

**ARES INTERNATIONAL CORP. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
SEPTEMBER 30, 2018 AND 2017**

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Ares International Corp.

Introduction

We have reviewed the accompanying consolidated balance sheets of Ares International Corp. and subsidiaries (the “Group”) as of September 30, 2018 and 2017, and the related consolidated statements of comprehensive income for the three months and nine months then ended, as well as the consolidated statements of changes in equity and of cash flows for the nine months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope of Review

Except as explained in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of 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 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

The accompanying consolidated financial statements included certain non-significant consolidated subsidiaries and investments accounted for under equity method, which statements reflect total assets (including investments accounted for using equity method) amounting to NT\$104,934 thousand and NT\$115,959 thousand, constituting 9.85% and 10.71% of the consolidated total assets, and total liabilities amounting to NT\$10,785 thousand and NT\$13,560 thousand, constituting 2.98% and 3.39% of the consolidated total liabilities as of September 30, 2018 and 2017, and total comprehensive income (including share of profit (loss) of associates and joint ventures accounted for using equity method) amounting to NT\$7,955 thousand, NT\$562 thousand, NT\$9,537 thousand and (NT\$470) thousand,

constituting 45.14%, (693.83%), 27.04% and 19.21% of consolidated total comprehensive income for the three months and nine months then ended. These amounts and the related information disclosed in the accompanying consolidated financial statements were based on the unreviewed financial statements of these consolidated subsidiaries and investments accounted for under equity method.

Qualified Conclusion

Except for the adjustments to the consolidated financial statements, if any, as might have been determined to be necessary had the financial statements of certain consolidated subsidiaries and investments accounted for under equity method been reviewed by independent accountants, that we might have become aware of had it not been for the situation described above, based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2018 and 2017, and of its consolidated financial performance for the three months and nine months then ended and its consolidated cash flows for the nine months then ended, in accordance with “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

CPA Lin, Yi-Fan

CPA Yu, Shu-Fen

For and on behalf of PricewaterhouseCoopers, Taiwan

November 9, 2018

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

ARES INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2018, DECEMBER 31, 2017 AND SEPTEMBER 30, 2017
(Expressed in thousands of New Taiwan dollars)
(The consolidated balance sheets as of September 30, 2018 and 2017 are unaudited)

Assets		Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current assets								
1100	Cash and cash equivalents	6(1)	\$ 364,808	34	\$ 493,594	45	\$ 390,026	36
1136	Financial assets at amortised cost -	6(2) and 8						
	current		319,785	30	-	-	-	-
1140	Contract assets - current	6(17)	54,676	5	-	-	-	-
1150	Notes receivable, net	6(3) and						
		12(4)	1,200	-	1,971	-	584	-
1170	Accounts receivable, net	6(3) and						
		12(4)	122,328	12	158,829	14	134,911	12
1180	Accounts receivable - related	7						
	parties, net		308	-	370	-	-	-
1200	Other receivables		5,523	1	8,018	1	9,164	1
1410	Prepayments	6(4) and 7	41,482	4	34,358	3	36,567	3
1470	Other current assets	8 and 12(4)	33,983	3	271,452	25	405,677	38
11XX	Total current assets		<u>944,093</u>	<u>89</u>	<u>968,592</u>	<u>88</u>	<u>976,929</u>	<u>90</u>
Non-current assets								
1517	Financial assets at fair value	6(5)						
	through other comprehensive							
	income - non-current		2,775	-	-	-	-	-
1543	Financial assets carried at cost -	12(4)						
	non-current		-	-	2,252	-	2,497	-
1550	Investments accounted for under	6(6)						
	equity method		64,180	6	59,950	6	62,681	6
1600	Property, plant and equipment, net	6(7)	8,745	1	25,096	2	5,594	1
1780	Intangible assets		1,535	-	2,398	-	2,690	-
1840	Deferred income tax assets		29,547	3	30,748	3	24,634	2
1900	Other non-current assets	8	14,197	1	7,344	1	7,344	1
15XX	Total non-current assets		<u>120,979</u>	<u>11</u>	<u>127,788</u>	<u>12</u>	<u>105,440</u>	<u>10</u>
1XXX	Total assets		<u>\$ 1,065,072</u>	<u>100</u>	<u>\$ 1,096,380</u>	<u>100</u>	<u>\$ 1,082,369</u>	<u>100</u>

(Continued)

ARES INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2018, DECEMBER 31, 2017 AND SEPTEMBER 30, 2017
(Expressed in thousands of New Taiwan dollars)
(The consolidated balance sheets as of September 30, 2018 and 2017 are unaudited)

Liabilities and Equity		Notes	September 30, 2018		December 31, 2017		September 30, 2017	
			AMOUNT	%	AMOUNT	%	AMOUNT	%
Current liabilities								
2130	Contract liabilities - current	6(17)	\$ 83,313	8	\$ -	-	\$ -	-
2150	Notes payable		13	-	-	-	12	-
2170	Accounts payable	6(8)	52,035	5	64,080	6	37,296	4
2180	Accounts payable - related parties	7	2,606	-	1,706	-	1,179	-
2200	Other payables	6(9)	76,731	7	88,606	8	154,818	14
2250	Provisions for liabilities - current	6(13)	1,931	-	5,784	-	4,621	-
2300	Other current liabilities	6(10) and						
		12(5)	8,089	1	62,761	6	64,559	6
21XX	Total current liabilities		<u>224,718</u>	<u>21</u>	<u>222,937</u>	<u>20</u>	<u>262,485</u>	<u>24</u>
Non-current liabilities								
2570	Deferred income tax liabilities		-	-	-	-	40	-
2640	Accrued pension liabilities		137,020	13	142,230	13	137,615	13
2645	Guarantee deposits received		-	-	193	-	193	-
2670	Other non-current liabilities, others	6(10)	-	-	15,618	2	-	-
25XX	Total non-current liabilities		<u>137,020</u>	<u>13</u>	<u>158,041</u>	<u>15</u>	<u>137,848</u>	<u>13</u>
2XXX	Total liabilities		<u>361,738</u>	<u>34</u>	<u>380,978</u>	<u>35</u>	<u>400,333</u>	<u>37</u>
Equity attributable to owners of parent								
Share capital								
3110	Share capital - common stock	6(14)	472,539	44	472,539	43	472,539	44
Capital surplus								
3200	Capital surplus	6(15)	146,563	14	164,777	14	164,685	15
Retained earnings								
3310	Legal reserve	6(16)	45,439	4	42,609	4	42,609	4
3320	Special reserve		2,858	-	6,430	1	6,430	1
3350	Unappropriated retained earnings (accumulated deficit)		40,253	4	28,297	3	(6,051)	(1)
Other equity interest								
3400	Other equity interest		(7,921)	-	(2,858)	-	(2,272)	-
31XX	Equity attributable to owners of the parent		<u>699,731</u>	<u>66</u>	<u>711,794</u>	<u>65</u>	<u>677,940</u>	<u>63</u>
36XX	Non-controlling interest		<u>3,603</u>	<u>-</u>	<u>3,608</u>	<u>-</u>	<u>4,096</u>	<u>-</u>
3XXX	Total equity		<u>703,334</u>	<u>66</u>	<u>715,402</u>	<u>65</u>	<u>682,036</u>	<u>63</u>
Significant contingent liabilities and unrecognised contract commitments								
3X2X	Total liabilities and equity		<u>\$ 1,065,072</u>	<u>100</u>	<u>\$ 1,096,380</u>	<u>100</u>	<u>\$ 1,082,369</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.

