

**TWINHEAD INTERNATIONAL CORP.  
AND SUBSIDIARIES**

**Consolidated Financial Statements**

**With Independent Auditors' Review Report  
For the Nine Months Ended September 30, 2019 and 2018**

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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.

## Table of contents

Contents	Page
1. Cover Page	1
2. Table of Contents	2
3. Independent Auditors' Review Report	3
4. Consolidated Balance Sheets	4
5. Consolidated Statements of Comprehensive Income	5
6. Consolidated Statements of Changes in Equity	6
7. Consolidated Statements of Cash Flows	7
8. Notes to the Consolidated Financial Statements	
(1) Company history	8
(2) Approval date and procedures of the consolidated financial statements	8
(3) New standards, amendments and interpretations adopted	8~11
(4) Summary of significant accounting policies	11~15
(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty	15
(6) Explanation of significant accounts	15~36
(7) Related-party transactions	36
(8) Pledged assets	36
(9) Commitments and contingencies	36
(10) Losses due to major disasters	36
(11) Subsequent events	36
(12) Other	37
(13) Other disclosures	
(a) Information on significant transactions	38~39
(b) Information on investees	39~40
(c) Information on investment in Mainland China	40
(14) Segment information	40



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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. and its subsidiaries as of September 30, 2019 and 2018, and the related consolidated statements of comprehensive income for the three months and nine months ended September 30, 2019 and 2018, as well as the changes in equity and cash flows for the nine months ended September 30, 2019 and 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34, "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

### Scope of Review

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

### Basis for Qualified Conclusion

As stated in Note 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 \$93,680 thousand and \$22,122 thousand, constituting 7.79% and 1.87% of the consolidated total assets; and the total liabilities amounting to \$10,444 thousand and \$4,167 thousand, constituting 1.11% and 0.50% of the consolidated total liabilities as of September 30, 2019 and 2018, respectively; as well as the total comprehensive income (loss) amounting to \$(318) thousand, \$312 thousand, \$1,411 thousand and \$189 thousand, constituting 2.11%, (5.62)%, (2.14)% and (0.26)% of the consolidated total comprehensive income (loss) for the three months and nine months ended September 30, 2019 and 2018, 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 Twinhead International Corp. and its subsidiaries as of September 30, 2019 and 2018, and of its consolidated financial performance for the three months and nine months ended September 30, 2019 and 2018, as well as its consolidated cash flows for the nine months ended September 30, 2019 and 2018 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 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 auditors’ report are Po-Shu Huang and Yuan-Sheng Yin.

KPMG

Taipei, Taiwan (Republic of China)

November 12, 2019

### **Notes to Readers**

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to 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 Originally Issued in Chinese)  
**Reviewed only, not audited in accordance with the generally accepted auditing standards as of September 30, 2019 and 2018**

**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

**September 30, 2019, December 31 and September 30, 2018**  
 (Expressed in Thousands of New Taiwan Dollars)

	September 30, 2019		December 31, 2018		September 30, 2018	
	Amount	%	Amount	%	Amount	%
<b>Assets</b>						
<b>Current assets:</b>						
1100 Cash and cash equivalents (note 6(a))	\$ 147,949	13	154,279	14	151,774	13
1170 Accounts receivable, net (note 6(b))	96,022	8	111,758	10	135,377	12
1200 Other receivables	15	-	-	-	15	-
130x Inventories (note 6(c))	240,377	20	227,337	20	250,327	21
1460 Non-current assets held for sale, net (note 6(c))	-	-	-	-	5,739	-
1470 Prepayments and other current assets	16,705	1	14,350	1	19,131	2
<b>Total current assets</b>	<u>501,068</u>	<u>42</u>	<u>507,724</u>	<u>45</u>	<u>562,363</u>	<u>48</u>
<b>Non-current assets:</b>						
1517 Non-current financial assets at fair value through other comprehensive income (note 6(d))	24,601	2	27,185	2	29,209	2
1600 Property, plant and equipment (notes 6(f) and 8)	297,229	25	298,540	26	296,030	25
1755 Right-of-use assets (note 6(g))	88,132	7	-	-	-	-
1760 Investment property, net (notes 6(h), 6(k) and 8)	201,559	17	204,737	18	204,934	17
1840 Deferred tax assets	44,279	3	44,162	4	44,092	4
1920 Refundable deposits	7,620	1	7,024	1	7,015	1
1995 Other non-current assets	37,438	3	40,010	4	37,208	3
<b>Total non-current assets</b>	<u>700,858</u>	<u>58</u>	<u>621,658</u>	<u>55</u>	<u>618,488</u>	<u>52</u>
<b>Total assets</b>	<u>\$ 1,201,926</u>	<u>100</u>	<u>1,129,382</u>	<u>100</u>	<u>1,180,851</u>	<u>100</u>
<b>Liabilities and Equity</b>						
<b>Current liabilities:</b>						
Short-term borrowings (notes 6(f) and 8)	\$ 610,000	51	590,000	52	590,000	51
Notes payable	379	-	592	-	209	-
Accounts payable	128,144	11	107,829	10	155,671	13
Other payables	50,278	4	48,098	4	40,759	3
Provisions—current	5,878	-	7,425	1	7,576	1
Current lease liabilities (note 6(j))	17,561	1	-	-	-	-
Other current liabilities	52,070	5	30,814	3	31,032	3
<b>Total current liabilities</b>	<u>864,310</u>	<u>72</u>	<u>784,758</u>	<u>70</u>	<u>825,247</u>	<u>71</u>
<b>Non-Current liabilities:</b>						
Provisions—non-current	3,843	-	3,843	-	4,003	-
Non-current lease liabilities (note 6(j))	60,549	5	-	-	-	-
Guarantee deposits received	6,823	1	6,826	1	6,795	1
Other non-current liabilities	1,679	-	3,375	-	-	-
<b>Total non-current liabilities</b>	<u>72,894</u>	<u>6</u>	<u>14,044</u>	<u>1</u>	<u>10,798</u>	<u>1</u>
<b>Total liabilities</b>	<u>937,204</u>	<u>78</u>	<u>798,802</u>	<u>71</u>	<u>836,045</u>	<u>72</u>
<b>Equity attributable to owners of parent (note 6(n)):</b>						
Share capital:						
Common shares	1,989,314	166	1,989,314	176	1,989,314	167
Preferred shares	84	-	84	-	84	-
Accumulated deficits	1,989,398	166	1,989,398	176	1,989,398	167
Other equities:	(1,530,794)	(127)	(1,476,960)	(131)	(1,474,588)	(125)
Exchange differences on translation of foreign financial statements	33,104	3	29,143	3	31,444	3
Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	(8,599)	(1)	(10,634)	(1)	(8,610)	(1)
Treasury shares	24,505	2	18,509	2	22,834	2
Total equity attributable to owners of parent	(202,059)	(17)	(202,059)	(18)	(202,059)	(17)
Non-controlling interests	281,050	24	328,888	29	335,585	27
Total equity	(16,328)	(2)	1,692	-	9,221	1
Total liabilities and equity	<u>264,722</u>	<u>22</u>	<u>330,580</u>	<u>29</u>	<u>344,806</u>	<u>28</u>
<b>Total assets</b>	<u>\$ 1,201,926</u>	<u>100</u>	<u>1,129,382</u>	<u>100</u>	<u>1,180,851</u>	<u>100</u>

