

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

**TWINHEAD INTERNATIONAL CORP.
AND SUBSIDIARIES**

Consolidated Financial Statements

**With Independent Auditors' Review Report
For the Nine Months Ended September 30, 2018 and 2017**

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

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Independent Auditors' Review Report

To the Board of Directors
Twinhead International Corp.:

Introduction

We have reviewed the accompanying consolidated balance sheets of Twinhead International Corp. (the "Company") and its subsidiaries (together referred to as the "Group") as of September 30, 2018 and 2017, the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2018 and 2017, as well as the changes in equity and cash flows for the nine months ended September 30, 2018 and 2017, 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 Standards ("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 review.

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 4 (b), the consolidated financial statements included the financial statements of certain non-significant subsidiaries, which were not reviewed by independent auditors. These financial statements reflect the total assets amounting to \$22,122 thousand and \$17,446 thousand, constituting 1.87% and 1.52% of the consolidated total assets; and the total liabilities amounting to \$4,167 thousand and \$3,212 thousand, constituting 0.50% and 0.49% of the consolidated total liabilities as of September 30, 2018 and 2017, respectively; as well as the total comprehensive income (loss) amounting to \$312 thousand, \$289 thousand, \$189 thousand and \$(1,361) thousand, constituting (5.62)%, (1.14)%, (0.26)% and 1.29% of the consolidated total comprehensive income (loss) for the three months and nine months ended September 30, 2018 and 2017, respectively.

**Qualified Conclusion**

Except for the adjustments, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries described in the Basis for Qualified Conclusion paragraph above been reviewed by independent auditors, based on our reviews, 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 the Group as at September 30, 2018 and 2017, and of its consolidated financial performance for the three months and nine months ended September 30, 2018 and 2017, as well as its consolidated cash flows for the nine months ended September 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IASs 34, “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the audit resulting in this independent auditor’s report are Yuan-Sheng Yin and Yung-Sheng Wang.

KPMG

Taipei, Taiwan (Republic of China)

November 13, 2018

Notes to Readers

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

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Reviewed only, not audited in accordance with the generally accepted auditing standards as of September 30, 2018 and 2017
TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2018, December 31 and September 30, 2017
 (Expressed in Thousands of New Taiwan Dollars)

	September 30, 2018		December 31, 2017		September 30, 2017	
	Amount	%	Amount	%	Amount	%
Assets						
Current assets:						
1100 Cash and cash equivalents (note 6(a))	\$ 151,774	13	150,086	13	132,779	12
1150 Notes receivable (note 6(b))	-	-	-	-	715	-
1170 Accounts receivable, net (note 6(b))	135,377	12	80,301	7	62,774	5
1200 Other receivables (notes 6(c))	15	-	25	-	24	-
130x Inventories (note 6(d))	250,327	21	207,574	18	226,430	20
1460 Non-current assets held for sale, net (notes 6(g) and (h))	5,739	-	-	-	-	-
1470 Other current assets	19,131	2	17,314	2	14,468	1
Total current assets	562,563	48	455,300	40	437,190	38
Non-current assets:						
1517 Non-current financial assets at fair value through other comprehensive income (note 6(e))	29,209	2	-	-	-	-
1543 Financial assets at cost—non-current (note 6(f))	-	-	44,859	4	44,859	4
1600 Property, plant and equipment (notes 6(h) and 8)	296,030	25	428,757	37	434,176	38
1760 Investment property, net (notes 6(h), 6(i), 6(r) and 8)	204,934	17	148,378	12	148,728	13
1840 Deferred tax assets	44,092	4	43,809	4	51,516	4
1920 Refundable deposits	7,015	1	6,949	1	6,970	1
1995 Other non-current assets—others	37,208	3	24,341	2	21,966	2
Total non-current assets	618,488	52	697,093	60	708,215	62
Total assets	\$ 1,180,851	100	1,152,393	100	1,145,405	100
Liabilities and Equity						
Current liabilities:						
Short-term borrowings (notes 6(j) and 8)	\$ 590,000	51	520,000	46	475,000	42
Notes payable	209	-	170	-	195	-
Accounts payable	155,671	13	103,944	9	86,404	8
Other payables	40,759	3	62,796	5	44,079	4
Provisions—current	7,576	1	4,754	-	4,993	-
Other current liabilities	31,032	3	46,599	4	36,079	3
Total current liabilities	825,247	71	738,263	64	646,750	57
Non-Current liabilities:						
Guarantee deposits received	6,795	1	3,268	-	3,268	-
Other non-current liabilities—others	4,003	-	2,508	-	2,283	-
Total non-current liabilities	10,798	1	5,776	-	5,551	-
Total liabilities	836,045	72	744,039	64	652,301	57
Equity attributable to owners of parent (note 6(m)):						
Share capital:						
Common shares	1,989,314	167	1,989,314	173	1,989,314	174
Preferred shares	84	-	84	-	84	-
Accumulated deficits	(1,989,398)	167	(1,989,398)	173	(1,989,398)	174
Total equity	(1,474,588)	(125)	(1,406,234)	(121)	(1,322,114)	(115)
Total liabilities and equity	\$ 1,180,851	100	1,152,393	100	1,145,405	100
Other equities:						
Exchange differences on translation of foreign financial statements	31,444	3	27,128	2	27,758	2
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	(8,610)	(1)	-	-	-	-
Treasury shares	22,834	2	27,128	2	27,758	2
Total equity attributable to owners of parent	(202,059)	(17)	(202,059)	(18)	(202,059)	(18)
Non-controlling interests	335,585	27	408,233	36	492,983	43
Total equity	9,221	1	121	-	121	-
Total liabilities and equity	\$ 1,180,851	100	1,152,393	100	1,145,405	100

See accompanying notes to consolidated financial statements.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

	For the three months ended September 30				For the nine months ended September 30				
	2018		2017		2018		2017		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	Operating revenue (notes 6(o) and 6(p))	\$ 241,312	100	173,887	100	699,494	100	449,648	100
5000	Operating costs (notes 6(d), 6(h) and 6(k))	178,864	74	136,470	79	521,257	75	347,576	77
5900	Gross profit	62,448	26	37,417	21	178,237	25	102,072	23
6000	Operating expenses (notes 6(h), 6(k) and 7):								
6100	Selling expenses	18,829	8	17,899	10	55,165	8	49,030	11
6200	Administrative expenses	30,089	13	31,442	18	93,758	13	93,805	21
6300	Research and development expenses	21,873	9	16,655	10	55,942	8	53,188	12
	Total operating expenses	70,791	30	65,996	38	204,865	29	196,023	44
6900	Net operating loss	(8,343)	(4)	(28,579)	(17)	(26,628)	(4)	(93,951)	(21)
7000	Non-operating income and expenses (notes 6(g), 6(i) and 6(r)):								
7010	Other income	11,875	5	4,737	3	25,298	4	15,180	3
7020	Other gains and losses	(10,260)	(4)	2,988	2	(65,904)	(10)	(21,219)	(5)
7050	Finance costs	(2,700)	(1)	(2,661)	(2)	(7,870)	(1)	(7,519)	(1)
	Total non-operating income and expenses	(1,085)	-	5,064	3	(48,476)	(7)	(13,558)	(3)
7900	Loss from continuing operations before tax	(9,428)	(4)	(23,515)	(14)	(75,104)	(11)	(107,509)	(24)
7950	Less: income tax expense (note 6(l))	18	-	(34)	-	(67)	-	47	-
	Net loss	(9,446)	(4)	(23,481)	(14)	(75,037)	(11)	(107,556)	(24)
8300	Other comprehensive income:								
8310	Components of other comprehensive income that will not be reclassified to profit or loss (note 6(m))								
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	(2,904)	(1)	-	-	(2,687)	-	-	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-	-	-	-
	Components of other comprehensive income that will not be reclassified to profit or loss	(2,904)	(1)	-	-	(2,687)	-	-	-
8360	Items that may be reclassified subsequently to profit or loss (note 6(m))								
8361	Exchange differences on translation of foreign financial statements	6,797	3	(1,832)	(1)	4,963	1	1,886	-
8399	Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-	-	-	-	-
	Total items that may be reclassified subsequently to profit or loss	6,797	3	(1,832)	(1)	4,963	1	1,886	-
8300	Other comprehensive income (loss), net	3,893	2	(1,832)	(1)	2,276	1	1,886	-
	Total comprehensive income (loss)	\$ (5,553)	(2)	(25,313)	(15)	(72,761)	(10)	(105,670)	(24)
	Net loss attributable to:								
8610	Loss attributable to owners of parent	\$ (5,856)	(3)	(23,481)	(14)	(66,972)	(10)	(107,556)	(24)
8620	Loss attributable to non-controlling interests	(3,590)	(1)	-	-	(8,065)	(1)	-	-
		\$ (9,446)	(4)	(23,481)	(14)	(75,037)	(11)	(107,556)	(24)
	Comprehensive income (loss) attributable to:								
8710	Comprehensive income (loss), attributable to owners of parent	\$ (1,982)	(1)	(25,313)	(15)	(65,343)	(9)	(105,670)	(24)
8720	Comprehensive income (loss), attributable to non-controlling interests	(3,571)	(1)	-	-	(7,418)	(1)	-	-
		\$ (5,553)	(2)	(25,313)	(15)	(72,761)	(10)	(105,670)	(24)
9750	Basic earnings per share (in New Taiwan dollars) (note 6(n))	\$ (0.03)		(0.16)		(0.34)		(0.76)	
9850	Diluted earnings per share (in New Taiwan dollars) (note 6(n))	\$ (0.03)		(0.16)		(0.34)		(0.76)	