ARES INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings (losses) per share data)
(UNAUDITED)

Items	Notes	Three months ended September 30				Nine months ended September 30			
		2018		2017		2018		2017	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(17), 7 and 12(5)	\$ 175,247	100	\$ 150,432	100	\$ 471,195	100	\$ 453,160	100
5000 Operating costs	6(20)(21) and 7	(110,221)	(63)	(112,002)	(75)	(314,199)	(67)	(317,216)	(70)
5950 Gross profit		<u>65,026</u>	<u>37</u>	<u>38,430</u>	<u>25</u>	<u>156,996</u>	<u>33</u>	<u>135,944</u>	<u>30</u>
Operating expenses	6(20)(21) and 7								
6100 Selling expenses		(16,216)	(9)	(14,578)	(10)	(47,149)	(10)	(48,078)	(11)
6200 General and administrative expenses		(11,757)	(7)	(12,174)	(8)	(38,542)	(8)	(37,669)	(8)
6300 Research and development expenses		(21,295)	(12)	(16,750)	(11)	(55,618)	(12)	(48,616)	(11)
6450 Reversal of expected credit loss	6(20) and 12(2)	<u>1,446</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>3,950</u>	<u>1</u>	<u>-</u>	<u>-</u>
6000 Total operating expenses		(47,822)	(27)	(43,502)	(29)	(137,359)	(29)	(134,363)	(30)
6900 Operating profit (loss)		<u>17,204</u>	<u>10</u>	(5,072)	(4)	<u>19,637</u>	<u>4</u>	<u>1,581</u>	<u>-</u>
Non-operating income and expenses									
7010 Other income	6(2)(18)	1,668	1	1,086	1	5,159	1	10,031	2
7020 Other gains and losses	6(19)	(2,257)	(2)	294	-	2,534	1	(16,989)	(3)
7050 Finance costs		(86)	-	-	-	(273)	-	-	-
7060 Share of profit of associates and joint ventures accounted for under equity method	6(6)	<u>4,767</u>	<u>3</u>	<u>2,753</u>	<u>2</u>	<u>8,984</u>	<u>2</u>	<u>9,199</u>	<u>2</u>
7000 Total non-operating income and expenses		<u>4,092</u>	<u>2</u>	<u>4,133</u>	<u>3</u>	<u>16,404</u>	<u>4</u>	<u>2,241</u>	<u>1</u>
7900 Profit (loss) before income tax		<u>21,296</u>	<u>12</u>	(939)	(1)	<u>36,041</u>	<u>8</u>	<u>3,822</u>	<u>1</u>
7950 Income tax (expense) benefit	6(22)	(2,547)	(1)	<u>29</u>	<u>-</u>	(1,562)	<u>-</u>	(10,230)	(3)
8200 Profit (loss) for the period		<u>\$ 18,749</u>	<u>11</u>	<u>(\$ 910)</u>	<u>(1)</u>	<u>\$ 34,479</u>	<u>8</u>	<u>(\$ 6,408)</u>	<u>(2)</u>

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ARES INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except earnings (losses) per share data)
(UNAUDITED)

Items	Notes	Three months ended September 30				Nine months ended September 30			
		2018		2017		2018		2017	
		AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
Other comprehensive income									
Components of other comprehensive income that will not be reclassified to profit or loss									
8316 Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	6(5)	\$ -	-	\$ -	-	\$ 705	-	\$ -	-
8349 Income tax relating to components of other comprehensive income	6(22)	-	-	-	-	223	-	-	-
8310 Components of other comprehensive income that will not be reclassified to profit or loss		-	-	-	-	928	-	-	-
Components of other comprehensive income that will be reclassified to profit or loss									
8361 Financial statements translation differences of foreign operations		(1,138)	(1)	996	1	(184)	-	4,813	1
8399 Income tax relating to components of other comprehensive income	6(22)	115	-	(167)	-	144	-	(852)	-
8360 Components of other comprehensive income that will be reclassified to profit or loss		(1,023)	(1)	829	1	(40)	-	3,961	1
8500 Total comprehensive income (loss) for the period		\$ 17,726	10	(\$ 81)	-	\$ 35,367	8	(\$ 2,447)	(1)
Profit (loss), attributable to:									
8610 Owners of the parent		\$ 18,718	11	(\$ 816)	(1)	\$ 34,503	8	(\$ 6,051)	(2)
8620 Non-controlling interest		31	-	(94)	-	(24)	-	(357)	-
		\$ 18,749	11	(\$ 910)	(1)	\$ 34,479	8	(\$ 6,408)	(2)
Total comprehensive income (loss) attributable to:									
8710 Owners of the parent		\$ 17,738	10	(\$ 4)	-	\$ 35,372	8	(\$ 1,893)	(1)
8720 Non-controlling interest		(12)	-	(77)	-	(5)	-	(554)	-
		\$ 17,726	10	(\$ 81)	-	\$ 35,367	8	(\$ 2,447)	(1)
Earnings (losses) per share (in dollars)	6(23)								
9750 Basic earnings (losses) per share		\$ 0.40		(\$ 0.02)		\$ 0.73		(\$ 0.13)	
Diluted earnings (losses) per share	6(23)								
9850 Diluted earnings (losses) per share		\$ 0.40		(\$ 0.02)		\$ 0.73		(\$ 0.13)	

The accompanying notes are an integral part of these consolidated financial statements.

ARES INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

Equity attributable to owners of the parent											

The accompanying notes are an integral part of these consolidated financial statements.

ARES INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	For the nine months ended September 30	
		2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		\$ 36,041	\$ 3,822
Adjustments			
Adjustments to reconcile profit (loss)			
Gain on expected credit loss impairment	12(2)	(3,950)	-
Provision (reversal) of allowance for doubtful accounts	12(4)	-	(1,695)
Depreciation	6(7)(20)	5,139	1,627
Interest income	6(18)	(4,753)	(4,646)
Interest expense		273	-
Amortization	6(20)	863	777
Gains on financial assets at fair value through profit or loss	6(19) and 12(4)	-	(779)
Share of profit of associates and joint ventures accounted for under equity method	6(6)	(8,984)	(9,199)
Gain on disposal of property, plant and equipment	6(19)	(286)	-
Losses on disposal of investments	6(19)	-	7,406
Reversal of impairment loss recognised in profit or loss, financial assets	6(19) and 12(4)	-	(1,310)
Compensation cost of share-based payments	6(12)	-	3,416
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets at fair value through profit or loss-current		-	5,310
Contract assets-current	(	22,967)	-
Notes receivable		771	1,299
Accounts receivable		8,742	37,694
Accounts receivable - related parties		62	581
Other receivables		1,290	(1,420)
Prepayments	(	7,124)	(3,860)
Other current assets		9,557	13,524
Changes in operating liabilities			
Contract liabilities		24,793	-
Notes payable		13	12
Accounts payable	(	12,045)	(10,072)
Accounts payable - related parties		900	(1,018)
Other payables	(	11,875)	(14,878)
Provisions for liabilities - current	(	3,853)	(1,545)
Other current liabilities		3,848	(5,668)
Accrued pension liabilities	(	5,210)	2,030
Other non-current liabilities		1,058	-
Cash inflow generated from operations		12,303	21,408
Interest received		5,340	4,851
Income tax paid	(483)	(1,177)
Net cash flows from operating activities		17,160	25,082

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ARES INTERNATIONAL CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS PERIODS ENDED SEPTEMBER 30, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)
(UNAUDITED)

	Notes	<u>For the nine months ended September 30</u>	
		<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in financial assets at amortised cost-current		(\$ 246,109)	\$ -
Decrease in financial assets at amortised cost-current		154,236	-
Increase in time deposits with maturity over three months		-	(232,753)
Decrease in time deposits with maturity over three months		-	83,731
Return of capital from held-to-maturity financial assets - non-current	12(4)	-	1,310
Proceeds from disposals of financial assets carried at cost-non-current	12(4)	-	994
Dividends received		5,487	7,780
Acquisition of property, plant and equipment	6(7)	(5,547)	(759)
Proceeds from disposals of property, plant and equipment		286	-
Acquisition of intangible assets		-	(3,454)
Decrease (increase) in refundable deposits (shown in other non-current assets)		12	(22)
Increase in other non-current assets		(6,865)	-
Net cash flows used in investing activities		(98,500)	(143,173)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Decrease in guarantee deposits received		(193)	-
Cash dividends paid	6(16)	(29,039)	-
Capital surplus distributed as cash dividends paid	6(15)	(18,214)	-
Treasury stocks sold to employees		-	25,851
Net cash flows (used in) from financing activities		(47,446)	25,851
Net decrease in cash and cash equivalents		(128,786)	(92,240)
Cash and cash equivalents at beginning of period		493,594	482,266
Cash and cash equivalents at end of period		<u>\$ 364,808</u>	<u>\$ 390,026</u>

The accompanying notes are an integral part of these consolidated financial statements.