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
Reviewed only, not audited in accordance with generally accepted auditing standards

TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

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

(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				
	2019		2018		2019		2018		
	Amount	%	Amount	%	Amount	%	Amount	%	
4000	Operating revenue (note 6(p))	\$ 216,959	100	241,312	100	568,610	100	699,494	100
5000	Operating costs (notes 6(c), 6(f), 6(g), 6(j) and 6(l))	157,796	73	178,864	74	416,850	73	521,257	75
5900	Gross profit	59,163	27	62,448	26	151,760	27	178,237	25
6000	Operating expenses (notes 6(f), 6(g), 6(j), 6(l) and 7):								
6100	Selling expenses	19,029	9	18,829	8	54,353	10	55,165	8
6200	Administrative expenses	32,462	15	30,089	13	96,022	17	93,758	13
6300	Research and development expenses	27,274	12	21,873	9	80,545	14	55,942	8
	Total operating expenses	78,765	36	70,791	30	230,920	41	204,865	29
6900	Net operating loss	(19,602)	(9)	(8,343)	(4)	(79,160)	(14)	(26,628)	(4)
7000	Non-operating income and expenses (notes 6(e), 6(h), 6(j) and 6(r)):								
7010	Other income	7,535	4	11,875	5	23,170	4	25,298	4
7020	Other gains and losses	(9,418)	(4)	(10,260)	(4)	(6,221)	(1)	(65,904)	(10)
7050	Finance costs	(3,274)	(2)	(2,700)	(1)	(9,708)	(2)	(7,870)	(1)
	Total non-operating income and expenses	(5,157)	(2)	(1,085)	-	7,241	1	(48,476)	(7)
	Loss from continuing operations before tax	(24,759)	(11)	(9,428)	(4)	(71,919)	(13)	(75,104)	(11)
7950	Less: Income tax expense (benefit) (note 6(m))	-	-	18	-	(36)	-	(67)	-
	Loss	(24,759)	(11)	(9,446)	(4)	(71,883)	(13)	(75,037)	(11)
8300	Other comprehensive income:								
8310	Components of other comprehensive income that will not be reclassified to profit or loss (note 6(n))								
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	3,789	2	(2,904)	(1)	2,035	-	(2,687)	-
8349	Less: 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	3,789	2	(2,904)	(1)	2,035	-	(2,687)	-
8360	Components of other comprehensive income (loss) that will be reclassified to profit or loss (note 6(n))								
8361	Exchange differences on translation of foreign financial statements	5,905	2	6,797	3	3,990	1	4,963	1
8399	Less: Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	5,905	2	6,797	3	3,990	1	4,963	1
8300	Other comprehensive income (loss), net	9,694	4	3,893	2	6,025	1	2,276	1
	Total comprehensive income (loss)	\$ (15,065)	(7)	(5,553)	(2)	(65,858)	(12)	(72,761)	(10)
	Net loss attributable to:								
8610	Loss attributable to owners of parent	\$ (19,084)	(8)	(5,856)	(3)	(53,834)	(10)	(66,972)	(10)
8620	Loss attributable to non-controlling interests	(5,675)	(3)	(3,590)	(1)	(18,049)	(3)	(8,065)	(1)
		\$ (24,759)	(11)	(9,446)	(4)	(71,883)	(13)	(75,037)	(11)
	Comprehensive income (loss) attributable to:								
8710	Comprehensive income (loss), attributable to owners of parent	\$ (9,429)	(4)	(1,982)	(1)	(47,838)	(9)	(65,343)	(9)
8720	Comprehensive income (loss), attributable to non-controlling interests	(5,636)	(3)	(3,571)	(1)	(18,020)	(3)	(7,418)	(1)
		\$ (15,065)	(7)	(5,553)	(2)	(65,858)	(12)	(72,761)	(10)
9750	Basic earnings per share (in New Taiwan dollars) (note 6(o))	\$ (0.10)		(0.03)		(0.27)		(0.34)	
9850	Diluted earnings per share (in New Taiwan dollars) (note 6(o))	\$ (0.10)		(0.03)		(0.27)		(0.34)	

See accompanying notes to consolidated financial statements.

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Reviewed only, not audited in accordance with generally accepted auditing standards  
**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**

**Consolidated Statements of Changes in Equity**  
**For the nine months ended September 30, 2019 and 2018**  
**(Expressed in Thousands of New Taiwan Dollars)**

	Equity attributable to owners of parent										Total equity attributable to owners of parent
	Common shares	Share capital Preference share	Total share capital	Accumulated deficits	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income	Total other equity interest	Treasury shares	Non-controlling interests	Total equity	
<b>Balance at January 1, 2018</b>	\$ 1,989,314	84	1,989,398	(1,406,234)	27,128	(5,923)	21,205	(202,059)	121	402,431	
Net loss	-	-	-	(66,972)	-	-	-	-	(8,065)	(75,037)	
Other comprehensive income (loss)	-	-	-	-	4,316	(2,687)	1,629	-	647	2,276	
Total comprehensive income (loss)	-	-	-	(66,972)	4,316	(2,687)	1,629	-	(7,418)	(72,761)	
Changes in ownership interests in subsidiaries	-	-	-	(1,382)	-	-	-	-	16,518	15,136	
<b>Balance at September 30, 2018</b>	\$ 1,989,314	84	1,989,398	(1,474,588)	31,444	(8,610)	22,834	(202,059)	9,221	344,806	
<b>Balance at January 1, 2019</b>	\$ 1,989,314	84	1,989,398	(1,476,960)	29,143	(10,634)	18,509	(202,059)	1,692	330,580	
Net loss	-	-	-	(53,834)	-	-	-	-	(18,049)	(71,883)	
Other comprehensive income (loss)	-	-	-	-	3,961	2,035	5,996	-	29	6,025	
Total comprehensive income (loss)	-	-	-	(53,834)	3,961	2,035	5,996	-	(18,020)	(65,858)	
<b>Balance at September 30, 2019</b>	\$ 1,989,314	84	1,989,398	(1,530,794)	33,104	(8,599)	24,505	(202,059)	(16,328)	264,722	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)  
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TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2019 and 2018

(Expressed in Thousands of New Taiwan Dollars)