See accompanying notes to consolidated financial statements.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

**For the nine months ended September 30, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent										Non-controlling interests	Total equity
	Share capital		Accumulated			Exchange		Unrealized				
	Common shares	Preference share	Total share capital	deficits	foreign financial statements	differences on translation of	gains (losses) from financial assets measured at fair value	through other comprehensive income	Total other equity interest	Treasury shares	attributable to owners of parent	Total equity
Balance at January 1, 2017	\$ 1,189,314	84	1,189,398	(577,608)	25,872	-	-	-	25,872	(202,059)	435,603	435,724
Net loss	-	-	-	(107,556)	-	-	-	-	-	-	(107,556)	(107,556)
Other comprehensive income	-	-	-	-	1,886	-	-	-	1,886	-	1,886	1,886
Total comprehensive income (loss)	-	-	-	(107,556)	1,886	-	-	-	1,886	-	(105,670)	(105,670)
Issuance of common shares for cash	800,000	-	800,000	(636,950)	-	-	-	-	-	-	163,050	163,050
Balance at September 30, 2017	\$ 1,989,314	84	1,989,398	(1,322,114)	27,758	-	-	-	27,758	(202,059)	492,983	493,104
Balance at January 1, 2018	\$ 1,989,314	84	1,989,398	(1,406,234)	27,128	-	-	-	27,128	(202,059)	408,233	408,354
Effects of retrospective application	-	-	-	(66,972)	-	-	(5,923)	(5,923)	(5,923)	-	(5,923)	(5,923)
Balance at January 1, 2018 after adjustments	1,989,314	84	1,989,398	(1,406,234)	27,128	-	(5,923)	(5,923)	21,205	(202,059)	402,310	402,431
Net loss	-	-	-	(66,972)	-	-	-	-	-	-	(66,972)	(75,037)
Other comprehensive income (loss)	-	-	-	-	4,316	-	(2,687)	(2,687)	1,629	-	1,629	2,276
Total comprehensive income (loss)	-	-	-	(66,972)	4,316	-	(2,687)	(2,687)	1,629	-	(65,343)	(72,761)
Changes in ownership interests in subsidiaries	-	-	-	(1,382)	-	-	-	-	-	-	(1,382)	(1,382)
Balance at September 30, 2018	\$ 1,989,314	84	1,989,398	(1,474,588)	31,444	-	(8,610)	(8,610)	22,834	(202,059)	335,585	344,806

See accompanying notes to consolidated financial statements.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2018	2017
Cash flows from (used in) operating activities:		
Net loss before tax	\$ (75,104)	(107,509)
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation	13,010	19,755
Amortization	7,654	8,736
Interest expense	7,870	7,519
Interest income	(370)	(155)
Dividend income	(1,971)	-
Loss on disposal of property, plant and equipment	-	10
Impairment loss on non-financial assets	61,593	-
Amortization of long-term prepaid rent	201	196
Total adjustments to reconcile profit (loss)	<u>87,987</u>	<u>36,061</u>
Changes in operating assets and liabilities:		
Net changes in operating assets:		
Notes receivable	-	(712)
Accounts receivable	(55,099)	24,311
Other receivables	25	57
Inventories	(42,753)	(14,258)
Other current assets	(1,798)	4,660
Total changes in operating assets, net	<u>(99,625)</u>	<u>14,058</u>
Net changes in operating liabilities:		
Notes payable	39	16
Accounts payable	51,727	11,274
Other payables	(22,146)	(16,494)
Provisions	2,822	(132)
Other current liabilities	(15,264)	(22,681)
Other non-current liabilities	1,495	(506)
Total changes in operating liabilities, net	<u>18,673</u>	<u>(28,523)</u>
Total changes in operating assets and liabilities, net	<u>(80,952)</u>	<u>(14,465)</u>
Total adjustments	<u>7,035</u>	<u>21,596</u>
Cash outflow generated from operating activities	(68,069)	(85,913)
Interest received	355	140
Interest paid	(7,761)	(7,528)
Income taxes paid	(255)	(259)
Net cash flows used in operating activities	<u>(75,730)</u>	<u>(93,560)</u>
Cash flows from (used in) investing activities:		
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	7,040	-
Acquisition of financial assets at cost	-	(8,969)
Acquisition of property, plant and equipment	(5,131)	(4,162)
Increase in refundable deposits	(37)	-
Increase in other non-current assets	(21,232)	(2,755)
Dividends received	1,971	-
Net cash used in investing activities	<u>(17,389)</u>	<u>(15,886)</u>
Cash flows from (used in) financing activities:		
Increase in short-term loans	70,000	217,500
Decrease in short-term loans	-	(277,500)
Increase (decrease) in guarantee deposits received	3,527	(264)
Issuance of common shares for cash	-	163,050
Change in non-controlling interests	13,447	-
Net cash flows from financing activities	<u>86,974</u>	<u>102,786</u>
Effect of exchange rate changes on cash and cash equivalents	<u>7,833</u>	<u>6,389</u>
Net increase (decrease) in cash and cash equivalents	1,688	(271)
Cash and cash equivalents at beginning of period	<u>150,086</u>	<u>133,050</u>
Cash and cash equivalents at end of period	<u>\$ 151,774</u>	<u>132,779</u>

See accompanying notes to consolidated financial statements.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

TWINHEAD INTERNATIONAL CORP. (the Company) was incorporated on February 27, 1984, as a company limited by shares under the laws of the Republic of China (ROC). The consolidated financial statements comprise the Company and its subsidiaries (the Group) and the interests of the Group in associate companies. The Group is mainly engaged in the design, manufacture, sale and development of computers, computer components, peripherals, software, ASIC chips and workstations, and operation of telecommunication-related business.

(2) Approval date and procedures of the consolidated financial statements

The consolidated financial statements were reported to the Board of Directors and issued on November 13, 2018.

(3) New standards, amendments and interpretations adopted:

- (a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018. The differences between the current version and the previous version are as follows:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

(Continued)

TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance, including IAS 18 "Revenue" and IAS 11 "Construction Contracts".

The following are the nature and impacts on changing of accounting policies:

1) Sales of goods

For export sales, goods are sold with the term of F.O.B. shipping point, revenue is recognized when the goods are shipped on board at the port; for domestic sales, revenue is currently recognized when the goods are delivered to the customers' premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognized at this point provided that the revenue and costs can be measured reliably, the recovery of the consideration is probable and there is no continuing management involvement with the goods. Under IFRS 15, revenue will be recognized when a customer obtains control of the goods.

2) Impacts on financial statements

The Group estimates the adoption of IFRS 15 will not have any material impact on its consolidated financial statements.

(ii) IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

As a result of the adoption of IFRS 9, the Group adopted the consequential amendments to IAS 1 "Presentation of Financial Statements" which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Group's approach was to include the impairment of trade receivables in administrative expenses. Additionally, the Group adopted the consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but generally have not been applied to comparative information.

(Continued)

TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The detail of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below:

1) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Group classifies and measures financial assets and accounts for related gains and losses under IFRS 9, please see note 4(c).

The adoption of IFRS 9 did not have any significant impacts on its accounting policies on financial liabilities.

2) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with the 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39, please see note 4(c).

3) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and reserves as on January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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4) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as of January 1, 2018 (without any changes in the measurement categories and carrying amount on financial liabilities).

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Equity instruments	Available-for-sale (note 1)	44,859	FVOCI	38,936
Trade and other receivables, net	Loans and receivables (note 2)	80,326	Amortized cost	80,326
Refundable deposits	Loans and receivables	6,949	Amortized cost	6,949

Note 1: These equity securities that were previously classified as financial assets measured at cost represent the investments that the Group intends to hold for long term strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Accordingly, a decrease of \$5,923 thousand in those assets and other equities, respectively, were recognized on January 1, 2018.

Note 2: Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 on 1 January, 2018.

	2017.12.31 IAS 39 Carrying Amount	Reclassifications	Remeasurements	2018.1.1 IFRS 9 Carrying Amount	2018.1.1 Adjustment on retained earnings	2018.1.1 Adjustment on other equity
Fair value through other comprehensive income						
Financial assets at cost	\$ -	44,859	(5,923)	38,936	-	(5,923)

(b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
IFRS 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

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Except for the following items, the Group believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 16“Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, 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.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

The Group has completed an initial assessment of the potential impact on its consolidated financial statements, wherein the detailed assessment has yet to be completed. The actual impact of applying IFRS 16 on its financial statements in the period of initial application will depend on future economic conditions, including the Group’s discounting rate, the composition of the Group’s lease portfolio at that date, the Group’s latest assessment of whether it will exercise any lease renewal options, and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will have to recognize the new assets and liabilities for its operating leases of offices, warehouses, and factory facilities. No significant impact is expected for the Group’s finance leases. Besides, The Group does not expect the adoption of IFRS 16 to have any impact on its ability to comply with the revised maximum leverage threshold loan covenant.

1) Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose to apply either of the following:

- IFRS 16 definition of a lease to all its contracts; or
- a practical expedient that does not need any reassessment whether a contract is, or contains, a lease.

The Group plans to apply the practical expedient to grandfather the definition of a lease upon transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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2) Transition

As a lessee, the Group can apply the standard using either of the following:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

On January 1, 2019, the Group plans to initially apply IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

(ii) IFRIC 23 Uncertainty over Income Tax Treatments

In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, as well as tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

So far, the most significant impact identified is that the Group will have to recognize the new income tax liabilities and income tax expense for its uncertainty over income tax treatments.

(c) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date, the following IFRSs that have been issued by the IASB, but have yet to be endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	Effective date to be determined by IASB

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 17 “Insurance Contracts”	January 1, 2021

The Group assessed that the above IFRSs may not be relevant to the Group.

(4) Summary of significant accounting policies

Except the following accounting policies mentioned below, the significant accounting policies adopted in the consolidated financial statements are the same as those in the consolidated financial statement for the year ended December 31, 2017. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2017.

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the preparation and guidelines of IAS 34 “Interim Financial Reporting” which are endorsed and issued into effect by FSC and do not include all of the information required by the Regulations and International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to IFRS endorsed by the FSC) for a complete set of the annual consolidated financial statements.

(b) Basis of consolidation

Principles of preparation of the consolidated financial statements are the same as those of the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to note 4(c) of the consolidated financial statements for the year ended December 31, 2017.

List of subsidiaries included in the consolidated financial statements:

Name of investor	Name of investee	Scope of business	Percentage of ownership			Remarks
			September 30, 2018	December 31, 2017	September 30, 2017	
The Company	Durabook Americas Inc.	The research, development and trading of computers and computer peripheral equipment	52.000 %	100.000 %	100.000 %	Note 1
The Company	Twinhead (Asia) Pte Ltd.	Investment holding	100.000 %	100.000 %	100.000 %	Note 2
The Company	Twintek International Corporation	The trading of computers and computer peripheral equipment	99.974 %	99.974 %	99.974 %	Note 2
The Company	Yu Feng Technology Co., Ltd.	The trading of computers and computer peripheral equipment	99.975 %	99.975 %	99.975 %	Note 2
Twinhead (Asia) Pte Ltd.	Twinhead Enterprises (BVI) Ltd.	Investment holding	100.000 %	100.000 %	100.000 %	Note 2
Twinhead (Asia) Pte Ltd.	Twinhead Kunshan Technology Co., Ltd.	Sales and production of PDAs, calculators and their parts, and computer keyboards	100.000 %	100.000 %	100.000 %	
Twinhead (Asia) Pte Ltd.	Kunshan Lun Teng System Co., Ltd.	Import and export of computers, electronic components, and digital cameras, and technical consultant services	100.000 %	100.000 %	100.000 %	Note 2

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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Note 1: In March 2018, the subsidiary of the Group, Durabook Americas Inc. (Durabook), issued 462 thousand common shares for cash amounting to USD 462 thousand. The Group did not subscribe any additional shares, resulting in its ownership percentage decreased to 52%.

Note 2: Because they are non-significant subsidiaries, their financial statements were not reviewed by independent auditors.

(c) Financial instruments (applicable from January 1, 2018)

(i) Financial assets

Financial assets are classified into the following categories: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

The Group shall reclassify all affected financial assets only when it changes its business model for managing its financial assets.

1) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses, and impairment loss, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

2) Fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

A financial asset measured at FVOCI is initially recognized at fair value, plus any directly attributable transaction costs. These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses, and impairment losses, deriving from debt investments are recognized in profit or loss; whereas dividends deriving from equity investments are recognized as income in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses of financial assets measured at FVOCI are recognized in OCI. On derecognition, gains and losses accumulated in OCI of debt investments are reclassified to profit or loss. However, gains and losses accumulated in OCI of equity investments are reclassified to retain earnings instead of profit or loss.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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Dividend income derived from equity investments is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date.

3) Fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset, which meets the requirements to be measured at amortized cost or at FVOCI, as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent changes that are measured at fair value, which take into account any dividend and interest income, are recognized in profit or loss.

4) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including cash and cash equivalents, notes and accounts receivable, refundable deposits and other financial assets).

The Group measures loss allowances at an amount equal to lifetime expected credit loss (ECL), except for the following which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 month after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Group's historical experience and informed credit assessment as well as forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the financial asset is more than 90 days past due or the borrower is unlikely to pay its credit obligations to the Group in full.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Group assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial assets is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganization;
or
- the disappearance of an active market for a security because of financial difficulties.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognized in other comprehensive income instead of reducing the carrying amount of the asset. The Group recognizes the amount of expected credit losses (or reversal) in profit or loss, as an impairment gain or loss.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

5) Derecognition of financial assets

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

(d) Revenue from contracts with customers (applicable from January 1, 2018)

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a good or a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(i) Sale of goods

The Group is mainly engaged in the manufacture, sale and development of computers, computer components, and peripherals, and operation of telecommunication-related business. The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional.

(ii) Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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(e) Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale or distribution rather than through continuing use, are reclassified as held for sale or held for distribution to owners. The conditions for non-current assets held for sale are that the assets must be available for immediate sale in their present condition and its sale must be completed within one year. Immediately before classification as held for sale or held for distribution to owners, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter, generally, the assets or disposal groups are measured at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group will first be allocated to goodwill, and then to remaining assets and liabilities will be apportioned on a pro rata basis, except that no loss is allocated to assets not within the scope of IAS 36 – Impairment of Assets. Such assets will continue to be measured in accordance with the Group's accounting policies.

Impairment losses on assets initially classified as held for sale or held for distribution to owners and any subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

When the assets classified as held for sale or held for distribution to owners are intangible assets or property, plant and equipment, they are no longer amortized or depreciated, and any equity-accounted investee is no longer equity accounted.

(f) Income tax

Tax expense in the consolidated financial statements is measured and disclosed according to paragraph B12 of IAS 34 "Interim Financial Reporting".

Income tax expense for the period is best estimated by multiplying pretax income of the reporting period by the effective annual tax rate which was forecasted by the management. The outcome is then fully recognized as current tax expense.

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases shall be measured based on the tax rates that have been enacted or substantively enacted at the time the asset or liability is recovered or settled, and be recognized directly in equity or other comprehensive income as tax expense.

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with the Regulations and IFRSs (in accordance with IAS 34 "Interim Financial Reporting" and endorsed 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.

The preparation of the consolidated financial statements, estimates and underlying assumptions are reviewed on an ongoing basis which are in conformity with the consolidated financial statements for the year ended December 31, 2017. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2017.