ARES INTERNATIONAL CORP. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)
(UNAUDITED)

1. HISTORY AND ORGANISATION

Ares International Corp. (hereinafter referred to as ‘the Company’) was established on December 3, 1980. The main businesses of the Company and subsidiaries (hereinafter referred to as ‘the Group’) are engaged in design, sales, lease, maintenance and technology consultation of computer equipment, internet and related software, and analysis, design, modify, installment and maintenance of application software. The Company’s stock was traded in the Taipei Exchange from March 1999, and was listed in the Taiwan Stock Exchange after the application of listing was approved.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These consolidated financial statements were authorised for issuance by the Board of Directors on November 9, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards (“IFRS”) as endorsed by the Financial Supervisory Commission (“FSC”)

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 2, ‘Classification and measurement of share-based payment transactions’	January 1, 2018
Amendments to IFRS 4, ‘Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts’	January 1, 2018
IFRS 9, ‘Financial instruments’	January 1, 2018
IFRS 15, ‘Revenue from contracts with customers’	January 1, 2018
Amendments to IFRS 15, ‘Clarifications to IFRS 15, Revenue from contracts with customers’	January 1, 2018
Amendments to IAS 7, ‘Disclosure initiative’	January 1, 2017
Amendments to IAS 12, ‘Recognition of deferred tax assets for unrealised losses’	January 1, 2017

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment.

A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Group shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.
- (c) The Group has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(4).

B. IFRS 15, 'Revenue from contracts with customers' and amendments

- (a) IFRS 15, 'Revenue from contracts with customers' replaces IAS 11, 'Construction contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognised when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct, and obtain substantially all of the remaining benefits from the asset.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify contracts with customer.

Step 2: Identify separate performance obligations in the contract(s).

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price.

Step 5: Recognise revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

- (b) The Group has elected not to restate prior period financial statements and recognised the cumulative effect of initial application as retained earnings at January 1, 2018, using the modified retrospective approach under IFRS 15. The significant effects of adopting the modified transition as of January 1, 2018 are summarised below:

- i. Presentation of assets and liabilities in relation to contracts with customers

In line with IFRS 15 requirements, the Group changed the presentation of certain accounts in the balance sheet as follows:

- (i) Under IFRS 15, customer contracts whereby services have been rendered but not yet billed are recognised as contract assets, but were previously presented as part of accounts receivable in the balance sheet. As of January 1, 2018, the balance amounted to \$31,709.
- (ii) Under IFRS 15, liabilities in relation to contracts are recognised as contract liabilities, but were previously presented as other current liabilities (advance receipts from software) in the balance sheet. As of January 1, 2018, the balance amounted to \$58,520.
- ii. Please refer to Note 12(5) for other disclosures in relation to the first application of IFRS 15.

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Group

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	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
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Group's financial condition and financial performance based on the Group's assessment. The quantitative impact will be disclosed when the assessment is complete.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

On March 29, 2018, the Group reported to the Board of Directors that IFRS 16 has no material impact to the Group.

The Group expects to recognise the lease contract of lessees in line with IFRS 16. However, the Group intends not to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"), and the effects will be adjusted on January 1, 2019.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact on the Group's financial condition and financial performance based on the Group's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are consistent with Note 4 in the consolidated financial statements for the year ended December 31, 2017, except for the compliance statement, basis of preparations, basis of consolidation and additional policies as set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

- A. The consolidated financial statements of the Group have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” and the International Accounting Standard 34, ‘Interim financial reporting’ as endorsed by the FSC.
- B. These consolidated financial statements are to be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

(2) Basis of preparation

- A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:
 - (a) Financial assets and financial liabilities at fair value through profit or loss.
 - (b) Financial assets at fair value through other comprehensive income.
 - (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the “IFRSs”) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply the modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 and for the third quarter of 2017 was not restated. The financial statements for the year ended December 31, 2017 and for the third quarter of 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 18 (‘IAS 18’) and related financial reporting interpretations. Please refer to Notes 12(4) and (5) for details of significant accounting policies and details of significant accounts.

(3) Basis of consolidation

A. Basis for preparation of consolidated financial statements:

The basis for preparation of consolidated financial statements are consistent with those of the year ended December 31, 2017.

B. Subsidiaries included in the consolidated financial statements:

Name of Investor	Name of Subsidiary	Main Business Activities	Ownership (%)			Description
			September 30, 2018	December 31, 2017	September 30, 2017	
Ares International Corp.	APLUSOFT CO., LTD.	Computer installation and information software service	100%	100%	100%	
Ares International Corp.	ARES INTERNATIONAL CORP. (SAMOA)	Investment business	-	-	-	Note 1
Ares International Corp.	ARES GROUP CORP.	Investment business	100%	100%	100%	Note 3
APLUSOFT CO., LTD.	WELJOIN TECHNOLOGIES LIMITED (BVI)	Investment business	100%	100%	100%	
ARES GROUP CORP.	SHARP KEEN MANAGEMENT LIMITED	Investment business	100%	100%	100%	
WELJOIN TECHNOLOGIES LIMITED (BVI)	APLUSOFT (SUZHOU) CORPORATION	Research, development and sales in business management software	95.88%	95.88%	95.88%	Note 2

Note 1: The company began the liquidation process starting from January 13, 2017, and was completed on February 17, 2017. This company remitted back the initial investment of USD 86 thousand and recognised loss on disposal of investment in the amount of \$7,406.

Note 2: The company, formerly APLUSOFT (SUZHOU) CORPORATION, was reorganised as a corporation in March 2017. This company was listed on the equity market in China (abbreviate as Xin-Si-Ban) on June 28, 2017.

Note 3: On July 12, 2017, the company changed its registered location from Brunei to Seychelles, and completed the application with the Investment Commission, Ministry of Economic Affairs on September 19, 2017.

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

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Significant restrictions: None.

F. Subsidiaries that have non-controlling interests that are material to the Group: None.

(4) Financial assets at fair value through other comprehensive income

- A. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, but for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:
- (a) The objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.
 - (b) The assets' contractual cash flows represent particularly payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value:

The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(5) Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
- (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
 - (b) The assets' contractual cash flows represent particularly payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. Subsequently, interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised or impaired.
- D. The Group's time deposits which is not in consonance with cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(6) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.
- B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(7) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Group recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts. On the other hand, for accounts receivable that do not contain a significant financing component, the Group recognises the impairment provision for lifetime ECLs.

(8) Notes and accounts payable

- A. Accounts payable are liabilities for purchases of raw materials, goods or services and notes payable are those resulting from operating and non-operating activities.
- B. The short-term notes and accounts payable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(9) Employee benefits

Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

(10) Income taxes

- A. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- B. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

(11) Revenue recognition

A. Sales of software

The Group engages in the research, development and sale of computer software related products. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, sales returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably, and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks

and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective evidence showing that all acceptance provisions have been satisfied.

B. IT Consulting services

The Group provides business IT management, design, implementation and support services. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual labor hours spent relative to the total expected labor hours. The customer pays at the time specified in the payment schedule. If the services rendered exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Some contracts include sales and installation services of equipment. The equipment and the installation services provided by the Group are not distinct and are identified to be one performance obligation satisfied over time since the installation services involve significant customisation and modification. The Group recognises revenue on the basis of costs incurred relative to the total expected costs of that performance obligation. Conversely, the Group recognises revenue at an amount equal to the cost of a good if the good is not distinct and its cost is significant relative to the total expected costs, the customer is expected to obtain control of the good significantly before receiving services related to the good, and the Group procures the good from a third party and is not involved in designing and manufacturing the good by acting as a principal.