	For the nine months ended September 30	
	2019	2018
<b>Cash flows from (used in) operating activities:</b>		
Net loss before tax	\$ (71,919)	(75,104)
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation	24,073	13,010
Amortization	9,065	7,654
Interest expense	9,708	7,870
Interest income	(382)	(370)
Dividend income	-	(1,971)
Impairment loss on non-financial assets	-	61,593
Amortization of long-term prepaid rent	-	201
Total adjustments to reconcile profit (loss)	42,464	87,987
<b>Changes in operating assets and liabilities:</b>		
Net changes in operating assets:		
Accounts receivable	15,727	(55,099)
Other receivables	-	25
Inventories	(13,040)	(42,753)
Prepayments and other current assets	(2,694)	(1,798)
Total changes in operating assets, net	(7)	(99,625)
Net changes in operating liabilities:		
Notes payable	(213)	39
Accounts payable	20,315	51,727
Other payables	2,158	(22,146)
Provisions	(1,547)	2,822
Other current liabilities	21,343	(15,264)
Other non-current liabilities	(1,696)	1,495
Total changes in operating liabilities, net	40,360	18,673
Total changes in operating assets and liabilities, net	40,353	(80,952)
Total adjustments	82,817	7,035
Cash inflow (outflow) generated from operating activities	10,898	(68,069)
Interest received	367	355
Interest paid	(8,044)	(7,761)
Income taxes paid	(59)	(255)
<b>Net cash flows from (used in) operating activities</b>	3,162	(75,730)
<b>Cash flows from (used in) investing activities:</b>		
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	4,619	7,040
Acquisition of property, plant and equipment	(7,041)	(5,131)
Increase in refundable deposits	(585)	(37)
Increase in other non-current assets	(17,316)	(21,232)
Dividends received	-	1,971
<b>Net cash used in investing activities</b>	(20,323)	(17,389)
<b>Cash flows from (used in) financing activities:</b>		
Increase in short-term loans	100,000	70,000
Decrease in short-term loans	(80,000)	-
(Decrease) increase in guarantee deposits received	(3)	3,527
Payment of lease liabilities	(12,686)	-
Interest paid	(1,642)	-
Change in non-controlling interests	-	13,447
<b>Net cash flows from financing activities</b>	5,669	86,974
<b>Effect of exchange rate changes on cash and cash equivalents</b>	5,162	7,833
<b>Net increase (decrease) in cash and cash equivalents</b>	(6,330)	1,688
<b>Cash and cash equivalents at beginning of period</b>	154,279	150,086
<b>Cash and cash equivalents at end of period</b>	\$ 147,949	151,774

See accompanying notes to consolidated financial statements.



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**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**September 30, 2019 and 2018**

**(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 12, 2019.

**(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, 2019. 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>
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

Except IFRS 16 “Leases”, 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:

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.

(Continued)

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

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings on January 1, 2019. The details of the changes in accounting policies are disclosed below,

(i) Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4(c).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

(ii) As a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17:

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application – the Group applied this approach to its largest property leases; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all other lease.

In addition, the Group used the following practical expedients when applying IFRS 16 to leases.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.

(Continued)

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

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(iii) As a lessor

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with IFRS 16 from the date of initial application.

(iv) Impacts on financial statements

On transition to IFRS 16, the Group recognized additional \$99,205 thousands of right-of-use assets and \$88,061 thousands of lease liabilities. When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 2.59%.

The explanation of differences between operating lease commitments disclosed at the end of the annual reporting period immediately preceding the date of initial application, and lease liabilities recognized in the statement of financial position at the date of initial application disclosed as follows:

	<b>January 1, 2019</b>
Operating lease commitment at December 31, 2018 as disclosed in the Group's consolidated financial statements	\$ 76,087
Recognition exemption for:	
leases of low-value assets	(72)
Extension and termination options reasonably certain to be exercised	19,776
	<b>\$ 95,791</b>
Discounted using the incremental borrowing rate at January 1, 2019	\$ 88,061
Finance lease liabilities recognized as at December 31, 2018	-
Lease liabilities recognized at January 1, 2019	<b>\$ 88,061</b>

(Continued)

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

- (b) The impact of IFRS endorsed by FSC that will soon take effect

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, 2020 in accordance with Ruling No. 1080323028 issued by the FSC on July 29, 2019:

<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 IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

The Group assesses that the adoption of the abovementioned standards would not have any material impact on its consolidated financial statements.

- (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 International Accounting Standards Board (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 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
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IFRS 9, IAS39 and IFRS7 “Interest Rate Benchmark Reform”	January 1, 2020

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, 2018. For the related information, please refer to note 4 of the consolidated financial statements for the year ended December 31, 2018.

- (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.

(Continued)

**TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES**  
**Notes to the 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, 2018. For the related information, please refer to note 4(c) of the consolidated financial statements for the year ended December 31, 2018.

List of subsidiaries included in the consolidated financial statements:

Name of investor	Name of investee	Scope of business	Percentage of ownership			Remarks
			September 30, 2019	December 31, 2018	September 30, 2018	
The Company	Durabook Americas Inc. (Durabook)	The trading of computers and computer peripheral equipment	52.000 %	52.000 %	52.000 %	
The Company	Twinhead (Asia) Pte Ltd. (Twinhead (Asia))	Investment holding	100.000 %	100.000 %	100.000 %	Note 1
The Company	Twintek International Corporation (Twintek)	The trading of computers and computer peripheral equipment	99.974 %	99.974 %	99.974 %	Note 1
The Company	Yu Feng Technology Co., Ltd. (Yu Feng)	The trading of computers and computer peripheral equipment	99.975 %	99.975 %	99.975 %	Note 1
Twinhead (Asia) Pte Ltd.	Twinhead Enterprises (BVI) Ltd.	Investment holding	100.000 %	100.000 %	100.000 %	Note 1
Twinhead (Asia) Pte Ltd.	Twinhead Kunshan Technology Co., Ltd. (Twinhead Kunshan)	Sales and production of PDAs, calculators and their parts, and computer keyboards	100.000 %	100.000 %	100.000 %	Note 1
Twinhead (Asia) Pte Ltd.	Kunshan Lun Teng System Co., Ltd. (Kunshan Lun Teng)	Import and export of computers, electronic components, and digital cameras, and technical consultant services	100.000 %	100.000 %	100.000 %	Note 1

Note 1: Because they are non-significant subsidiaries, their financial statements were not reviewed by independent auditors.

(c) Leases (applicable from January 1, 2019)

(i) Identifying a lease

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

- 1) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; and
- 2) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

(Continued)

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

- 3) the Group has the right to direct the use of the asset when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of an asset if either:
- the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(ii) As a lessee

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

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be reliably determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments for purchase or termination options that are reasonably certain to be exercised.

(Continued)

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

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

- there is a change in future lease payments arising from the change in an index or rate; or
- there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee; or
- there is a change of its assessment on whether it will exercise a purchase, extension or termination option; or
- there is any lease modifications

When the lease liability is remeasured, other than lease modifications, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

When the lease liability is remeasured to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease, and recognize in profit or loss any gain or loss relating to the partial or full termination of the lease.