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(6) Explanation of significant accounts

Except for the following disclosures, there is no significant difference as compared with those disclosed in the consolidated financial statements for the year ended December 31, 2017. Please refer to note 6 of the consolidated financial statements for the year ended December 31, 2017.

(a) Cash and cash equivalents

	September 30, 2018	December 31, 2017	September 30, 2017
Petty cash	\$ 272	491	529
Checking and savings deposits	151,502	149,595	132,250
Cash and cash equivalents per statements of cash flows	<u>\$ 151,774</u>	<u>150,086</u>	<u>132,779</u>

(b) Notes and accounts receivable

	September 30, 2018	December 31, 2017	September 30, 2017
Notes receivable	\$ -	-	715
Accounts receivable	136,293	81,194	63,682
Less: loss allowance	916	893	908
	<u>\$ 135,377</u>	<u>80,301</u>	<u>63,489</u>

The Group applies the simplified approach to provide for its expected credit losses, i.e. the use of lifetime expected loss provision for all receivables on September 30, 2018. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due, as well as incorporated forward looking information. The loss allowance provision as of September 30, 2018 was determined as follows:

	Gross carrying amount	Weighted- average loss rate	Loss allowance provision
Current	\$ 117,042	0.01%	8
1 to 30 days past due	18,459	3.97%	734
31 to 60 days past due	348	7.40%	26
61 to 90 days past due	393	27.95%	110
91 to 180 days past due	51	73.32%	38
	<u>\$ 136,293</u>		<u>916</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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As of December 31 and September 30, 2017, the Group applies the incurred loss model to consider the loss allowance provision of notes and trade receivable, and the aging analysis of notes and trade receivable, which were past due but not impaired, was as follows:

	December 31, 2017	September 30, 2017
Past due 1 to 30 days	\$ 11,142	8,364
Past due 31 to 180 days	5,371	6,027
Past due over 181 days	1,710	3,237
	<u>\$ 18,223</u>	<u>17,628</u>

The movement in the allowance for notes and accounts receivable was as follows:

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017		
		Individually assessed impairment	Collectively assessed impairment	Total
Balance on January 1, 2018 and 2017 per IAS 39	\$ 893	967	-	967
Adjustment on initial application of IFRS 9	-			
Balance on January 1, 2018 per IFRS 9	893			
Effect of changes in exchange rates	23	(59)	-	(59)
Balance on September 30, 2018 and 2017	<u>\$ 916</u>	<u>908</u>	<u>-</u>	<u>908</u>

The Group did not hold any collateral for the collectible amounts.

(c) Other receivables

	September 30, 2018	December 31, 2017	September 30, 2017
Other receivables—others	<u>\$ 15</u>	<u>25</u>	<u>24</u>

As of September 30, 2018, December 31 and September 30, 2017, the Group had no other receivables that were past due. Therefore, no provisions for doubtful debt were required after the management's assessment. For other credit risk information, please refers to note 6(s).

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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(d) Inventories

The components of the Group's inventories were as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Merchandise	\$ 5,576	1,219	3,008
Finished goods	50,948	38,868	39,694
Work in progress	56,609	34,546	18,779
Raw materials and supplies	129,112	118,774	154,081
Goods in transit	<u>8,082</u>	<u>14,167</u>	<u>10,868</u>
Total	<u>\$ 250,327</u>	<u>207,574</u>	<u>226,430</u>

As of September 30, 2018, December 31 and September 30, 2017, the Group's inventories were not provided as pledged assets.

Except for operating costs arising from the ordinary sale of inventories, other gains and losses directly recorded under operating costs were as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Loss on (reversal of) decline in market value of inventory	\$ 456	311	(899)	4,961
Loss from scrapped inventory	<u>47</u>	<u>2,071</u>	<u>3,637</u>	<u>2,132</u>
Total	<u>\$ 503</u>	<u>2,382</u>	<u>2,738</u>	<u>7,093</u>

(e) Non-current financial assets at fair value through other comprehensive income

	September 30, 2018
Equity investments at fair value through other comprehensive income:	
Unlisted stocks (domestic)	\$ 20,719
Unlisted stocks (overseas)	<u>8,490</u>
Total	<u>\$ 29,209</u>

(i) Equity investments at fair value through other comprehensive income

On January 1, 2018, the Group designated the investments shown above as equity securities as at fair value through other comprehensive income because these equity securities represent those investments that the Group intends to hold for long-term for strategic purposes. These investments were classified as financial assets at cost on December 31 and September 30, 2017.

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On May 22, 2018, a resolution was approved during the shareholders' meeting of EUROCC Venture Capital Corp. to reduce its capital by cash. The refund to the Group amounting to \$7,040 thousand, which has been received in July 2018.

No strategic investments were disposed as of September 30, 2018, and there were no transfers of any cumulative gain or loss within equity relating to these investments.

(ii) For credit risk and market risk, please refer to note 6(s).

(iii) The Group did not hold any collateral for the collectible amounts.

(f) Financial assets at cost—non-current

	Percentage of ownership	Investment cost	Amount
December 31, 2017			
Investments:			
EUROC Venture Capital Corp.	10.000	\$ 28,160	28,160
Printec Japan	9.000	2,715	2,715
Ambicion Co., Ltd.	0.944	5,015	5,015
Adolite Inc.	0.535	8,969	8,969
Total		<u>\$ 44,859</u>	<u>44,859</u>
September 30, 2017			
Investments:			
EUROC Venture Capital Corp.	10.000	\$ 28,160	28,160
Printec Japan	9.000	2,715	2,715
Ambicion Co., Ltd.	0.944	5,015	5,015
Adolite Inc.	1.212	8,969	8,969
Total		<u>\$ 44,859</u>	<u>44,859</u>

In June, 2017, the Group had invested in Adolite Inc. with the amount of USD298 thousand (TWD8,969 thousand). The acquisition price had been fully paid in June 2017.

(g) Non-current assets held for sale

Twinhead International (Kunshan) Corp., a wholly owned affiliate, reached an agreement of selling its facilities to a non-related party in April 2018, wherein the disposal procedure is expected to be completed within the next 12 months. Therefore, the facilities were reclassified as a disposal group held for sale. The expected fair value less costs to sell is substantially lower than the carrying amount of the disposal group; as such, the impairment loss of \$61,593 thousand (CNY13,414 thousand) was recognized under other operating gains and losses. At September 30, 2018, the disposal group comprised the following assets:

	September 30, 2018
Property, plant and equipment	<u>\$ 5,739</u>

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(h) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	<u>Land</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Other equipment</u>	<u>Total</u>
Cost or deemed cost:					
Balance at January 1, 2018	\$ 118,425	517,791	554,787	137,981	1,328,984
Additions	-	2,245	96	2,790	5,131
Disposal	-	-	(63)	(25)	(88)
Reclassification to investment property	-	(91,824)	-	-	(91,824)
Reclassification to non-current assets held for sale	-	-	(367,190)	(33,009)	(400,199)
Other reclassification	-	-	-	230	230
Effect of changes in exchange rates	-	1,638	7,256	553	9,447
Balance at September 30, 2018	<u>\$ 118,425</u>	<u>429,850</u>	<u>194,886</u>	<u>108,520</u>	<u>851,681</u>
Balance at January 1, 2017	\$ 118,425	522,765	564,019	188,704	1,393,913
Additions	-	92	180	3,890	4,162
Disposal	-	(3,242)	(995)	(34,634)	(38,871)
Reclassification	-	-	-	(180)	(180)
Effect of changes in exchange rates	-	(1,729)	(7,980)	(1,993)	(11,702)
Balance at September 30, 2017	<u>\$ 118,425</u>	<u>517,886</u>	<u>555,224</u>	<u>155,787</u>	<u>1,347,322</u>
Depreciation and impairment loss:					
Balance at January 1, 2018	\$ 10,593	280,457	482,458	126,719	900,227
Depreciation	-	4,272	4,241	2,755	11,268
Disposal	-	-	(63)	(25)	(88)
Reclassification to investment property	-	(30,905)	-	-	(30,905)
Reclassification to non-current assets held for sale	-	-	(302,292)	(29,674)	(331,966)
Effect of changes in exchange rates	-	563	6,070	482	7,115
Balance at September 30, 2018	<u>\$ 10,593</u>	<u>254,387</u>	<u>190,414</u>	<u>100,257</u>	<u>555,651</u>
Balance at January 1, 2017	\$ 10,593	277,715	476,041	177,560	941,909
Depreciation	-	4,921	10,883	2,898	18,702
Disposal	-	(3,242)	(987)	(34,632)	(38,861)
Effect of changes in exchange rates	-	(549)	(6,238)	(1,817)	(8,604)
Balance at September 30, 2017	<u>\$ 10,593</u>	<u>278,845</u>	<u>479,699</u>	<u>144,009</u>	<u>913,146</u>
Carrying value:					
January 1, 2018	<u>\$ 107,832</u>	<u>237,334</u>	<u>72,329</u>	<u>11,262</u>	<u>428,757</u>
September 30, 2018	<u>\$ 107,832</u>	<u>175,463</u>	<u>4,472</u>	<u>8,263</u>	<u>296,030</u>
January 1, 2017	<u>\$ 107,832</u>	<u>245,050</u>	<u>87,978</u>	<u>11,144</u>	<u>452,004</u>
September 30, 2017	<u>\$ 107,832</u>	<u>239,041</u>	<u>75,525</u>	<u>11,778</u>	<u>434,176</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Impairment loss and subsequent reversal