The Group's estimate in revenue, costs and progress towards complete satisfaction of a performance obligation is subject to a revision whenever there is a change in circumstances. Any increase or decrease in revenue or costs due to estimated revision is reflected in profit or loss during the period when the management become aware of the changes in circumstances.

Revenue from a service contract in which the Group bills a fixed amount for each hour of service provided is recognised at the amount to which the Group has the right to issue.

C. Revenue from licencing intellectual property

The Group entered into a contract with a customer to grant a licence of computer software to the customer. Given the licence is distinct from other promised goods or services in the contract, the Group recognises the revenue from licencing when the licence transfer to a customer either at a point in time or over time based on the nature of the licence granted. The nature of the Group's promise in granting a licence is a promise to provide a right to access the Group's intellectual property if the Group undertakes activities that significantly affect the computer software to which the customer has rights, the customer is affected by the Group's activities, and those activities do not result in the transfer of a good or a service to the customer as they occur. The royalties are

recognised as revenue on a straight-line basis throughout the licencing period. In case the above-mentioned conditions are not met, the nature of the Group's promise in granting a licence is a promise to provide a right to use the Group's intellectual property. Therefore, the revenue is recognised when transferring the licence to a customer at a point in time.

D. Financing components

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

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

There have been no significant change in the reporting period. Please refer to Note 5 in the consolidated financial statements for the year ended December 31, 2017.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Cash on hand and revolving funds	\$ 77	\$ 119	\$ 122
Checking accounts and demand deposits	261,280	261,274	296,121
Time deposits	103,451	232,201	93,783
	<u>\$ 364,808</u>	<u>\$ 493,594</u>	<u>\$ 390,026</u>

A. The Group transacts with a variety of financial institutions all with high credit quality to disperse credit risk, so it expects that the probability of counterparty default is remote.

B. As of September 30, 2018, December 31, 2017 and September 30, 2017, cash and cash equivalent were restricted to the bid bonds and performance guarantee. Please refer to Note 8.

(2) Financial assets at amortised cost

<u>Items</u>	<u>September 30, 2018</u>
Current items:	
Time deposits with maturity over three months	\$ 313,160
Time deposits as pledged	6,625
Total	<u>\$ 319,785</u>
Interest rate range of time deposits	0.15%~3.5%

A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	Three months ended September 30, 2018
Interest income	\$ 1,258

	Nine months ended September 30, 2018
Interest income	\$ 2,413

B. As at September 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents the financial assets at fair value through other comprehensive income held by the Group was \$319,785.

C. The Group has no financial assets at amortised cost pledged to others as collateral.

D. Details of the Group's financial assets at amortised cost-others pledged to others as collateral are provided in Note 8.

E. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).

F. Information on December 31, 2017 and September 30, 2017 is provided in Note 12(4).

(3) Notes and accounts receivable

	September 30, 2018
Notes receivable	\$ 1,200
Less: Allowance for uncollectible accounts	-
	<u>\$ 1,200</u>
Accounts receivable	\$ 124,810
Less: Allowance for uncollectible accounts	(2,482)
	<u>\$ 122,328</u>

A. The ageing analysis of notes and accounts receivable that were past due but not impaired is as follows:

	September 30, 2018	
	Accounts receivable	Notes receivable
Up to 90 days	\$ 105,513	\$ 1,200
91 to 180 days	13,803	-
181 to 365 days	3,291	-
Over 365 days	2,203	-
	<u>\$ 124,810</u>	<u>\$ 1,200</u>

The above ageing analysis was based on invoice date.

- B. The Group has no notes and accounts receivable pledged to others.
- C. The Group has no discounted notes receivable.
- D. The Group does not hold any collateral as security.
- E. As at September 30, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount that best represents notes and accounts receivable held by the Group was \$123,528.
- F. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).
- G. Information on December 31, 2017 and September 30, 2017 is provided in Note 12(4).

(4) Prepayments

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Prepaid project cost	\$ 38,062	\$ 29,620	\$ 34,579
Other prepayments	3,420	4,738	1,988
	<u>\$ 41,482</u>	<u>\$ 34,358</u>	<u>\$ 36,567</u>

(5) Financial assets at fair value through other comprehensive income-non-current

<u>Items</u>	<u>September 30, 2018</u>
Non-current items:	
Equity instruments	
Unlisted stocks	\$ 7,638
Valuation adjustment	(4,863)
Total	<u>\$ 2,775</u>

- A. The Group has elected to classify equity investments that are considered to be strategic investments as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to \$2,775 as at September 30, 2018.
- B. For the three months and nine months ended September 30, 2018, the Group recognized the amounts of \$0 and \$705, respectively, in profit or loss and other comprehensive income.
- C. The Group has no financial assets at fair value through other comprehensive income pledged to others.
- D. The information on December 31, 2017 and September 30, 2017 is provided in Note 12(4).

(6) Investments accounted for using equity method

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Associates:			
BLITZ IT	\$ 17,994	\$ 12,501	\$ 18,515
CONSULTANTS PTE. LTD.			
ARGO			
INTERNATIONAL	18,324	19,137	18,436
M-Power Information Co., Ltd.	27,862	28,312	25,730
	<u>\$ 64,180</u>	<u>\$ 59,950</u>	<u>\$ 62,681</u>

A. The basic information of the associates of the Group is as follows:

<u>Company name</u>	<u>Principal place of business</u>	<u>Ownership (%)</u>			<u>Nature of relationship</u>	<u>Method of measurement</u>
		<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>		
BLITZ IT CONSULTANTS PTE. LTD.	Singapore	25.00%	25.00%	25.00%	-	Equity method
ARGO INTERNATIONAL CORPORATION	Taiwan	34.83%	34.83%	34.83%	Note 1	Equity method
M-Power Information Co., Ltd.	Taiwan	24.39%	24.39%	24.39%	Note 2	Equity method

Note 1: The Group made purchases from this associate company.

Note 2: The Group had sales to this associate company.

B. The carrying amount of the Group's interests in all individually immaterial associates and the Group's share of the operating results are summarised below:

As of September 30, 2018, December 31, 2017 and September 30, 2017, the carrying amount of the Group's individually immaterial associates amounted to \$64,180, \$59,950 and \$62,681, respectively.

	<u>Three months ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Profit for the period from continuing operations	\$ 4,767	\$ 2,753
Other comprehensive income, net of tax	-	-
Total comprehensive income	<u>\$ 4,767</u>	<u>\$ 2,753</u>

	Nine months ended September 30,	
	2018	2017
Profit for the period from continuing operations	\$ 8,984	\$ 9,199
Other comprehensive income, net of tax	-	-
Total comprehensive income	<u>\$ 8,984</u>	<u>\$ 9,199</u>

- C. For the three months and nine months ended September 30, 2018 and 2017, the Group's recognised share of loss (profit) of associates in the amounts of \$4,767, \$2,753, \$8,984 and \$9,199, respectively, were based on the financial statements which were not reviewed by independent accountants of the same period.