The Group presents right-of-use assets that do not meet the definition of investment and lease liabilities as a separate line item respectively in the statement of financial position.

The Group has elected not to recognize the right-of-use assets and lease liabilities for the leases of its low-value assets, including its office and dormitory. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(iii) As a lessor

When the Group acts as a lessor, it determines at lease commencement whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers to the lessee substantially all of the risks and rewards of ownership incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then the lease is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies IFRS15 to allocate the consideration in the contract.

(Continued)

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

(d) 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, 2018. For the related information, please refer to note 5 of the consolidated financial statements for the year ended December 31, 2018.

**(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, 2018. Please refer to note 6 of the consolidated financial statements for the year ended December 31, 2018.

(a) Cash and cash equivalents

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Petty cash	\$ 307	327	272
Checking and savings deposits	<u>147,642</u>	<u>153,952</u>	<u>151,502</u>
Cash and cash equivalents per statements of cash flows	<u>\$ 147,949</u>	<u>154,279</u>	<u>151,774</u>

(b) Accounts receivable

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Accounts receivable	\$ 96,953	112,680	136,293
Less: loss allowance	<u>931</u>	<u>922</u>	<u>916</u>
	<u>\$ 96,022</u>	<u>111,758</u>	<u>135,377</u>

(Continued)



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

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, 2019, December 31 and 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 was determined as follows:

<b>September 30, 2019</b>			
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 65,936	-	-
1 to 30 days past due	30,209	1.20%	362
31 to 60 days past due	204	4.72%	9
61 to 90 days past due	58	24.05%	14
181 to 365 days past due	546	100.00%	546
	<b>\$ 96,953</b>		<b>931</b>
<b>December 31, 2018</b>			
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 66,814	-	-
1 to 30 days past due	27,196	-	-
31 to 60 days past due	17,326	-	-
61 to 90 days past due	248	-	-
91 to 180 days past due	1,096	84.02%	922
	<b>\$ 112,680</b>		<b>922</b>
<b>September 30, 2018</b>			
	<b>Gross carrying amount</b>	<b>Weighted- average loss rate</b>	<b>Loss allowance provision</b>
Current	\$ 117,042	0.01%	8
1 to 30 days past due	18,459	3.97%	734
31 to 60 days past due	348	7.4%	26
61 to 90 days past due	393	27.95%	110
91 to 180 days past due	51	73.32%	38
	<b>\$ 136,293</b>		<b>916</b>

(Continued)

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

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

	<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Balance on January 1, 2019 and 2018	\$ 922	893
Foreign exchange gain	9	23
Balance on September 30, 2019 and 2018	<b>\$ 931</b>	<b>916</b>

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

(c) Inventories

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Merchandise	\$ 2,522	3,455	5,576
Finished goods	49,053	73,405	50,948
Work in progress	42,384	8,114	56,609
Raw materials and supplies	135,133	137,028	129,112
Goods in transit	11,285	5,335	8,082
Total	<b>\$ 240,377</b>	<b>227,337</b>	<b>250,327</b>

As of September 30, 2019, December 31 and September 30, 2018, 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:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Loss on (reversal of) decline in market value of inventory	\$ (773)	456	1,973	(899)
Loss from scrapped inventory	-	47	-	3,637
Loss on physical count	1,993	-	1,993	-
Total	<b>\$ 1,220</b>	<b>503</b>	<b>3,966</b>	<b>2,738</b>

(Continued)

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

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2018</u>
Equity investments at fair value through other comprehensive income:			
Unlisted stocks (domestic)	\$ 22,393	19,642	20,719
Unlisted stocks (overseas)	<u>2,208</u>	<u>7,543</u>	<u>8,490</u>
Total	<u>\$ 24,601</u>	<u>27,185</u>	<u>29,209</u>

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

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.

On May 24, 2019 and May 22, 2018, resolutions were approved during the shareholders' meeting of EUROOC Venture Capital Corp. to reduce its capital by cash, resulting in the Group to receive the refunds of \$4,619 thousand and \$7,040 thousand in July 2019 and 2018, respectively.

No strategic investments were disposed for the nine months ended September 30, 2019 and 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.

(e) 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:

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

The transaction has been completed in December 2018.

(Continued)

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

(f) 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, 2019	\$ 118,425	429,851	181,970	111,093	841,339
Additions	-	130	2,783	4,128	7,041
Disposal	-	-	(2,621)	(2,236)	(4,857)
Reclassification	-	-	-	26	26
Effect of changes in exchange rates	-	-	(79)	(31)	(110)
Balance at September 30, 2019	<u>\$ 118,425</u>	<u>429,981</u>	<u>182,053</u>	<u>112,980</u>	<u>843,439</u>
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>
Depreciation and impairment loss:					
Balance at January 1, 2019	\$ 10,593	255,698	178,442	98,066	542,799
Depreciation	-	3,439	946	4,010	8,395
Disposal	-	-	(2,621)	(2,236)	(4,857)
Effect of changes in exchange rates	-	-	(71)	(56)	(127)
Balance at September 30, 2019	<u>\$ 10,593</u>	<u>259,137</u>	<u>176,696</u>	<u>99,784</u>	<u>546,210</u>
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>
Carrying value:					
January 1, 2019	<u>\$ 107,832</u>	<u>174,153</u>	<u>3,528</u>	<u>13,027</u>	<u>298,540</u>
September 30, 2019	<u>\$ 107,832</u>	<u>170,844</u>	<u>5,357</u>	<u>13,196</u>	<u>297,229</u>
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>

(Continued)

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

(i) Impairment loss and subsequent reversal

As of September 30, 2019, December 31 and September 30, 2018, 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, 2019 and 2018.

(ii) Collateral

As of September 30, 2019 and 2018, the Group's property, plant and equipment were provided as pledged assets; please refer to note 8.

(g) Right-of-use assets

The Group leases its assets including its land, buildings and transportation equipment. Information about leases, for which the Group is the lessee, is presented below:

	<u>Land</u>	<u>Building</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost:				
Balance at January 1, 2019	\$ -	-	-	-
Effects of retrospective application	11,144	88,061	-	99,205
Balance at January 1, 2019	11,144	88,061	-	99,205
Additions	-	-	2,641	2,641
Effect of changes in exchange rates	(218)	79	-	(139)
Balance at September 30, 2019	<u>\$ 10,926</u>	<u>88,140</u>	<u>2,641</u>	<u>101,707</u>
Accumulated depreciation:				
Balance at January 1, 2019	\$ -	-	-	-
Depreciation	201	13,238	159	13,598
Effect of changes in exchange rates	(6)	(17)	-	(23)
Balance at September 30, 2019	<u>\$ 195</u>	<u>13,221</u>	<u>159</u>	<u>13,575</u>
Carrying value:				
September 30, 2019	<u>\$ 10,731</u>	<u>74,919</u>	<u>2,482</u>	<u>88,132</u>

The Group leases offices under operating leases for the nine months ended September 30, 2018; please refer to note 6(k).

