Note 2): Purpose of fund financing: 1. Business transaction purpose. 2. Short-term financing purpose.

(Note 3): The transactions have been eliminated when preparing the consolidated financial statements.

(b) Provision of endorsements and guarantees to others: None.

(c) Holding of marketable securities at the end of the period (excluding subsidiaries, joint ventures and associates):

Investing company	Marketable securities type and name	Relation with the securities issuer	Financial statement account	As of September 30, 2019				Footnote
				Shares	Carrying amount	Ownership (%)	Fair value	
BenQ	Stock: Biodenta Corporation	-	Financial assets at fair value through profit or loss	225	(Note)	2.50%	-	

(Note): The impairment loss was fully recognized.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (d) Acquisition or sale of the same security with the accumulated cost reaching NT\$300 million or 20% of paid-in capital or more: None.
- (e) Acquisition of property reaching NT\$300 million or 20% of paid-in capital or more: None.
- (f) Disposal of property reaching NT\$300 million or 20% of paid-in capital or more: None.
- (g) Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more:

Purchaser (seller)	Counter party	Relationship with the counter party	Transaction Detail				Differences in transaction terms compared to third-party transactions		Notes/accounts receivable (payable)		Footnote
			Purchases (sales)	Amount	% of total purchases (sales)	Credit term	Unit price	Credit term	Balance	% of total Notes/accounts receivable (payable)	
BenQ	AU	Other related party	Sales	3,189,501	30%	OA90	(Note 1)	(Note 3)	89,243	4%	-
BenQ	AUS	Other related party	Sales	965,697	9%	OA90	"	"	80,797	3%	-
BenQ	AUX	Other related party	Sales	656,085	6%	OA90	"	"	70,139	3%	-
BenQ	DTB	Subsidiary	Sales	152,130	1%	OA90	"	"	104,837	4%	(Note 4)
BenQ	BMS	Subsidiary	Purchases	611,284	6%	OA90	(Note 2)	"	(217,226)	8%	(Note 4)
BenQ	BMLB	Subsidiary	Purchases	294,842	3%	OA90	"	"	-	-	(Note 4)
BenQ	Visco Vision	Joint ventures	Purchases	199,431	2%	OA90	"	"	(62,858)	2%	-

(Note 1): The sales prices for the transactions of related parties were not comparable to the sales prices for third-party customers as the specifications of products were different. For the other transactions, there were no significant differences between the sales prices for related parties and those for third-party customers.

(Note 2): The purchase prices for the transactions of related parties were not comparable to the purchase prices for third-party customers as the specifications of products were different. For the other transactions, there were no significant differences between the purchase prices for related parties and those for third-party customers.

(Note 3): The transactions, there were no significant differences between related parties and those for third-party customers.

(Note 4): The transactions have been eliminated when preparing the consolidated financial statements.

(Note 5): Due to the amounts of transactions of purchases and sales between the Company and related parties is insignificant, combined disclosure is adopted.

- (h) Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more:

Company name	Counter party	Relationship with the counter party	Balance as at September 30, 2019	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts
					Amount	Action taken		
BMS (Note 1)	BenQ	Subsidiary	217,226	7.47	-	-	74,504	-
BenQ (Note 1)	DTB	Subsidiary	104,837	3.24	-	-	-	-

(Note 1): The transactions have been eliminated when preparing the consolidated financial statements.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (i) Trading in derivative instruments: The transactions information of trading in derivative instruments by the Company, please refer to Note 6(2) for the consolidated financial statements for the details.
- (j) Significant inter-company transactions:

No. (Note 1)	Company name	Counter party	Relationship (Note 2)	Transaction (Note 3)			
				Account	Amount	Transaction term	% of consolidated total operating revenues or total assets (Note 4)
1	BenQ	DTB	1	Sales	152,130	OA90	1.44%
2	BenQ	DTB	1	Accounts receivable	104,837	OA90	0.98%
3	BMLB	BenQ	2	Sales	294,842	OA90	2.79%
4	BMS	BenQ	2	Revenues of conversion	611,284	OA90	5.78%
5	BMS	BenQ	2	Accounts receivable	217,226	OA90	2.03%

(Note 1): The number is filled in as follows:

- 1) Number 0 represents the parent.
- 2) Subsidiaries are numbered in order from number 1.

(Note 2): The transaction relationships with the counterparties are as follows:

- 1) The parent to the subsidiary.
- 2) The subsidiary to the parent.
- 3) The subsidiary to another subsidiary.

(Note 3): The significant inter-company transactions, only the transactions of sales and accounts receivable have been disclosed, due to the amounts of transactions of purchases and accounts payable between the Company and related parties are insignificant, combined disclosure is adopted.

(Note 4): The transaction amount is divided by consolidated operating revenues or consolidated total assets.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Information on investees:

The information of investee companies for the nine months ended September 30, 2019 (excluding investees in Mainland China):

Investor	Investee	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2019			Net profit (loss) of the investee for the current period	Investment income (loss) recognized for the period	Footnote
				Balance as at September 30, 2019	Balance as at December 31, 2018	Number of shares	Ownership (%)	Carrying amount			
BenQ	BMLB	Malaysia	Investment holding	1,141,340	1,141,340	35,082	100.00%	1,574,588	(82,388)	(82,388)	(Note 1)
BenQ	SMS	Taiwan	Manufacture and sales of medical consumables and equipment	560,000	498,716	40,000	100.00%	526,267	(4,762)	(2,386)	(Note 1)
BenQ	Visco Vision	Taiwan	Manufacture and sales of contact lenses	180,523	180,523	9,984	18.58%	156,036	151,972	28,057	
BenQ	CENEFOM	Taiwan	R&D, Manufacture and sales of medical consumables and equipment	29,127	29,127	1,095	12.12%	16,468	(6,041)	(899)	

(Note 1): The transactions have been eliminated when preparing the consolidated financial statements.