As of September 30, 2018, December 31 and September 30, 2017, the accumulated property impairment amounted to \$10,593 thousand. The above accumulated asset impairment was recognized based on the carrying value of the factory building and machinery at Da Fa Industrial exceeding its estimated recoverable amount. After assessment, no additional impairment loss should be recognized for the nine months ended September 30, 2018 and 2017.

(ii) Collateral

As of September 30, 2018 and 2017, the Group's property, plant and equipment were provided as pledged assets; please refer to note 8.

(i) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2018	\$ 95,830	87,010	182,840
Reclassification	-	91,824	91,824
Effect of changes in exchange rates	-	(3,985)	(3,985)
Balance at September 30, 2018	<u>\$ 95,830</u>	<u>174,849</u>	<u>270,679</u>
Balance at September 30, 2017 (Balance at January 1, 2017)	<u>\$ 95,830</u>	<u>87,010</u>	<u>182,840</u>
Depreciation and impairment loss:			
Balance at January 1, 2018	\$ -	34,462	34,462
Depreciation	-	1,742	1,742
Reclassification	-	30,905	30,905
Effect of changes in exchange rates	-	(1,364)	(1,364)
Balance at September 30, 2018	<u>\$ -</u>	<u>65,745</u>	<u>65,745</u>
Balance at January 1, 2017	\$ -	33,059	33,059
Depreciation	-	1,053	1,053
Balance at September 30, 2017	<u>\$ -</u>	<u>34,112</u>	<u>34,112</u>
Carrying value:			
Balance at January 1, 2018	<u>\$ 95,830</u>	<u>52,548</u>	<u>148,378</u>
Balance at September 30, 2018	<u>\$ 95,830</u>	<u>109,104</u>	<u>204,934</u>
Balance at January 1, 2017	<u>\$ 95,830</u>	<u>53,951</u>	<u>149,781</u>
Balance at September 30, 2017	<u>\$ 95,830</u>	<u>52,898</u>	<u>148,728</u>
Fair value:			
Balance at January 1, 2018			<u>\$ 410,432</u>
Balance at September 30, 2018			<u>\$ 509,630</u>
Balance at January 1, 2017			<u>\$ 382,033</u>
Balance at September 30, 2017			<u>\$ 382,033</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The investment properties of the Group are located at Xindian Dist., New Taipei City, Taiwan and Kunshan City, Jiangsu Province, China, wherein their valuations were based on the market price and cost approach, respectively. For the nine months ended September 30, 2018 and 2017, the yields under the market approach applied to the net annual rental to determine the fair value of the property were 1.55% and 1.47%, respectively.

As of September 30, 2018, December 31 and September 30, 2017, the Group's investment properties were provided as pledged assets; please refer to note 8. For the related information, please refer to note 6(f) of the consolidated financial statements for the year ended December 31, 2017.

(j) Short-term loans

The details of the Group's short-term borrowings were as follows:

September 30, 2018				
Currency	Range of interest rates (%)	Year of maturity	Amount	
Unsecured loans	TWD	1.82~2.00	2018~2019	\$ 270,000
Secured bank loans	TWD	1.66~1.80	2018~2019	<u>320,000</u>
Total				<u><u>\$ 590,000</u></u>
December 31, 2017				
Currency	Range of interest rates (%)	Year of maturity	Amount	
Unsecured loans	TWD	1.82~1.90	2018	\$ 200,000
Secured bank loans	TWD	1.66~1.80	2018	<u>320,000</u>
Total				<u><u>\$ 520,000</u></u>
September 30, 2017				
Currency	Range of interest rates (%)	Year of maturity	Amount	
Unsecured loans	TWD	1.82~1.90	2017~2018	\$ 155,000
Secured bank loans	TWD	1.66~1.80	2017~2018	<u>320,000</u>
Total				<u><u>\$ 475,000</u></u>

As of September 30, 2018, December 31 and September 30, 2017, the unused credit facilities amounted to \$467,520 thousand, \$534,440 thousand and \$581,440 thousand, respectively.

The Group has pledged certain assets against the loans; please refers to note 8 for additional information.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(k) Employee benefits

The Group recognized pension costs of the defined contribution plans in profit or loss as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Operating costs	\$ 345	503	1,147	1,459
Operating expenses	<u>1,633</u>	<u>1,380</u>	<u>4,653</u>	<u>4,139</u>
Total	<u>\$ 1,978</u>	<u>1,883</u>	<u>5,800</u>	<u>5,598</u>

For other relative information, please refers to note 6(j) to the consolidated financial statements for the year ended December 31, 2017.

(l) Income tax

Income tax expense was best estimated by multiplying pretax income for the interim reporting period by the effective tax rate which was forecasted by the management.

According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing year 2018. The Group spreads the effect of the change amounting to \$5,801 thousand in the tax rate by adjusting the estimated annual effective income tax rate.

The Group's income tax expenses (benefit) are as follows:

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Current income tax expense (benefit)				
Current period	\$ 15	(34)	180	47
Adjustment for prior periods	<u>3</u>	<u>-</u>	<u>(247)</u>	<u>-</u>
Income tax expense (benefit) on continuing operations	<u>\$ 18</u>	<u>(34)</u>	<u>(67)</u>	<u>47</u>

The ROC income tax authorities have examined the Company's income tax returns for all years through 2015.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(m) Capital and other equity

Except for those mentioned below, there were no significant changes in capital for the nine months ended September 30, 2018 and 2017. For other related information, please refers to note 6(l) to the consolidated financial statements for the year ended December 31, 2017.

(i) Capital stock

According to the Company's articles of incorporation, the rights and obligations of the 20% cumulative convertible preferred stockholders are as follows:

- 1) Annual earnings, after making up accumulated deficits and appropriating legal reserve, are distributed, at 20% of par value, as dividends and bonus to the cumulative convertible preferred stockholders.
- 2) Dividends and bonus are paid annually after being approved and declared in the annual common stockholders' meeting. Dividends are calculated based on the prior year's days outstanding; however, upon conversion of their preferred stock into common stock, the cumulative convertible preferred stockholders waive their rights to the current year's profit distribution.
- 3) Dividends and bonus in arrears must be made up in a later year before profits are distributed to common stockholders. Upon conversion of preferred stock into common stock, dividends and bonus in arrears should be paid in full, and a cumulative convertible preferred stockholder is precluded from sharing in the prior years' profit distribution with the common stockholders. Except for the differences in dividend distribution, a 20% cumulative convertible preferred stockholder shares the same rights or obligations as the common stockholders.
- 4) One year after issuance, the cumulative convertible preferred stockholders may, at their option, in June of every year, exchange their convertible preferred shares for common shares at a 1:1 ratio.
- 5) A cumulative convertible preferred stockholder has a higher claim than the common stockholders to the remaining assets in the event of the Company's liquidation, and is limited to the issuance amount of the cumulative convertible preferred stock. Unless otherwise stipulated in the articles of incorporation, a cumulative preferred stockholder has no other rights or obligations.