(Continued)

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

## (h) Investment property

	<u>Land and improvements</u>	<u>Buildings</u>	<u>Total</u>
Cost or deemed cost:			
Balance at January 1, 2019	\$ 95,830	175,601	271,431
Effect of changes in exchange rates	-	(1,729)	(1,729)
Balance at September 30, 2019	<u>\$ 95,830</u>	<u>173,872</u>	<u>269,702</u>
Balance as 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>
Depreciation and impairment loss:			
Balance at January 1, 2019	\$ -	66,694	66,694
Depreciation	-	2,080	2,080
Effect of changes in exchange rates	-	(631)	(631)
Balance at September 30, 2019	<u>\$ -</u>	<u>68,143</u>	<u>68,143</u>
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>
Carrying value:			
Balance at January 1, 2019	<u>\$ 95,830</u>	<u>108,907</u>	<u>204,737</u>
Balance at September 30, 2019	<u>\$ 95,830</u>	<u>105,729</u>	<u>201,559</u>
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>
Fair value:			
Balance at January 1, 2019			<u>\$ 509,630</u>
Balance at September 30, 2019			<u>\$ 509,630</u>
Balance at January 1, 2018			<u>\$ 410,432</u>
Balance at September 30, 2018			<u>\$ 509,630</u>

As of September 30, 2019, December 31 and September 30, 2018, the Group's investment properties were provided as pledged assets; please refer to note 8. For the related information, please refer to note 6(g) of the consolidated financial statements for the year ended December 31, 2018.

(Continued)

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

(i) Short-term loans

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

<b>September 30, 2019</b>				
	<b>Currency</b>	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>	<b>Amount</b>
Unsecured loans	TWD	1.82~2.00	2019~2020	\$ 290,000
Secured bank loans	TWD	1.66~1.80	2019~2020	320,000
Total				<b>\$ 610,000</b>

<b>December 31, 2018</b>				
	<b>Currency</b>	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>	<b>Amount</b>
Unsecured loans	TWD	1.82~2.00	2019	\$ 270,000
Secured bank loans	TWD	1.66~1.80	2019	320,000
Total				<b>\$ 590,000</b>

<b>September 30, 2018</b>				
	<b>Currency</b>	<b>Range of interest rates (%)</b>	<b>Year of maturity</b>	<b>Amount</b>
Unsecured loans	TWD	1.82~2.00	2018~2019	\$ 270,000
Secured bank loans	TWD	1.66~1.80	2018~2019	320,000
Total				<b>\$ 590,000</b>

As of September 30, 2019, December 31 and September 30, 2018, the unused credit facilities amounted to \$469,560 thousand, \$488,280 thousand and \$467,520 thousand, respectively.

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

(j) Lease liabilities

The Group's lease liabilities were as follow:

<b>September 30, 2019</b>	
Current	\$ 17,561
Non-current	\$ 60,549

For the maturity analysis, please refer to note 6(s) financial instruments.

(Continued)

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

The amounts recognized in profit or loss were as follows:

	<b>For the three months ended September 30, 2019</b>	<b>For the nine months ended September 30, 2019</b>
Interest on lease liabilities	<u>\$ 527</u>	<u>1,642</u>
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	<u>\$ 132</u>	<u>333</u>

The amounts recognized in the statement of cash flows for the Group was as follows:

	<b>For the nine months ended September 30, 2019</b>
Total cash outflow for leases	<u>\$ 14,661</u>

As of September 30, 2019, the Group leases land and buildings for its office space. The leases of its office space typically run for a period of 5 to 7 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

The Group leases its transportation equipment for 5 years.

(k) Operating leases

(i) Leases as lessee

There were no significant changes in operating lease for the nine months ended September 30, 2018. Please refer to note 6(j) of the consolidated financial statements for the year ended December 31, 2018 for other related information.

(ii) Leases as lessor

The Group leases out its investment property. The Group has classified these leases as operating leases, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Please refer to note 6(h) sets out information about the operating leases of investment property.

A maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date are as follows:

	<b>September 30, 2019</b>
Less than one year	<u>\$ 24,920</u>
One to two years	17,509
Two to three years	<u>1,170</u>
Total undiscounted lease payments	<u>\$ 43,599</u>

(Continued)



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

The future minimum lease payments under non-cancellable leases are as follows:

	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Less than one year	\$ 22,350	21,067
Between one and five years	31,414	33,981
	<b><u>\$ 53,764</u></b>	<b><u>55,048</u></b>

(l) Employee benefits

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

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Operating costs	\$ 390	345	1,095	1,147
Operating expenses	1,636	1,633	5,038	4,653
Total	<b><u>\$ 2,026</u></b>	<b><u>1,978</u></b>	<b><u>6,133</u></b>	<b><u>5,800</u></b>

For other relative information, please refer to note 6(k) to the consolidated financial statements for the year ended December 31, 2018.

(m) Income tax

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

The Group's income tax expense (benefits) are as follows:

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Current income tax expense (benefits)				
Current period	\$ -	15	-	180
Adjustment for prior periods	-	3	(36)	(247)
Income tax expense (benefits) on continuing operations	<b><u>\$ -</u></b>	<b><u>18</u></b>	<b><u>(36)</u></b>	<b><u>(67)</u></b>

The ROC income tax authorities have examined the Company's income tax returns for all years through 2017.

(Continued)

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

(n) Capital and other equity

Except for those mentioned below, there were no significant changes in capital for the nine months ended September 30, 2019 and 2018. For other related information, please refer to note 6(m) to the consolidated financial statements for the year ended December 31, 2018.

(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.

(Continued)

**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, 2018 and 2017, 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 \$391 thousand, \$378 thousand and \$374 thousand as of September 30, 2019, December 31 and September 30, 2018, respectively, will be recognized and distributed if approved in the shareholders' meeting.

(iii) Treasury stock

For the nine months ended September 30, 2019 and 2018, none of the shares of the Company held by its subsidiaries were sold.

As of September 30, 2019, December 31 and September 30, 2018, 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, 2019, December 31 and September 30, 2018, the market value of the Company's shares held by the subsidiaries amounted to \$9,203 thousand, \$13,022 thousand and \$11,067 thousand, respectively.