(7) Property, plant and equipment

	Machinery and equipment	Transportation equipment	Office equipment	Leasehold improvements	Leased assets	Other facilities	Total
<u>At January 1, 2018</u>							
Cost	\$ 13,482	\$ 9,892	\$ 1,720	\$ 5,335	\$ 20,173	\$ 439	\$ 51,041
Accumulated depreciation	(11,820)	(7,824)	(1,196)	(4,417)	(336)	(352)	(25,945)
	<u>\$ 1,662</u>	<u>\$ 2,068</u>	<u>\$ 524</u>	<u>\$ 918</u>	<u>\$ 19,837</u>	<u>\$ 87</u>	<u>\$ 25,096</u>
<u>2018</u>							
At January 1	\$ 1,662	\$ 2,068	\$ 524	\$ 918	\$ 19,837	\$ 87	\$ 25,096
Additions	111	5,436	-	-	-	-	5,547
Disposals	-	-	-	-	(16,811)	-	(16,811)
Depreciation charges	(484)	(1,287)	(110)	(212)	(3,026)	(20)	(5,139)
Net exchange differences	52	-	-	-	-	-	52
At September 30	<u>\$ 1,341</u>	<u>\$ 6,217</u>	<u>\$ 414</u>	<u>\$ 706</u>	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ 8,745</u>
<u>At September 30, 2018</u>							
Cost	\$ 11,372	\$ 12,058	\$ 1,577	\$ 5,335	\$ -	\$ 268	\$ 30,610
Accumulated depreciation	(10,031)	(5,841)	(1,163)	(4,629)	-	(201)	(21,865)
	<u>\$ 1,341</u>	<u>\$ 6,217</u>	<u>\$ 414</u>	<u>\$ 706</u>	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ 8,745</u>

	Machinery and equipment	Transportation equipment	Office equipment	Leasehold improvements	Other facilities	Total
<u>At January 1, 2017</u>						
Cost	\$ 12,582	\$ 10,668	\$ 1,720	\$ 5,335	\$ 439	\$ 30,744
Accumulated depreciation	(11,057)	(7,713)	(1,050)	(4,135)	(324)	(24,279)
	<u>\$ 1,525</u>	<u>\$ 2,955</u>	<u>\$ 670</u>	<u>\$ 1,200</u>	<u>\$ 115</u>	<u>\$ 6,465</u>
<u>2017</u>						
At January 1	\$ 1,525	\$ 2,955	\$ 670	\$ 1,200	\$ 115	\$ 6,465
Additions	759	-	-	-	-	759
Depreciation charges	(590)	(694)	(110)	(212)	(21)	(1,627)
Net exchange differences	(3)	-	-	-	-	(3)
At September 30	<u>\$ 1,691</u>	<u>\$ 2,261</u>	<u>\$ 560</u>	<u>\$ 988</u>	<u>\$ 94</u>	<u>\$ 5,594</u>
<u>At September 30, 2017</u>						
Cost	\$ 13,340	\$ 10,668	\$ 1,674	\$ 5,335	\$ 439	\$ 31,456
Accumulated depreciation	(11,649)	(8,407)	(1,114)	(4,347)	(345)	(25,862)
	<u>\$ 1,691</u>	<u>\$ 2,261</u>	<u>\$ 560</u>	<u>\$ 988</u>	<u>\$ 94</u>	<u>\$ 5,594</u>

A. The Group has no interest capitalization.

B. The Group has no property, plant and equipment pledged to others.

(8) Accounts payable

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Accounts payable	\$ 20,881	\$ 27,522	\$ 14,662
Project costs payable	31,154	36,558	22,634
	<u>\$ 52,035</u>	<u>\$ 64,080</u>	<u>\$ 37,296</u>

(9) Other payables

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Wages and bonus payable	\$ 60,794	\$ 65,583	\$ 60,303
Labor and health insurance fees payable	3,451	3,520	3,543
Employees' compensation and directors' and supervisors' remuneration payable	2,305	4,976	12,467
Cash dividends payable	-	-	63,326
Other accrued expenses	10,181	14,527	15,179
	<u>\$ 76,731</u>	<u>\$ 88,606</u>	<u>\$ 154,818</u>

(10) Lease liabilities (shown as 'other current liabilities and other non-current liabilities-other')

In December 2017, the Group leased network information security protection equipment and servers. In line with the lease contract, when the contract becomes due, the ownership of lease assets should transfer to the Group without any condition. On September 25, 2018, the contract was terminated by mutual agreement based on the Group's assessment on the function of the aforementioned equipment which has been excluded from the Group's requirement. The Group derecognised lease assets (recorded in property, plant and equipment) and lease obligations payable (recorded in other current liabilities and other non-current liabilities-others), thus, no future minimum lease payments would be recognised as of September 30, 2018. Future minimum lease payments and their present values as at December 31, 2017 are as follows:

	<u>December 31, 2017</u>		
	<u>Total finance lease liabilities</u>	<u>Future finance charges</u>	<u>Present value of finance lease liabilities</u>
<u>Current</u>			
Not later than one year	\$ 4,591	\$ 355	\$ 4,236
<u>Non-current</u>			
Later than one year but not later than five years	16,237	619	15,618
	<u>\$ 20,828</u>	<u>\$ 974</u>	<u>19,854</u>
Less: Current lease liabilities			(4,236)
			<u>\$ 15,618</u>

On September 30, 2017, there was no future minimum lease payment.

(11) Pensions

A. Defined benefit plans

- (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions for the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$1,046, \$1,125, \$3,139 and \$3,374 for the three months and nine months ended September 30, 2018 and 2017, respectively.
- (c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amount to \$1,857.

B. Defined contribution plans:

- (a) Effective in July 1, 2005, the Company has established a defined contribution pension plan (the "New Plan") under the Labor Pension Act (the "Act"), covering all regular employees with R.O.C. nationality. Under the New Plan, the Company contributes monthly an amount no less than 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are paid monthly or in lump sum upon termination of employment. The pension costs under defined contribution pension plans of the Group for the three months and nine months ended September 30, 2018 and 2017, were \$2,914, \$2,995, \$8,839 and \$8,957, respectively.
- (b) APLUSOFT (SUZHOU) CORPORATION has a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with the pension regulations in the People's Republic of China (PRC) are based on certain percentage of employees' monthly salaries and wages. The contribution percentage for the three months and nine months ended September 30, 2018 and 2017, was both 7%. Other than the monthly contributions, the Group has no further obligations. The pension costs under defined

contribution pension plans of APLUSOFT (SUZHOU) CORPORATION for the three months and nine months ended September 30, 2018 and 2017, were \$58, \$49, \$164 and \$171, respectively.

(12) Share-based payment

A. For the year ended December 31, 2017, the Group's share-based payment arrangements were as follows:

Type of arrangement	Grant date	Quantity granted (In thousands)	Vesting conditions
Treasury stock transferred to employees	2017.3.29	1,817	Vested immediately

The share-based payment arrangements above are settled by equity.

B. Details of the share-based payment arrangements are as follows:

	2018		2017	
	No. of options (in thousands)	Weighted- average exercise price (in dollars per share)	No. of options (in thousands)	Weighted- average exercise price (in dollars per share)
Options outstanding at January 1	-	\$ -	-	\$ -
Options granted	-	-	1,817	14.27
Options exercised	-	-	(1,817)	14.27
Options outstanding at September 30	-	-	-	-

C. The fair value of stock options granted on March 29, 2017 is measured using the Black-Scholes option-pricing model. Relevant information is as follows:

Type of arrangement	Grant date	Stock price	Exercise price	Expected price volatility	Expected option life	Expected dividends	Risk-free interest rate	Fair value per unit
Employee stock options	2017.3.29	\$16.15 (in dollars)	\$14.27 (in dollars)	21.51% (Note)	0.02 year	0%	0.42%	\$1.88(in dollars)

Note: Expected price volatility rate was estimated by using the stock prices of the most recent one year, and the standard deviation of return on the stock during this period.

D. Expenses incurred on share-based payment transactions are shown below:

		Three months ended September 30,	
		2018	2017
Equity-settled		\$ -	\$ -

		Nine months ended September 30,	
		2018	2017
Equity-settled		\$ -	\$ 3,416

(13) Provisions

		Warranty	
		2018	2017
Balance at January 1		\$ 5,784	\$ 6,166
Additional provisions		2,367	2,576
Used during the period	(	2,721)	(1,367)
Unused amounts reversed	(	3,499)	(2,754)
Balance at September 30		<u>\$ 1,931</u>	<u>\$ 4,621</u>

Analysis of total provisions:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Current	<u>\$ 1,931</u>	<u>\$ 5,784</u>	<u>\$ 4,621</u>

The Group gives warranties on project contract. Provision for warranty is estimated based on historical warranty data.

(14) Share capital

A. As of September 30, 2018, the Company's authorised capital was \$1,156,000 (including 10,000 thousand shares reserved for employee stock options and 20,000 thousand shares reserved for convertible bonds issued by the Company), and the paid-in capital was \$472,539 with a par value of \$10 (in dollars) per share, consisting of 47,254 thousand shares of ordinary stock.