(ii) Retained earnings – Distribution of retained earnings

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 10% is to be appropriated as legal reserve, and then any remaining profit together with any undistributed retained earnings shall be distributed according to the distribution plan proposed by the Board of Directors and submitted to the stockholders' meeting for approval.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The remainder can be distributed as dividends in consideration of the overall industry circumstances, the Company's financial structure, and the investors' best interests, but at least 50% of the remainder should be distributed. Such distribution, considering the capital surplus, retained earnings, future profitability, and maintenance of the dividend distribution level, shall be no more than 40% in cash and the rest in stock dividends.

As of December 31, 2017 and 2016, the Company had incurred accumulated deficits. Therefore, no dividends were distributed. Related information would be available at the Market Observation Post System Website.

The Company's accumulated undistributed preferred stock dividend of \$374 thousand, \$361 thousand and \$357 thousand as of September 30, 2018, December 31 and September 30, 2017, respectively, will be recognized and distributed if approved in the shareholders' meeting.

In March 2018, the subsidiary of the Group, Durabook Americas Inc. (Durabook), issued 462 thousand common shares for cash amounting to USD 462 thousand. The Group did not subscribe any additional shares, resulting in a decrease in its ownership percentage. Therefore, the Group debited its retained earnings and credited its non-controlling interests amounting to \$1,382 thousand and \$16,518 thousand, respectively.

(iii) Treasury stock

For the nine months ended September 30, 2018 and 2017, none of the shares of the Company held by its subsidiaries were sold.

As of September 30, 2018, December 31 and June 30, 2017, the subsidiaries of the Company both held 3,008 thousand shares of common stock of the Company. The shares held by the subsidiaries, recorded under treasury stock, were due to the conversion of the Company's convertible bonds which were purchased by the subsidiaries of the Company in prior years. As of September 30, 2018, December 31 and September 30, 2017, the market value of the Company's shares held by the subsidiaries amounted to \$11,067 thousand, \$7,218 thousand and \$7,970 thousand, respectively.

Shares owned by the Company's subsidiaries were treated as treasury stock. The details are as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Twintek International Corporation	\$ 103,259	103,259	103,259
Yu Feng Technology Co., Ltd.	98,800	98,800	98,800
	<u>\$ 202,059</u>	<u>202,059</u>	<u>202,059</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iv) Other equities (net of tax)

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total
Balance at January 1, 2018	\$ 27,128	-	27,128
Effects of retrospective application	-	(5,923)	(5,923)
Balance at January 1, 2018 after adjustments	27,128	(5,923)	21,205
Foreign exchange differences arising from foreign operation	4,316	-	4,316
Unrealized gains from financial assets measured at fair value through other comprehensive income	-	(2,687)	(2,687)
Balance at September 30, 2018	<u>\$ 31,444</u>	<u>(8,610)</u>	<u>22,834</u>
Balance at January 1, 2017	\$ 25,872	-	25,872
Foreign exchange differences arising from foreign operation	1,886	-	1,886
Balance at September 30, 2017	<u>\$ 27,758</u>	<u>-</u>	<u>27,758</u>

(n) Earnings per share

The calculation of the Company's basic earnings per share and diluted earnings per share were as follows:

(i) Basic earnings per share

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Net loss of the Company	\$ (5,856)	(23,481)	(66,972)	(107,556)
Dividends on non-redeemable preferred shares	(5)	(5)	(13)	(13)
Net loss attributable to common shareholders of the Company	<u>\$ (5,861)</u>	<u>(23,486)</u>	<u>(66,985)</u>	<u>(107,569)</u>
Weighted-average number of common shares	<u>195,923</u>	<u>150,448</u>	<u>195,923</u>	<u>141,216</u>
Basic earnings per share (in NT dollars)	<u>\$ (0.03)</u>	<u>(0.16)</u>	<u>(0.34)</u>	<u>(0.76)</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Diluted earnings per share

Due to the anti-dilutive effect, the Company's preferred shares was not included in the weighted-average number of shares outstanding for the calculation of diluted earnings per share.

(o) Revenue from contracts with customers — disaggregation of revenue

	For the three months ended September 30, 2018	For the nine months ended September 30, 2018
Primary geographical markets:		
Taiwan	\$ 44,523	133,633
United States	86,775	274,158
France	13,489	40,973
Germany	45,404	94,444
Others	51,121	156,286
	<u>\$ 241,312</u>	<u>699,494</u>
Major products/services lines		
Laptop	\$ 176,923	479,963
Mainboard	45,546	138,778
Sales of Materials and others	18,843	80,753
Total	<u>\$ 241,312</u>	<u>699,494</u>

(p) Revenue

	For the three months ended September 30, 2017	For the nine months ended September 30, 2017
Sale of goods	<u>\$ 173,887</u>	<u>449,648</u>

(q) Employee compensation and directors' and supervisors' remuneration

In accordance with the Articles of incorporation the Company should contribute no less than 10% of the profit as employee compensation and less than 2% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the Board of Directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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As of September 30, 2018, December 31 and September 30, 2017, the Company had incurred accumulated deficits. Therefore, no remuneration to employees, as well as directors and supervisors were accrued by the Company. Related information would be available at the Market Observation Post System Website.

(r) Non-operating income and expenses

(i) Other income

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Interest income	\$ 90	44	370	155
Dividend income	-	-	1,971	-
Rental income	10,283	3,879	17,885	11,638
Others	<u>1,502</u>	<u>814</u>	<u>5,072</u>	<u>3,387</u>
	<u>\$ 11,875</u>	<u>4,737</u>	<u>25,298</u>	<u>15,180</u>

(ii) Other gains and losses

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Foreign exchange gains (losses), net	\$ (10,207)	3,341	(1,931)	(20,134)
Loss on disposal of property, plant and equipment	-	(2)	-	(10)
Non-current assets held for sale of impairment loss	640	-	(61,593)	-
Depreciation of investment property	(699)	(351)	(1,742)	(1,053)
Others	<u>6</u>	<u>-</u>	<u>(638)</u>	<u>(22)</u>
	<u>\$ (10,260)</u>	<u>2,988</u>	<u>(65,904)</u>	<u>(21,219)</u>

(iii) Finance costs

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Interest expenses	<u>\$ 2,700</u>	<u>2,661</u>	<u>7,870</u>	<u>7,519</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Financial instruments

Except as noted below, there were no significant changes in the Group's exposure to credit risk, currency risk, and market risk due to financial instruments. Please refer to note 6(p) of the consolidated financial statements for the year ended December 31, 2017.

(i) Market risk—Currency risk

The Group's financial assets and financial liabilities exposed to significant currency risk were as follows:

	<u>Foreign currency</u>	<u>Exchange rate</u>	<u>TWD</u>
September 30, 2018			
Financial assets:			
Monetary assets:			
USD	\$ 17,194	30.53	524,933
Financial liabilities:			
Monetary liabilities:			
USD	\$ 2,401	30.53	73,303
December 31, 2017			
Financial assets:			
Monetary assets:			
USD	\$ 15,661	29.76	466,071
Financial liabilities:			
Monetary liabilities:			
USD	\$ 1,954	29.76	58,151
September 30, 2017			
Financial assets:			
Monetary assets:			
USD	\$ 16,973	30.26	513,603
Financial liabilities:			
Monetary liabilities:			
USD	\$ 1,644	30.26	49,747

The Group's exposure to foreign currency risk arose from cash and cash equivalents, accounts receivable, other receivables, accounts payable and other payables that were denominated in foreign currencies. 1% appreciation (depreciation) of the TWD against the USD as of September 30, 2018 and 2017, would have increased (decreased) the net loss before tax by \$4,516 thousand and \$4,639 thousand, respectively. The analysis was performed on the same basis for both periods.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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Due to the numerous type of functional currency of the Group, the Group aggregately discloses its exchange gains and losses on monetary items. The Group's exchange losses, including realized and unrealized, were \$1,931 thousand and \$20,134 thousand for the nine months ended September 30, 2018 and 2017, respectively.

(ii) Fair value—Categories and fair value of financial instruments

1) Categories and fair value of financial instruments

Except for the followings, the carrying amounts of the Group's financial assets and liabilities are valued approximately to their fair value, and are not based on observable market data and value measurements which are not reliable. No additional fair value disclosure is required in accordance to the regulations.