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>
Twintek International Corporation	\$ 103,259	103,259	103,259
Yu Feng Technology Co., Ltd.	98,800	98,800	98,800
	<b>\$ 202,059</b>	<b>202,059</b>	<b>202,059</b>

(Continued)

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

(iv) Other equities (net of tax)

	<b>Exchange differences on translation of foreign financial statements</b>	<b>Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income</b>	<b>Total</b>
Balance at January 1, 2019	\$ 29,143	(10,634)	18,509
Foreign exchange differences arising from foreign operation	3,961	-	3,961
Unrealized gains from financial assets measured at fair value through other comprehensive income	-	2,035	2,035
Balance at September 30, 2019	<u>\$ 33,104</u>	<u>(8,599)</u>	<u>24,505</u>
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 losses 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>

(Continued)

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

(o) 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

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net loss of the Company	\$ (19,084)	(5,856)	(53,834)	(66,972)
Dividends on non-redeemable preferred shares	(5)	(5)	(13)	(13)
Net loss attributable to common shareholders of the Company	<u>\$ (19,089)</u>	<u>(5,861)</u>	<u>(53,847)</u>	<u>(66,985)</u>
Weighted-average number of common shares	<u>195,923</u>	<u>195,923</u>	<u>195,923</u>	<u>195,923</u>
Basic earnings per share (in NT dollars)	<u>\$ (0.10)</u>	<u>(0.03)</u>	<u>(0.27)</u>	<u>(0.34)</u>

(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.

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

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Primary geographical markets:				
United States	\$ 95,101	86,775	205,853	274,158
Taiwan	33,387	44,523	93,977	133,633
Germany	34,660	45,404	105,532	94,444
France	7,335	13,489	27,716	40,973
Others	<u>46,476</u>	<u>51,121</u>	<u>135,532</u>	<u>156,286</u>
	<u>\$ 216,959</u>	<u>241,312</u>	<u>568,610</u>	<u>699,494</u>
Major products/services lines:				
Laptop	\$ 168,833	176,923	412,129	479,963
Mainboard	34,143	45,546	100,302	138,778
Sales of Materials and others	<u>13,983</u>	<u>18,843</u>	<u>56,179</u>	<u>80,753</u>
	<u>\$ 216,959</u>	<u>241,312</u>	<u>568,610</u>	<u>699,494</u>

(Continued)

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

(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.

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

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Interest income	\$ 82	90	382	370
Rental income	7,059	10,283	21,460	17,885
Dividend income	-	-	-	1,971
Others	394	1,502	1,328	5,072
Total other income	<u>\$ 7,535</u>	<u>11,875</u>	<u>23,170</u>	<u>25,298</u>

(ii) Other gains and losses

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Foreign exchange losses	\$ (8,731)	(10,207)	(4,141)	(1,931)
Reversal of impairment loss (Impairment loss) on non-current assets or disposal groups held for sale	-	640	-	(61,593)
Others	(687)	(693)	(2,080)	(2,380)
Other gains and losses, net	<u>\$ (9,418)</u>	<u>(10,260)</u>	<u>(6,221)</u>	<u>(65,904)</u>

(iii) Finance costs

	<b>For the three months ended September 30</b>		<b>For the nine months ended September 30</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Interest expense	\$ (3,274)	(2,700)	(9,708)	(7,870)

(Continued)

**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 due to financial instruments. Please refer to note 6(s) of the consolidated financial statements for the year ended December 31, 2018.

(i) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments but excluding the impact of netting agreements.

	<u>Carrying amount</u>	<u>Contractual cash flows</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-5 years</u>	<u>More than 5 years</u>
<b>September 30, 2019</b>						
Non-derivative financial liabilities						
Secured bank loan	\$ 320,000	321,109	321,109	-	-	-
Unsecured bank loan	290,000	291,918	291,918	-	-	-
Notes payable	379	379	379	-	-	-
Accounts payable	128,144	128,144	128,144	-	-	-
Other payables	21,137	21,137	21,137	-	-	-
Lease liabilities	78,110	82,621	19,386	19,386	43,849	-
Guarantee deposits received	6,823	6,823	-	4,626	2,197	-
Preferred shares (including preferred shares dividends)	84	475	475	-	-	-
	<u>\$ 844,677</u>	<u>852,606</u>	<u>782,548</u>	<u>24,012</u>	<u>46,046</u>	<u>-</u>
<b>December 31, 2018</b>						
Non-derivative financial liabilities						
Secured bank loan	\$ 320,000	321,675	321,675	-	-	-
Unsecured bank loan	270,000	271,424	271,424	-	-	-
Notes payable	592	592	592	-	-	-
Accounts payable	107,829	107,829	107,829	-	-	-
Other payables	19,452	19,452	19,452	-	-	-
Guarantee deposits received	6,826	6,826	822	-	6,004	-
Preferred shares (including preferred shares dividends)	84	462	462	-	-	-
	<u>\$ 724,783</u>	<u>728,260</u>	<u>722,256</u>	<u>-</u>	<u>6,004</u>	<u>-</u>
<b>September 30, 2018</b>						
Non-derivative financial liabilities						
Secured bank loan	\$ 320,000	321,088	321,088	-	-	-
Unsecured bank loan	270,000	270,965	270,965	-	-	-
Notes payable	209	209	209	-	-	-
Accounts payable	155,671	155,671	155,671	-	-	-
Other payables	14,120	14,120	14,120	-	-	-
Guarantee deposits received	6,795	6,795	1,242	-	5,553	-
Preferred shares (including preferred shares dividends)	84	458	458	-	-	-
	<u>\$ 766,879</u>	<u>769,306</u>	<u>763,753</u>	<u>-</u>	<u>5,553</u>	<u>-</u>

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

(Continued)

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

(ii) Currency risk

1) Exposure to foreign 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>
<b>September 30, 2019</b>			
Financial assets:			
Monetary assets:			
USD	\$ 17,243	31.04	535,223
Financial liabilities:			
Monetary liabilities:			
USD	\$ 2,075	31.04	64,408
<b>December 31, 2018</b>			
Financial assets:			
Monetary assets:			
USD	\$ 16,403	30.72	503,900
Financial liabilities:			
Monetary liabilities:			
USD	\$ 1,504	30.72	46,203
<b>September 30, 2018</b>			
Financial assets:			
Monetary assets:			
USD	\$ 17,194	30.53	524,933
Financial liabilities:			
Monetary liabilities:			
USD	\$ 2,401	30.53	73,303

2) Sensitivity analysis

The Group's exposure to foreign currency risk arose from cash and cash equivalents, accounts receivable, accounts payable and other payables that were denominated in foreign currencies. 1% appreciation (depreciation) of the TWD against the USD as of September 30, 2019 and 2018, would have increased (decreased) the net loss before tax by \$4,708 thousand and \$4,516 thousand, respectively. The analysis was performed on the same basis for both periods.

(Continued)



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

3) Foreign exchange gain and loss on monetary item

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 \$8,731 thousand, \$10,207 thousand, \$4,141 thousand and \$1,931 thousand for the three months and nine months ended September 30, 2019 and 2018, respectively.

(iii) Interest rate risk analysis

Please refer to the notes on liquidity risk management for the interest rate exposure of the Group's financial assets and liabilities.

The following sensitivity analysis is based on the risk exposure to interest rates of the derivative and non-derivative financial instruments on the reporting date. For floating-rate instruments, the sensitivity analysis assumes the liabilities with a floating rate as of the reporting date are outstanding for the whole year.