Movements in the number of the Company's ordinary shares outstanding are as follows (unit: thousand shares):

	2018	2017
At January 1	47,254	45,437
Treasury shares sold to employees	-	1,817
At September 30	<u>47,254</u>	<u>47,254</u>

B. Treasury shares

- (a) Pursuant to the R.O.C. Securities and Exchange Act, the number of shares bought back as treasury share should not exceed 10% of the number of the Company's issued and outstanding shares and the amount bought back should not exceed the sum of retained earnings, paid-in capital in excess of par value and realised capital surplus.
- (b) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should not be pledged as collateral and is not entitled to dividends before it is reissued.
- (c) Pursuant to the R.O.C. Securities and Exchange Act, treasury shares should be reissued to the employees within three years from the reacquisition date and shares not reissued within the three-year period are to be retired. Treasury shares to enhance the Company's credit rating and the stockholders' equity should be retired within six months of acquisition.
- (d) On March 29, 2017, the Board of Directors resolved to transfer 6th repurchased treasury shares to employees by 1,817 thousand shares, the Company recognised compensation cost at fair value of \$3,416. The transfer price was NTD 14.27 per share with a total price of \$25,895, and recognised related transaction of capital surplus-treasury share in the amount of \$3,372.

(15) Capital surplus

Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Company has no accumulated deficit. Further, the R.O.C. Securities and Exchange Act requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. However, capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

	2018				
	Share premium	Treasury share transactions	Donated assets received	Changes in equity of associates and joint ventures accounted for using equity method	Total
At January 1	\$ 114,768	\$ 48,738	\$ 92	\$ 1,179	\$ 164,777
Cash dividends from capital surplus	(18,214)	-	-	-	(18,214)
At September 30	<u>\$ 96,554</u>	<u>\$ 48,738</u>	<u>\$ 92</u>	<u>\$ 1,179</u>	<u>\$ 146,563</u>

	Share premium	Treasury share transactions	Employee stock options	Changes in equity of associates and joint ventures accounted for using equity method	Total
At January 1	\$ 114,768	\$ 45,366	\$ -	\$ 1,179	\$ 161,313
Issuance of employee stock options	-	-	3,416	-	3,416
Treasury stock sold to employees	-	3,372	(3,416)	-	(44)
At September 30	<u>\$ 114,768</u>	<u>\$ 48,738</u>	<u>\$ -</u>	<u>\$ 1,179</u>	<u>\$ 164,685</u>

(16) Retained earnings

A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following methods and order:

- (a) Pay all taxes.
- (b) Offset prior years' operating losses.
- (c) 10% of the remaining amount shall be set aside as legal reserve.
- (d) Set aside or reverse a special reserve in accordance with related laws.

The remaining earnings shall be proposed by the Board of Directors and resolved by the shareholders as dividends to shareholders. The Board of Directors could retain earnings for operation needs.

- B. The dividend policy of the Company are as follows: The Company is engaged in information technology, which is a rapidly advancing and growing market, based on the requirement of capital expenditure and optimal financial plan for long-term operation. When the Board of Directors propose the distribution of retained earnings from the remainder of the above items (a)~(d), they decide the proportion of cash dividend and share dividend based on the operation requirement. The proportion of cash dividend shall not be less than 10% of the total dividend. However, the proportion of cash dividend could be adjusted based on the operating situation of the current year.
- C. Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Company's paid-in capital.
- D. In accordance with the regulations, the Company shall set aside special reserve from the debit balance on other equity items at the balance sheet date before distributing earnings. When debit balance on other equity items is reversed subsequently, the reversed amount could be included in the distributable earnings.

E. Distribution of retained earnings:

On June 22, 2018 and June 20, 2017, the shareholders in their meeting resolved the distribution of 2017 and 2016 retained earnings. The distribution of retained earnings are as follows:

	Year ended December 31, 2017		Year ended December 31, 2016	
	Amount	Dividend per share (in dollars)	Amount	Dividend per share (in dollars)
Legal reserve	\$ 2,830		\$ 7,750	
(Reversal of)	(3,572)		6,430	
appropriated special reserve				
Cash dividends	29,039	\$ 0.61	63,326	\$ 1.34

For the year ended December 31, 2017, except for the above retained earnings, the distribution of cash in the amount of \$18,214 from capital surplus was proposed.

F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(21).

(17) Operating revenue

	Three months ended September 30, 2018
Revenue from contracts with customers	\$ 175,247

	Nine months ended September 30, 2018
Revenue from contracts with customers	\$ 471,195

A. Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major geographical regions:

Three months ended September 30, 2018 (Note)	Asia	America	Taiwan	Total
Total segment revenue				
Revenue from external customer contracts	\$ 24,231	\$ 897	\$ 150,119	\$ 175,247
Inter-segment	1,523	-	-	1,523
	<u>\$ 25,754</u>	<u>\$ 897</u>	<u>\$ 150,119</u>	<u>\$ 176,770</u>
Timing of revenue recognition				
At a point in time	\$ 1,591	\$ 130	\$ 14,171	\$ 15,892
Over time	24,163	767	135,948	160,878
	<u>\$ 25,754</u>	<u>\$ 897</u>	<u>\$ 150,119</u>	<u>\$ 176,770</u>

Nine months ended September 30, 2018 (Note)	Asia	America	Taiwan	Total
Total segment revenue				
Revenue from external customer contracts	\$ 76,771	\$ 1,157	\$ 393,267	\$ 471,195
Inter-segment	<u>2,740</u>	<u>-</u>	<u>-</u>	<u>2,740</u>
	<u>\$ 79,511</u>	<u>\$ 1,157</u>	<u>\$ 393,267</u>	<u>\$ 473,935</u>
Timing of revenue recognition				
At a point in time	\$ 4,476	\$ 390	\$ 28,227	\$ 33,093
Over time	<u>75,035</u>	<u>767</u>	<u>365,040</u>	<u>440,842</u>
	<u>\$ 79,511</u>	<u>\$ 1,157</u>	<u>\$ 393,267</u>	<u>\$ 473,935</u>

Note: Segmental information is provided in Note 14(2).

B. Contract assets and liabilities

(a) The Group has recognised the following revenue-related contract assets and liabilities:

	September 30, 2018
Contract assets-customer contract	<u>\$ 54,676</u>
Contract liabilities-advance receipt from customers	<u>\$ 83,313</u>

(b) Revenue recognised that was included in the contract liability balance at the beginning of the period

	Three months ended September 30, 2018
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	
Advance receipt	<u>\$ 6,367</u>
	Nine months ended September 30, 2018
Revenue recognised that was included in the contract liabilities balance at the beginning of the period	
Advance receipt	<u>\$ 35,719</u>

The Group does not expect to have any contracts wherein the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year or contracts that are billed in accordance with actual service hour. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

C. Related disclosures for the third quarter of 2017 operating revenue are provided in Note 12(5) B.

(18) Other income

	Three months ended September 30,	
	2018	2017
Interest income:		
Interest income from bank deposits	\$ 259	\$ 619
Interest income from financial assets measured at amortised cost	1,258	956
Total interest income	1,517	1,575
Allowance for bad debts transferred to revenue	-	(490)
Other income, others	151	1
	<u>\$ 1,668</u>	<u>\$ 1,086</u>

	Nine months ended September 30,	
	2018	2017
Interest income:		
Interest income from bank deposits	\$ 2,340	\$ 1,870
Interest income from financial assets measured at amortised cost	2,413	2,776
Total interest income	4,753	4,646
Allowance for bad debts transferred to revenue	-	1,695
Other income, others	406	3,690
	<u>\$ 5,159</u>	<u>\$ 10,031</u>

(19) Other gains and losses

	Three months ended September 30,	
	2018	2017
Foreign exchange losses	(\$ 2,235)	(\$ 309)
Gains on financial assets at fair value through profit or loss	-	607
Miscellaneous disbursements	(22)	(4)
	<u>(\$ 2,257)</u>	<u>\$ 294</u>