	September 30, 2018				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Unlisted stocks (domestic)	\$ 20,719	-	-	20,719	20,719
Unlisted stocks (overseas)	8,490	-	-	8,490	8,490
Subtotal	<u>29,209</u>	<u>-</u>	<u>-</u>	<u>29,209</u>	<u>29,209</u>
Financial assets measured at amortized cost					
Cash and cash equivalents	151,774	-	-	-	-
Accounts receivable	135,377	-	-	-	-
Other receivables	15	-	-	-	-
Refundable deposits	7,015	-	-	-	-
Subtotal	<u>294,181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 323,390</u>	<u>-</u>	<u>-</u>	<u>29,209</u>	<u>29,209</u>
Financial liabilities measured at amortized cost					
Short-term borrowings	\$ 590,000	-	-	-	-
Notes and accounts payable	155,880	-	-	-	-
Other payables	14,120	-	-	-	-
Guarantee deposits received	6,795	-	-	-	-
Preferred shares	84	-	-	-	-
Total	<u>\$ 766,879</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

		December 31, 2017				
		Carrying amount	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets at cost	\$	44,859	-	-	-	-
Loans and receivables						
Cash and cash equivalents	150,086	-	-	-	-	
Accounts receivable	80,301	-	-	-	-	
Other receivables	25	-	-	-	-	
Refundable deposits	6,949	-	-	-	-	
Subtotal	237,361	-	-	-	-	
Total	\$ 282,220	-	-	-	-	
Financial liabilities measured at amortized cost						
Short-term borrowings	\$ 520,000	-	-	-	-	
Notes and accounts payable	104,114	-	-	-	-	
Other payables	16,915	-	-	-	-	
Guarantee deposits received	3,268	-	-	-	-	
Preferred shares	84	-	-	-	-	
Total	\$ 644,381	-	-	-	-	
		September 30, 2017				
		Carrying amount	Fair value			Total
			Level 1	Level 2	Level 3	
Financial assets at cost	\$	44,859	-	-	-	-
Loans and receivables						
Cash and cash equivalents	132,779	-	-	-	-	
Notes and accounts receivable	63,489	-	-	-	-	
Other receivables	24	-	-	-	-	
Refundable deposits	6,970	-	-	-	-	
Subtotal	203,262	-	-	-	-	
Total	\$ 248,121	-	-	-	-	
Financial liabilities measured at amortized cost						
Short-term borrowings	\$ 475,000	-	-	-	-	
Notes and accounts payable	86,599	-	-	-	-	
Other payables	15,987	-	-	-	-	
Guarantee deposits received	3,268	-	-	-	-	
Preferred shares	84	-	-	-	-	
Total	\$ 580,938	-	-	-	-	

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 2) Valuation techniques for financial instruments measured at fair value— Non-derivative financial instruments

If there are quoted prices in active markets for financial instruments, the fair value of those prices may be based on the quoted market prices. The market prices announced by Securities Exchange and Over the Counter are the benchmarks used for the fair value of equity instruments and liability instruments traded in active markets.

If the quoted prices from stock exchanges, brokers, underwriters, industry associations, pricing agencies or authorities are timely and frequently, and that the price fairly presents the market transaction, the financial instrument is regarded to have a quoted price in an active market. If the aforementioned conditions are not fulfilled, the market is regarded as inactive. Generally, large or significantly widen bid-ask spread, or significantly low trading volume are indications of an inactive market.

If the financial instrument held by the Group is an equity investment without an active market, its fair value will have to be derived using the market approach. The fair value can be estimated based on the valuation of the comparable company and the quoted price provided by third parties, as well as the equity value of the comparable company and its operating performances. Whereas the liquidity discount is a significant unobservable input in valuing equity investment, its potential changes will not cause material impact on financial figures, and therefore, its quantitative information need not be disclosed.

- 3) Reconciliation of Level 3 fair values

	Fair value through other comprehensive income
	Unquoted equity instruments
Balance at January 1, 2018	\$ 38,936
Total gains recognized:	
In other comprehensive income (loss)	(2,687)
Return of capital for the period	(7,040)
Balance at September 30, 2018	\$ 29,209

The aforementioned total losses were included in unrealized gains and losses from financial assets fair value through other comprehensive income.

- (t) Financial risk management

The objectives and policies of the Group's financial risk management are the same as these in note 6(q) of the consolidated financial statements for the year ended December 31, 2017.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(u) **Capital management**

The objectives, policies, and procedures of the Group's capital management are the same as those in the consolidated financial statements for the year ended December 31, 2017. There were no material changes in the Group's quantitative information from that disclosed in the consolidated financial statements for the year ended December 31, 2017. For further information, please refer to note 6(r) to the consolidated financial statements for the year ended December 31, 2017.

(7) **Related-party transactions**

The compensation of the key management personnel comprised the following:

	For the three months ended September 30		For the nine months ended September 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 4,035	3,838	12,026	11,599
Post-employment benefits	54	54	162	162
	<u>\$ 4,089</u>	<u>3,892</u>	<u>12,188</u>	<u>11,761</u>

(8) **Pledged assets**

The carrying values of pledged assets were as follows:

Pledged assets	Object	September 30, 2018	December 31, 2017	September 30, 2017
Land	Short-term borrowings	\$ 107,832	107,832	107,832
Buildings	Short-term borrowings	174,476	177,817	178,931
Investment property	Short-term borrowings	147,324	148,378	148,728
		<u>\$ 429,632</u>	<u>434,027</u>	<u>435,491</u>

(9) **Commitments and contingencies: None.**

(10) **Losses due to major disasters: None.**

(11) **Subsequent events: None.**

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
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(12) Other

- (a) The employee benefit expenses, depreciation, and amortization, categorized by function, were as follows:

By nature	By function Three months ended September 30, 2018			Three months ended September 30, 2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	7,070	35,562	42,632	8,158	33,444	41,602
Labor and health insurance	842	2,524	3,366	733	2,478	3,211
Pension	345	1,633	1,978	503	1,380	1,883
Remuneration of directors	-	558	558	-	603	603
Others	498	894	1,392	647	945	1,592
Depreciation (note)	1,155	1,375	2,530	3,815	1,919	5,734
Amortization	-	2,518	2,518	-	2,267	2,267

By nature	By function Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
Employee benefits						
Salary	22,047	103,141	125,188	23,432	98,504	121,936
Labor and health insurance	2,605	8,028	10,633	2,374	8,216	10,590
Pension	1,147	4,653	5,800	1,459	4,139	5,598
Remuneration of directors	-	1,674	1,674	-	1,508	1,508
Others	1,418	3,057	4,475	1,658	2,634	4,292
Depreciation (note)	5,196	6,072	11,268	12,911	5,791	18,702
Amortization	-	7,654	7,654	-	8,736	8,736

Note: Depreciation expenses for investment property recognized under other income and expenses amounted to \$699 thousand, \$351 thousand, \$1,742 thousand and \$1,053 thousand for the three months and nine month ended September 30, 2018 and 2017, respectively.

- (b) Seasonality or cyclicity of interim operations

The business of the Group is neither seasonal nor cyclical.

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(13) Other disclosures

(a) Information on significant transactions:

The following is the information on significant transactions required by the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" for the Group for the nine month ended September 30, 2018:

- (i) Loans extended to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of September 30, 2018 (excluding investment in subsidiaries, associates and joint ventures):

(in Thousands of New Taiwan Dollars / in thousands of sharers)

Name of holder	Nature and name of security	Relationship with the security issuer	Account name	Ending balance				Remarks
				Number of shares	Book value	Holding percentage	Market value	
The Company	EUROC Venture Capital Corp.	-	Non-current financial assets at fair value through other comprehensive income	2,112	20,719	10.000 %	20,719	
The Company	II, Inc.	-	Non-current financial assets at fair value through profit or loss	400	-	2.125 %	-	Note 1
The Company	Trigem Computer Inc.	-	Non-current financial assets at fair value through profit or loss	-	-	0.006 %	-	Note 1
The Company	Printec Japan Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	-	-	9.000 %	-	
The Company	Ambicion Co., Ltd.	-	Non-current financial assets at fair value through other comprehensive income	1	6,658	0.749 %	6,658	
The Company	Adolite Inc.	-	Non-current financial assets at fair value through other comprehensive income	400	1,832	0.535 %	1,832	
Twintek International Corporation	Twinhead International Corp.	Parent company	Non-current financial assets at fair value through other comprehensive income	1,536	5,651	0.772 %	5,651	Note 2
Yu Feng Technology Co., Ltd.	Twinhead International Corp.	Parent company	Non-current financial assets at fair value through other comprehensive income	1,472	5,416	0.740 %	5,416	Note 2

Note 1: The securities were written down due to impairment loss.

Note 2: Deemed to be treasury shares.