If the interest rate had increased/decreased by 1%, the Group's net loss before tax would have increased/decreased by \$4,575 thousand and \$4,425 thousand for the nine months ended September 30, 2019 and 2018, respectively, with all other variable factors remaining constant. This is mainly due to the Group's borrowing at floating rates.

(iv) Fair value

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. No additional fair value disclosure is required in accordance to the regulations.

	September 30, 2019				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Unlisted stocks (domestic)	\$ 22,393	-	-	22,393	22,393
Unlisted stocks (overseas)	2,208	-	-	2,208	2,208
Total	<u>\$ 24,601</u>	<u>-</u>	<u>-</u>	<u>24,601</u>	<u>24,601</u>
	December 31, 2018				
	Carrying amount	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets at fair value through other comprehensive income					
Unlisted stocks (domestic)	\$ 19,642	-	-	19,642	19,642
Unlisted stocks (overseas)	7,543	-	-	7,543	7,543
Total	<u>\$ 27,185</u>	<u>-</u>	<u>-</u>	<u>27,185</u>	<u>27,185</u>

(Continued)

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

	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
Total	<u>\$ 29,209</u>	<u>-</u>	<u>-</u>	<u>29,209</u>	<u>29,209</u>

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
	<u>Unquoted equity instruments</u>
Balance at January 1, 2019	\$ 27,185
Total gain recognized:	
In other comprehensive income	2,035
Return of capital for the period	<u>(4,619)</u>
Balance at September 30, 2019	<u>\$ 24,601</u>

(Continued)

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

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

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

- 4) Quantified information on significant unobservable inputs (Level 3) used in fair value measurement.

Quantified information of significant unobservable inputs was as follows:

<b>Item</b>	<b>Valuation technique</b>	<b>Significant unobservable inputs</b>	<b>Inter-relationship between significant unobservable inputs and fair value measurement</b>
Financial assets at fair value through other comprehensive income — equity investments without an active market	Comparative listed company	<ul style="list-style-type: none"> <li>· Multiplier of price-to-book ratio (As of September 30, 2019, December 31 and September 30, 2018 was 1.19~2.71, 0.59~5.98 and 0.49~4.72, respectively.)</li> <li>· Market illiquidity discount rate (As of September 30, 2019, December 31 and September 30, 2018 were 20%)</li> </ul>	<p>The estimated fair value would increase (decrease) if</p> <ul style="list-style-type: none"> <li>· the multiplier were higher (lower)</li> <li>· the market illiquidity discount were lower (higher)</li> </ul>

(Continued)

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

- 5) Fair value measurements in Level 3— sensitivity analysis of reasonably possible alternative assumptions.

For fair value measurements in Level 3, changing one or more of the assumptions would have the following effects on profit or loss and other comprehensive income:

	Input	Assumptions	Other comprehensive income	
			Favorable	Unfavorable
<b>September 30, 2019</b>				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Market liquidity discount at 20%	5%	\$ 1,538	(1,538)
<b>December 31, 2018</b>				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Market liquidity discount at 20%	5%	1,699	(1,699)
<b>September 30, 2018</b>				
Financial assets fair value through other comprehensive income				
Equity investments without an active market	Market liquidity discount at 20%	5%	1,826	(1,826)

The favorable and unfavorable effects represent the changes in fair value, and fair value is based on a variety of unobservable inputs calculated using a valuation technique.

- (t) Financial risk management

The objectives and policies of the Group's financial risk management are the same as these in note 6(t) of the consolidated financial statements for the year ended December 31, 2018.

- (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, 2018. 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, 2018. For further information, please refer to note 6(u) to the consolidated financial statements for the year ended December 31, 2018.

- (v) Investing and financing activities not affecting current cash flow

The Group did not have any non-cash flow transactions on its investing activities for the nine months ended September 30, 2019 and 2018.

(Continued)

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

For the nine months ended September 30, 2019 and 2018, the reconciliation of liabilities arising from financing activities were as follows:

	January 1, 2019	Cash flows	Non-cash changes		September 30, 2019
			Foreign exchange movement	Other	
Short-term borrowings	\$ 590,000	20,000	-	-	610,000
Lease liabilities	88,061	(12,686)	94	2,641	78,110
Total liabilities from financing activities	<u>\$ 678,061</u>	<u>7,314</u>	<u>94</u>	<u>2,641</u>	<u>688,110</u>

  

	January 1, 2018	Cash flows	Non-cash changes		September 30, 2018
			Foreign exchange movement	Other	
Short-term borrowings	\$ 520,000	70,000	-	-	590,000
Total liabilities from financing activities	<u>\$ 520,000</u>	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>590,000</u>

**(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	
	2019	2018	2019	2018
Short-term employee benefits	\$ 4,044	4,035	12,026	12,026
Post-employment benefits	54	54	162	162
	<u>\$ 4,098</u>	<u>4,089</u>	<u>12,188</u>	<u>12,188</u>

**(8) Pledged assets**

The carrying values of pledged assets were as follows:

Pledged assets	Object	September 30, 2019	December 31, 2018	September 30, 2018
Land	Short-term borrowings	\$ 107,832	107,832	107,832
Buildings	Short-term borrowings	170,021	173,361	174,476
Investment property	Short-term borrowings	145,921	146,974	147,324
		<u>\$ 423,774</u>	<u>428,167</u>	<u>429,632</u>

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

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

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

(Continued)

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

**(12) Other**

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

By function	Three months ended September 30, 2019			Three months ended September 30, 2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
<b>By nature</b>						
Employee benefits						
Salary	7,153	38,247	45,400	7,070	35,562	42,632
Labor and health insurance	830	2,586	3,416	842	2,524	3,366
Pension	390	1,636	2,026	345	1,633	1,978
Remuneration of directors	-	555	555	-	558	558
Others	485	962	1,447	498	894	1,392
Depreciation (note)	1,182	6,214	7,396	1,155	1,375	2,530
Amortization	-	3,202	3,202	-	2,518	2,518

By function	Nine months ended September 30, 2019			Nine months ended September 30, 2018		
	Operating costs	Operating expenses	Total	Operating costs	Operating expenses	Total
<b>By nature</b>						
Employee benefits						
Salary	22,579	121,482	144,061	22,047	103,141	125,188
Labor and health insurance	2,433	8,640	11,073	2,605	8,028	10,633
Pension	1,095	5,038	6,133	1,147	4,653	5,800
Remuneration of directors	-	1,671	1,671	-	1,674	1,674
Others	1,299	2,822	4,121	1,418	3,057	4,475
Depreciation (note)	3,529	18,464	21,993	5,196	6,072	11,268
Amortization	-	9,065	9,065	-	7,654	7,654

Note: Depreciation expenses for investment property recognized under other income and expenses amounted to \$687 thousand, \$699 thousand, \$2,080 thousand and \$1,742 thousand for the three months and nine months ended September 30, 2019 and 2018, respectively.