	Nine months ended September 30,	
	2018	2017
Gains on disposals of property, plant and equipment	\$ 286	\$ -
Losses on disposals of investments	-	(7,406)
Foreign exchange gains (losses)	2,686	(11,301)
Gains on financial assets at fair value through profit or loss	-	779
Reversal of impairment loss recognised in profit or loss, financial assets	-	1,310
Miscellaneous disbursements	(438)	(371)
	<u>\$ 2,534</u>	<u>(\$ 16,989)</u>

(20) Expenses by nature

	Three months ended September 30,	
	2018	2017
Employee benefit expense	\$ 88,316	\$ 94,866
Depreciation charges on property, plant and equipment	1,732	547
Amortizations	288	292
Advertising costs	181	8
Operating lease payments	5,319	5,307
Traveling expense	1,346	2,238
Service fees	1,311	1,920
Outsourcing software	46,124	41,119
Reversal of expected credit losses	(1,446)	-
Other expenses	3,758	2,893
Cost of sales	11,114	6,314
Operating costs and expenses	\$ 158,043	\$ 155,504

	Nine months ended September 30,	
	2018	2017
Employee benefit expense	\$ 271,016	\$ 276,210
Depreciation charges on property, plant and equipment	5,139	1,627
Amortizations	863	777
Advertising costs	543	316
Operating lease payments	14,386	14,290
Traveling expense	3,388	5,410
Service fees	6,292	5,640
Outsourcing software	114,482	102,536
Reversal of expected credit losses	(3,950)	-
Other expenses	13,405	16,063
Cost of sales	25,994	28,710
Operating costs and expenses	\$ 451,558	\$ 451,579

(21) Employee benefit expense

	Three months ended September 30,	
	2018	2017
Wages and salaries	\$ 75,166	\$ 80,720
Labor and health insurance fees	6,060	6,830
Pension costs	4,018	4,212
Other personnel expenses	3,072	3,104
	\$ 88,316	\$ 94,866

	Nine months ended September 30,	
	2018	2017
Wages and salaries	\$ 232,038	\$ 236,529
Labor and health insurance fees	19,042	19,572
Pension costs	12,142	12,502
Other personnel expenses	7,794	7,607
	<u>\$ 271,016</u>	<u>\$ 276,210</u>

As of September 30, 2018 and 2017, the Group had 302 and 312 employees, respectively.

- A. In accordance with the Articles of Incorporation of the Company, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation and directors' and supervisors' remuneration. The ratio shall not be lower than 5% and no higher than 15% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.
- B. For the three months and nine months ended September 30, 2018 and 2017, (reversal of) employees' compensation was accrued at \$1,131, (\$46), \$1,921 and \$225, respectively; while (reversal of) directors' and supervisors' remuneration was accrued at \$226, (\$9), \$384 and \$45, respectively. The aforementioned amounts were recognised in salary expenses.
- C. Employees' compensation and directors' and supervisors' remuneration of 2017, as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2017 financial statements.

Information about employees' compensation and directors' and supervisors' remuneration of the Company as resolved at the meeting of Board of Directors will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(22) Income tax

A. Income tax expense

(a) Components of income tax expense:

	Three months ended September 30,	
	2018	2017
Deferred tax:		
Origination and reversal of temporary differences	\$ 2,547	(\$ 29)
Impact of change in tax rate	-	-
Income tax expense (benefit)	<u>\$ 2,547</u>	<u>(\$ 29)</u>

	Nine months ended September 30,	
	2018	2017
Current tax:		
Prior year income tax overestimation	(\$ 6)	(\$ 80)
Deferred tax:		
Origination and reversal of temporary differences	6,521	10,310
Impact of change in tax rate	(4,953)	-
Income tax expense	<u>\$ 1,562</u>	<u>\$ 10,230</u>

(b) The income tax (charge)/credit relating to components of other comprehensive income is as follows:

	Three months ended September 30,	
	2018	2017
Currency translation differences	\$ 115	(\$ 167)

	Nine months ended September 30,	
	2018	2017
Changes in fair value of financial assets at fair value through other comprehensive income	(\$ 141)	\$ -
Currency translation differences	40	(852)
Impact of change in tax rate	468	-

- B. As of September 30, 2018, the Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.
- C. ARES GROUP CORP, WELJOIN TECHNOLOGIES LIMITED (BVI) and SHARP KEEN MANAGEMENT LIMITED are companies that were established in Seychelles and British Virgin Islands, respectively. These companies have no income tax.
- D. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(23) Earning (losses) per share

Three months ended September 30, 2018			
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (share in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	<u>\$ 18,718</u>	<u>47,254</u>	<u>\$ 0.40</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	18,718	47,254	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	<u>-</u>	<u>128</u>	
Profit attributable to ordinary shareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	<u>\$ 18,718</u>	<u>47,382</u>	<u>\$ 0.40</u>

Three months ended September 30, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Losses per share (in dollars)
<u>Basic losses per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ <u>816</u>)	<u>47,254</u>	(\$ <u>0.02</u>)
<u>Diluted losses per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ <u>816</u>)	<u>47,254</u>	(\$ <u>0.02</u>)
Nine months ended September 30, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ <u>34,503</u>	<u>\$ 47,254</u>	<u>\$ 0.73</u>
<u>Diluted earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	34,503	47,254	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	128	
Profit attributable to ordinaryshareholders of the parent plus assumed conversion of all dilutive potential ordinary shares	\$ <u>34,503</u>	<u>\$ 47,382</u>	<u>\$ 0.73</u>

Nine months ended September 30, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (share in thousands)	Losses per share (in dollars)
<u>Basic losses per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ 6,051)	46,535	(\$ 0.13)
<u>Diluted losses per share</u>			
Loss attributable to ordinary shareholders of the parent	(\$ 6,051)	46,535	(\$ 0.13)

(24) Operating leases

The Group leases office buildings through operating leases, with lease terms between 1 to 2 years, and the lease could be renewed. Rental is adjusted every new year based on the market price of the nearby area. The adjustment of rent should be notified to the lessee in the three months before the new year. The Group recognised rental expenses of \$5,319, \$4,290, \$14,386 and \$13,273 for the three months and nine months ended September 30, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	September 30, 2018	December 31, 2017	September 30, 2017
Not later than one year	\$ 10,042	\$ 16,040	\$ 15,969
Later than one year but not later than five years	4,593	3,679	6,261
	<u>\$ 14,635</u>	<u>\$ 19,719</u>	<u>\$ 22,230</u>

(25) Supplemental cash flow information

Financing activities with no cash flow effects:

	Nine months ended September 30,	
	2018	2017
Cash dividends declared but yet to be paid	\$ -	\$ 63,326

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

Names of related parties	Relationship with the Company
ARGO INTERNATIONAL CORPORATION	Associates
M-Power Information Co., Ltd.	Associates
MiTAC INC.	Key management
SHUTTLE INC.	Other related parties

(2) Significant related party transactions

A. Operating revenue

	Three months ended September 30,	
	2018	2017
Sales of goods:		
-Associates	\$ 48	\$ 49
-Other related parties	67	68
-Key management	29	29
	<u>\$ 144</u>	<u>\$ 146</u>
	Nine months ended September 30,	
	2018	2017
Sales of goods:		
-Associates	\$ 194	\$ 196
-Other related parties	203	206
-Key management	443	86
	<u>\$ 840</u>	<u>\$ 488</u>

Most of the transactions in relation to sales, services and maintenance made with related parties are separate cases, thus the transaction prices are determined based on mutual agreement. Except for the payment term which is 60 days after monthly billings, other terms would be available to third parties.