(3) Information on investments in Mainland China:

(a) Relevant information on investments in Mainland China:

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Accumulated amount of remittance from Taiwan as of January 1, 2019	Amount remitted from Taiwan or amount remitted back to Taiwan for the current period		Accumulated amount of remittance from Taiwan as of September 30, 2019	Net income of investee for the current period	Ownership held by BenQ (direct or indirect)	Investment income (loss) recognized for the current period	Carrying amount of investments as of September 30, 2019	Footnote
					Remitted to Mainland China	Remitted back to Taiwan						
BenQ Material Co., Ltd. ("BMS")	Manufacture of optoelectronics	900,160 (USD29,000)	(3)	900,160 (USD29,000)	-	-	900,160 (USD29,000)	60,557	100.00%	60,557 (Note 2)	1,958,923 (Note 4)	-
Daxon Biomedical (Suzhou) Co., Ltd. (DTB)	Sales of optoelectronics and medical consumables	47,908 (RMB11,000)	(2)	-	-	-	-	(23,850)	100.00%	(23,850) (Note 2)	21,852 (Note 4)	-
BenQ Materials (Wuhu) Co., Ltd	Manufacture and sales of optoelectronics	348,424 (RMB80,000)	(3)	174,212 (RMB40,000)	-	-	174,212 (RMB40,000) (Note 3)	(115,855)	100.00%	(115,855) (Note 2)	(387,039) (Note 4)	-
BenQ Materials Medical (Suzhou) Co., Ltd. (BMM)	Manufacture and sales of medical consumables and equipment	4,355 (RMB1,000)	(2)	-	-	-	-	-	100.00%	- (Note 2)	4,355 (Note 4)	-
Suzhou Sigma Medical Supplies Co., Ltd. ("SMSZ")	Manufacture and sales of medical consumables and equipment	49,416 (USD1,592)	(1)	49,416 (USD1,592)	-	-	49,416 (USD1,592)	3,133	100.00%	3,133 (Note 2)	51,051 (Note 4)	-

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Note 1): Investment methods are classified into the following three categories:

- (1) Directly invest in a company in Mainland China.
- (2) The reinvestments in Mainland China were from the earnings of BMLB.
- (3) Indirect investment in Mainland China is through a holding company established in a third country.

(Note 2): Investment income or loss was recognized based on the reviewed financial statements issued by the auditors of the parent in Taiwan.

(Note 3): The amount of BMLB reinvestments RMB10,950 thousand were excluded.

(Note 4): The transactions have been eliminated when preparing the consolidated financial statements.

(b) Limits on investments in Mainland China:

(Expressed in thousands of New Taiwan dollars)

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2019	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment by Investment Commission, MOEA
BenQ	1,074,372 (USD29,000 and RMB40,000)	1,187,392 (USD29,000 and RMB65,950)	(Note)
SMS	49,416 (USD1,592)	49,416 (USD1,592)	253,893

The above amounts were translated into NTD at the exchange rate of USD1=NTD31.040 and RMB1=NTD4.3553.

(Note): Since BenQ has obtained the Certificate of Headquarter Operation, there is no upper limit on investment in Mainland China.

(c) Significant transactions with investee companies in Mainland China:

The direct or indirect transactions in Mainland China have been eliminated when preparing the consolidated financial statements for the nine months ended September 30, 2019, please refer to "Information on significant transactions" for the details.

BENQ MATERIALS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

14. Segment information

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

Three Months Ended September 30, 2019				
	optoelectronics	Others	Adjustments and Eliminations	Total
External revenue	\$ 3,173,111	353,364	-	3,526,475
Intra-segment revenue	-	-	-	-
Total revenue	<u>\$ 3,173,111</u>	<u>353,364</u>	<u>-</u>	<u>3,526,475</u>
Segment profit	<u>\$ 51,978</u>	<u>16,630</u>	<u>-</u>	<u>68,608</u>

Three Months Ended September 30, 2018				
	optoelectronics	Others	Adjustments and Eliminations	Total
External revenue	\$ 3,118,824	256,161	-	3,374,985
Intra-segment revenue	-	-	-	-
Total revenue	<u>\$ 3,118,824</u>	<u>256,161</u>	<u>-</u>	<u>3,374,985</u>
Segment profit	<u>\$ 91,441</u>	<u>10,331</u>	<u>-</u>	<u>101,772</u>

Nine Months Ended September 30, 2019				
	optoelectronics	Others	Adjustments and Eliminations	Total
External revenue	\$ 9,522,126	1,055,382	-	10,577,508
Intra-segment revenue	-	-	-	-
Total revenue	<u>\$ 9,522,126</u>	<u>1,055,382</u>	<u>-</u>	<u>10,577,508</u>
Segment profit	<u>\$ 171,088</u>	<u>53,951</u>	<u>-</u>	<u>225,039</u>

Nine Months Ended September 30, 2018				
	optoelectronics	Others	Adjustments and Eliminations	Total
External revenue	\$ 8,857,590	496,470	-	9,354,060
Intra-segment revenue	-	-	-	-
Total revenue	<u>\$ 8,857,590</u>	<u>496,470</u>	<u>-</u>	<u>9,354,060</u>
Segment profit	<u>\$ 198,917</u>	<u>40,104</u>	<u>-</u>	<u>239,021</u>

The Company did not present the measured amount of total assets and total liabilities from segments to the Company's chief operating decision maker.