- (b) Seasonality or cyclicity of interim operations

The business of the Group is neither seasonal nor cyclical.

(Continued)

**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 months ended September 30, 2019:

- (i) Loans extended to other parties: None.
- (ii) Guarantees and endorsements for other parties: None.
- (iii) Securities held as of September 30, 2019 (excluding investment in subsidiaries, associates and joint ventures):

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

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	1,225	22,393	10.000 %	22,393	
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	2,208	0.749 %	2,208	
The Company	Adolite Inc.	-	Non-current financial assets at fair value through other comprehensive income	400	-	0.535 %	-	
Twintek International Corporation	Twinhead International Corp.	Parent company	Non-current financial assets at fair value through other comprehensive income	1,536	4,699	0.772 %	4,699	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	4,504	0.740 %	4,504	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:

(in Thousands of New Taiwan Dollars)

Name of company	Counter-party	Relationship	Transaction details				Status and reason for deviation from arm's-length transaction		Accounts / notes receivable (payable)		Remarks
			Purchase / (sale)	Amount	Percentage of total purchases (sales)	Credit period	Unit price	Credit period	Balance (Note 3)	Percentage of total accounts / notes receivable (payable)	
The Company	Durabook Americas Inc.	Subsidiary	(Sale)	(130,372)	24 %	Receivables from these companies are offset with the accounts payable or to be received within 60-180 days after sales.	- (Note 1)	Receivables from these companies are offset with the accounts payable or to be received within 60-180 days after sales.	68,856	32 %	Note 4
Durabook Americas Inc.	The Company	Parent company	Purchase	130,372	97 %	Payments to these companies are offset with the accounts receivable or to be paid within 30-60 days after purchase.	- (Note 2)	Payments to these companies are offset with the accounts receivable or to be paid within 30-60 days after purchase.	(68,856)	(98) %	Note 4

Note 1: Determined based on costs

Note 2: Determined based on related parties cost

Note 3: As of September 30, 2019, the Company's accounts receivable of \$86,358 thousand, which was offset against the investments of \$17,502 thousand

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

- (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.

(Continued)

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

## (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 (Note 5)	Trading terms	Percentage of the total consolidated revenue or total assets
0	The Company	Durabook	1	Sales revenue	130,372	The transaction is not significantly different from normal transactions	22.93 %
0	The Company	Kunshan Lun Teng	1	Sales revenue	15,347	The transaction is not significantly different from normal transactions	2.70 %
0	The Company	Durabook	1	Purchase	1,043	The purchase price is based on the related parties' cost	0.18 %
0	The Company	Durabook	1	Accounts receivable — related parties	68,856 (note 3)	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	5.73 %
0	The Company	Kunshan Lun Teng	1	Accounts receivable — related parties	1,901	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	0.16 %
0	The Company	Twinhead Kunshan	1	Long-term accounts receivable — related parties	79,674 (note 4)	The receivables can be offset with accounts payable from purchase or be O/A 60 to 180 days	6.63 %

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: Please refer to note 13(a)(vii).

Note 4: As of September 30, 2019, the Company's account receivable and account payable of \$491,744 thousand and \$119,558 thousand, respectively, were derived from the purchasing of supplies on behalf of, and the purchasing of goods from, Twinhead Kunshan, resulting in the net accounts receivable to be \$372,186 thousand, which was offset against the investment of \$292,512 thousand, accounted for using the equity method of Twinhead Kunshan.

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

## (b) Information on investees:

The following is the information on investees for the nine months ended September 30, 2019 (excluding information on investees in Mainland China):

Name of investor	Name of investee	Location	Scope of business	Original cost		Ending balance		Book value	Net income (loss) of investee	Investment income (losses)	Remarks
				September 30, 2019	December 31, 2018	Shares	Percentage of ownership				
The Company	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	53,079	53,079	297	30.890 %	- (note 3)	(37,602)	(11,615)	52% jointly owned by the Company and its subsidiaries (note 2)
The Company	Twinhead (Asia)	Singapore	Investment holding	539,919	539,919	5,872	100.000 %	- (note 4)	(2,311)	(2,311)	Subsidiary (note 2)
The Company	Twintek	Taiwan	The trading of computers and computer peripheral equipment	328,533	328,533	32,853	99.974 %	(3,787)	(4,724)	(4,724)	Subsidiary (note 2)
The Company	Yu Feng	Taiwan	The trading of computers and computer peripheral equipment	397,900	397,900	39,790	99.975 %	(1,908)	(3,434)	(3,434)	Subsidiary (note 2)
Twintek	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	42,463	42,463	118	12.270 %	(4,205)	(37,602)	(4,614)	52% jointly owned by the Company and its subsidiaries (note 2)
Yu Feng	Durabook	U.S.A.	The trading of computers and computer peripheral equipment	25,803	25,803	85	8.840 %	(3,030)	(37,602)	(3,324)	52% jointly owned by the Company and its subsidiaries (note 2)
Twinhead (Asia)	Twinhead Enterprises (BVI) Ltd.	British Virgin Islands	Investment holding	1,388	1,388	50	100.000 %	1,441	(30)	(30)	Indirect subsidiary (note 2)

(Continued)



## TWINHEAD INTERNATIONAL CORP. AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Note 1: The exchange rate as of September 30, 2019: USD1=TWD31.04  
 Note 2: The transactions within the Group were eliminated in the consolidated financial statements  
 Note 3: Please refer to note 13(a)(vii) note 3.  
 Note 4: Please refer to note 13(a)(x) note 4.

(c) Information on investment in Mainland China:

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

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, 2019	Investment flow during current period		Cumulative investment (amount) from Taiwan as of September 30, 2019	Net income (losses) of investee	(in Thousands of New Taiwan Dollars / in thousands of USD)			
					Remittance amount	Repatriation amount			Direct / indirect investment holding percentage	Investment income (losses) (Note 2)	Book value as of September 30, 2019	Accumulated remittance of earnings in current period
Twinhead Kunshan	Sales and production of PDAs, calculators and their parts, and computer keyboards	388,000 (USD12,500)	(2)	388,000 (USD12,500)	-	-	388,000 (USD12,500)	(1,445)	100.00 %	(1,445)	(305,319)	-
Twinhead Huazhong Technology Limited Corp.	Installation and sales of laptop parts and accessories; sales and production of related software	124,160 (USD4,000)	(2)	62,080 (USD2,000)	-	-	62,080 (USD2,000)	-	- %	-	-	-
Kunshan Lun Teng	Import and export of computers, electronic components, and digital cameras, and technical consultant services	6,518 (USD210)	(2)	6,518 (USD210)	-	-	6,518 (USD210)	(712)	100.00 %	(712)	12,225	-

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), 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, 2019: USD1=TWD31.04

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, 2019 (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	496,950 (USD16,010)	496,950 (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, 2019: USD1=TWD31.04.

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.