- (iv) Accumulated holding amount of a single security in excess of NT\$300 million or 20% of the Company's issued share capital: None.
- (v) Acquisition of real estate in excess of NT\$300 million or 20% of the Company's issued share capital: None.
- (vi) Disposal of real estate in excess of NT\$300 million or 20% of the Company's issued share capital: None.
- (vii) Sales to and purchases from related parties in excess of \$100 million or 20% of the Company's issued share capital: None.
- (viii) Receivables from related parties in excess of NT\$100 million or 20% of the Company's issued share capital: None.
- (ix) Information regarding trading in derivative financial instruments: None.
- (x) Business relationships and significant intercompany transactions:

(in Thousands of New Taiwan Dollars)

No. (Note 1)	Name of company	Name of counter-party	Existing relationship with the counter-party (Note 2)	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	Durabook Americas Inc.	1	Sales revenue	135,627	The transaction is not significantly different from normal transactions	19.39%

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

No. (Note 1)	Name of company	Name of counter-party	Existing relationship with the counter-party (Note 2)	Transaction details			
				Account name	Amount	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	Kunshan Lun Teng	1	Sales revenue	24,516	The transaction is not significantly different from normal transactions	3.50 %
0	The Company	Twinhead Kunshan	1	Purchase	11,659	The purchase price is based on the related parties' cost	1.67 %
0	The Company	Durabook Americas Inc.	1	Accounts receivable – related parties	73,235	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	6.20 %
0	The Company	Kunshan Lun Teng	1	Accounts receivable – related parties	3,686	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	0.31 %
0	The Company	Twinhead Kunshan	1	Long-term accounts receivable – related parties	82,294 (note 4)	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	6.97 %

Note 1: Company numbering is as follows:

- (1) Parent company is 0.
- (2) Subsidiary starts from 1.

Note 2: The number of the relationship with the transaction counterparty represents the following:

- (1) 1 represents downstream transactions.
- (2) 2 represents upstream transactions.
- (3) 3 represents sidestream transactions.

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

Note 4: As of September 30, 2018, the Company had accounts payable to Twinhead Kunshan, which were derived from purchasing goods amounting to \$496,049 thousand. The Company also had purchased supplies on behalf of Twinhead Kunshan, which resulted in the receivable from Twinhead Kunshan amounting to \$117,594 thousand. As such, the net accounts receivable amounted to \$378,455 thousand. The accounts receivable and the long-term accounts receivable then offset the investments accounted for using equity method of Twinhead Kunshan amounting to \$296,161 thousand.

(b) Information on investees:

The following is the information on investees for the nine months ended September 30, 2018 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Scope of business	Original cost		Ending balance			Net income (loss) of investee	Investment income (losses)	Remarks
				September 30, 2018	December 31, 2017	Shares	Percentage of ownership	Book value			
The Company	Durabook Americas Inc.	U.S.A.	The research, development and trading of computers and computer peripheral equipment	53,079	53,079	297	30.890 % (note 4)	2,055	(17,610)	(5,670)	52% jointly owned by the Company and its subsidiaries. (note 5)
The Company	Twinhead (Asia)	Singapore	Investment holding	539,919	539,919	5,872	100.000 %	- (note 3)	(69,510)	(69,510)	Subsidiary (note 5)
The Company	Twintek	Taiwan	The trading of computers and computer peripheral equipment	328,533	328,533	32,853	99.974 %	2,891	(2,362)	(2,362)	Subsidiary (note 5)
The Company	Yu Feng	Taiwan	The trading of computers and computer peripheral equipment	397,900	397,900	39,790	99.975 %	2,944	(1,732)	(1,732)	Subsidiary (note 5)
Twintek	Durabook Americas Inc.	U.S.A.	The research, development and trading of computers and computer peripheral equipment	42,463	42,463	118	12.270 % (note 4)	2,326	(17,610)	(2,252)	52% jointly owned by the Company and its subsidiaries. (note 5)
Yu Feng	Durabook Americas Inc.	U.S.A.	The research, development and trading of computers and computer peripheral equipment	25,803	25,803	85	8.840 % (note 4)	1,676	(17,610)	(1,623)	52% jointly owned by the Company and its subsidiaries. (note 5)
Twinhead (Asia)	Twinhead Enterprises (BVI) Ltd.	British Virgin Islands	Investment holding	1,388	1,388	50	100.000 %	1,462	(13)	(13)	Indirect subsidiary (note 5)

Note 1: The exchange rate as of September 30, 2018: USD1=TWD30.53

Note 2: The Company was established as a limited company.

Note 3: Please refer to note 13(a)(x)

Note 4: In March 2018, Durabook Americas Inc. (Durabook) issued 462 thousand common shares for cash amounting to USD462 thousand. The Group did not subscribe any additional shares, resulting in a decrease in its ownership percentage.

Note 5: The transactions within the Group were eliminated in the consolidated financial statements

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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(c) Information on investment in Mainland China:

(i) The names of investees in Mainland China, the main businesses and products, and other information:

(in Thousands of New Taiwan Dollars / in thousands of USD)

Name of investee in Mainland China	Scope of business	Issued capital	Method of investment (Note 1)	Cumulative investment (amount) from Taiwan as of January 1, 2018	Investment flow during current period		Cumulative investment (amount) from Taiwan as of September 30, 2018	Net income (losses) of investee	Direct / indirect investment holding percentage	Investment income (losses) (Note 2)	Book value as of September 30, 2018	Accumulated remittance of earnings in current period
					Remittance amount	Repatriation amount						
Twinhead Kunshan	Sales and production of PDAs, calculators and their parts, and computer keyboards	381,625 (USD12,500)	(2)	381,625 (USD12,500)	-	-	381,625 (USD12,500)	(70,853)	100.00 %	(70,853)	(308,475)	-
Twinhead Huazhong Technology Limited Corp.	Installation and sales of laptop parts and accessories; sales and production of related software	122,120 (USD4,000)	(2)	61,060 (USD2,000)	-	-	61,060 (USD2,000)	-	- %	-	-	-
Kunshan Lun Teng	Import and export of computers, electronic components, and digital cameras, and technical consultant services	6,411 (USD210)	(2)	6,411 (USD210)	-	-	6,411 (USD210)	1,504	100.00 %	1,504	12,294	-

Note 1: The method of investment is divided into the following four categories:

- (1) Remittance from third-region companies to invest in Mainland China (Through Twinhead (Asia) Ptd Ltd invest in Mainland china).
- (2) Through transferring the investment to third-region existing companies then investing in Mainland China.
- (3) Through the establishment of third-region companies then investing in Mainland China.
- (4) Other methods: EX: delegated investments

Note 2: The amounts of investment income (loss), excluding those of Twinhead Kunshan, were recognized under the equity method based on the financial statements which were not reviewed by the auditors of the Company

Note 3: The exchange rate as of September 30, 2018: USD1=TWD30.53

Note 4: The transactions within the Group were eliminated in the consolidated financial statements

(ii) Limitation on investment in Mainland China:

Company name	Accumulated investment amount in Mainland China as of September 30, 2018 (Note 1)	Investment (amount) approved by Investment Commission, Ministry of Economic Affairs	Maximum investment amount set by Investment Commission, Ministry of Economic Affairs
The Company	488,785 (USD16,010)	488,785 (USD16,010)	- (Note 3)

Note 1: Including the amount of USD1,300 thousand wired to Twinhead Beijing Technology Co., Ltd.

Note 2: The exchange rate as of September 30, 2018: USD1=TWD30.53.

Note 3: In accordance with the "Regulations on Permission for Investment or Technical Cooperation in Mainland China" and the Principles for Examination of Applications for Investment or Technical Cooperation in Mainland China amended and ratified by the Executive Yuan on August 22, 2008, the Company met the criteria for operational headquarters under the Statute for Industrial Innovation and obtained approval from the Industrial Development Bureau Ministry of Economic Affairs, on June 21, 2017. As it has an operational headquarters status, the Company is not subject to the limitation as to the amount of investment in Mainland China during the period from June 13, 2017 to June 12, 2020.

(iii) Significant transactions with investees in Mainland China:

Related information is provided in note 13(a)(x).

(14) Segment information

The Group is mainly engaged in the design, manufacture and sale of computers, as well as related products. The management regularly reviews the Group's overall performance to evaluate the efficiency of each segment and allocate its resources accordingly. The Group is identified as a sole operating segment.