B. Purchases

	Three months ended September 30,	
	2018	2017
Purchases of goods:		
-Associates	\$ 4,459	\$ 1,658
Purchases of services:		
-Associates	4,200	3,022
	<u>\$ 8,659</u>	<u>\$ 4,680</u>
	Nine months ended September 30,	
	2018	2017
Purchases of goods:		
-Associates	\$ 11,402	\$ 6,659
Purchases of services:		
-Associates	8,976	13,917
	<u>\$ 20,378</u>	<u>\$ 20,576</u>

- (a) The Group's purchases are made for each system integration project, and only purchases from related parties, therefore, the purchase price is determined based on mutual agreement. Except for the payment term which is 60 days after monthly billings, other terms would be available to third parties.
- (b) Most of transactions in relation to services and maintenance made with related parties are separate cases, thus the transaction prices are determined based on mutual agreement. Except for the payment term which is 60 days after monthly billings, other terms would be available to third parties.

C. Receivables from related parties

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Accounts receivable			
-SHUTTLE INC.	\$ 284	\$ -	\$ -
-MiTAC INC.	24	-	-
-ARGO INTERNATIONAL CORPORATION	-	168	-
-M-Power Information Co., Ltd.	-	202	-
Total	<u>\$ 308</u>	<u>\$ 370</u>	<u>\$ -</u>

D. Payables to related parties

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Accounts payable			
-ARGO INTERNATIONAL CORPORATION	<u>\$ 2,606</u>	<u>\$ 1,706</u>	<u>\$ 1,179</u>

E. Prepayments:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Associates	<u>\$ 60</u>	<u>\$ -</u>	<u>\$ 53</u>

- F. In January, 2018 and 2017, the Group entered into three-year and one-year ArgoERP maintenance contracts with an associate in the amounts of \$720 and \$210, respectively. In February, 2017, the Group signed an ArgoERP eGUI(Electronic Government Uniform Invoice System) maintenance contract with an associate amounting to \$300. For the three months and nine months ended September 30, 2018 and 2017, operating expense was recognised in the amounts of \$60, \$52, \$180 and \$458, respectively.
- G. The Group paid the service fee to the associate. As of September 30, 2018, operating expenses were recognised amounting to \$255.

(3) Key management compensation

	Three months ended September 30,	
	2018	2017
Salaries and other short-term employees' benefits	\$ 7,660	\$ 7,577
	Nine months ended September 30,	
	2018	2017
Salaries and other short-term employees' benefits	\$ 31,071	\$ 29,332

8. PLEDGED ASSETS

The Group's assets pledged as collateral are as follows:

<u>Pledged asset</u>	Book value			<u>Purpose</u>
	September 30, 2018	December 31, 2017	September 30, 2017	
Pledged as time deposits (shown as financial assets at amortised cost/ other current assets)	\$ 6,625	\$ 17,022	\$ 11,294	Bid bond and performance bond
Guarantee deposits paid (shown as other current assets)	33,983	33,141	30,942	Bid bond and performance bond
Guarantee deposits paid (shown as other non- current assets)	7,332	7,344	7,344	Guarantees provided for leasing
	<u>\$ 47,940</u>	<u>\$ 57,507</u>	<u>\$ 49,580</u>	

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

(1) Contingencies

A complainant purchased the software package and hardware from the Company, and commissioned the Company to customise a software. However, there was a disagreement between both parties, and the complainant terminated the agreement, and claimed that the Company had not completed its obligation. The complainant filed a civil lawsuit to claim compensation in the amount of \$ 7,483 in October, 2014. The Company has commissioned a lawyer to deal with this lawsuit, and it is still under the court's assessment. The Company has not accrued and recognised any amount for possible loss because the amount cannot be reliably assessed. This case will not impact the Company's operating and financial condition based on the Company's assessment.

(2) Commitments

A. Operating leases agreement

Please refer to Note 6 (24) for the related information.

B. Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Software products	\$ <u>16,375</u>	\$ <u>8,025</u>	\$ <u>6,351</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

There was no significant change in the reporting period. Please refer to Note 12 in the consolidated financial statements for the year ended December 31, 2017.

(2) Financial instruments

A. Financial instruments by category

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Financial assets</u>			
Financial assets at fair value through other comprehensive income			
Designation of equity instrument	\$ 2,775	\$ -	\$ -
Financial assets at cost	-	2,252	2,497
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents	364,808	493,594	390,026
Current financial assets at amortised cost	319,785	-	-
Notes receivable	1,200	1,971	584
Accounts receivable	122,328	158,829	134,911
Accounts receivable due from related parties	308	370	-
Other receivables	5,523	8,018	9,164
Guarantee deposits paid	7,332	7,344	7,344
Other financial assets	33,983	271,452	405,677
	<u>\$ 858,042</u>	<u>\$ 943,830</u>	<u>\$ 950,203</u>

	<u>September 30, 2018</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
<u>Financial liabilities</u>			
Financial liabilities at amortised cost			
Notes payable	\$ 13	\$ -	\$ 12
Accounts payable	52,035	64,080	37,296
Accounts payable to related parties	2,606	1,706	1,179
Other payables	76,731	88,606	154,818
Guarantee deposits received	-	193	193
	<u>\$ 131,385</u>	<u>\$ 154,585</u>	<u>\$ 193,498</u>

B. Financial risk management policies

There was no significant change in the reporting period. Please refer to Note 12 in the consolidated financial statements for the year ended December 31, 2017.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD and RMB. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- iii. The Group's businesses involve some non-functional currency operations (the Company's functional currency: NTD; other certain subsidiaries' functional currency: USD and RMB). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

September 30, 2018			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 6,988	30.53	\$ 213,344
HKD:NTD	7,756	3.90	30,248
AUD:NTD	470	22.04	10,359
EUR:NTD	114	35.48	4,045
RMB:NTD	16,719	4.44	74,232
JPY:NTD	18	0.27	5
THB:NTD	4	0.95	4
<u>Non-monetary items</u>			
USD:NTD	593	30.53	18,104
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	442	4.44	1,962

December 31, 2017			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 6,075	29.76	\$ 180,792
HKD:NTD	6,090	3.81	23,203
AUD:NTD	466	23.19	10,807
EUR:NTD	114	35.57	4,055
RMB:NTD	15,335	4.57	70,081
JPY:NTD	18	0.26	5
THB:NTD	4	0.92	4
USD:RMB	109	6.53	712
<u>Non-monetary items</u>			
USD:NTD	426	29.76	12,679
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	2	29.76	60
RMB:NTD	200	4.57	914

September 30, 2017			
	Foreign currency amount (in thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	\$ 5,852	30.26	\$ 177,082
HKD:NTD	5,879	3.87	22,752
AUD:NTD	464	23.71	11,001
EUR:NTD	114	35.75	4,076
RMB:NTD	15,315	4.55	69,683
JPY:NTD	18	0.27	5
<u>Non-monetary items</u>			
USD:NTD	618	30.26	18,701
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	2	30.26	61
RMB:NTD	18	4.55	82

- iv. Please refer to the following table for the details of unrealised exchange gain (loss) arising from significant foreign exchange variation on the monetary items held by the Group.

Three months ended September 30, 2018			
Exchange gain (loss)			
Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	30.53 (\$	8,252)	
HKD:NTD	3.90 (	970)	
AUD:NTD	22.04 (	286)	
EUR:NTD	35.48	62	
RMB:NTD	4.44 (	1,319)	

Three months ended September 30, 2017			
Exchange gain (loss)			
Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)	
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	30.26	\$	8
HKD:NTD	3.87	(	130)
AUD:NTD	23.71		197
EUR:NTD	35.75		117
RMB:NTD	4.55		1,351

Nine months ended September 30, 2018		
Exchange gain (loss)		
Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)		
<u>Financial assets</u>		
<u>Monetary items</u>		
USD:NTD	30.53	\$ 410
HKD:NTD	3.90	148
AUD:NTD	22.04	(216)
EUR:NTD	35.48	9
RMB:NTD	4.44	(2,361)

Nine months ended September 30, 2017		
Exchange gain (loss)		
Foreign currency amount (In thousands)	Exchange rate	Book value (NTD)
(Foreign currency: functional currency)		
<u>Financial assets</u>		
<u>Monetary items</u>		
USD:NTD	30.26	(\$ 9,479)
HKD:NTD	3.87	(1,283)
AUD:NTD	23.71	225
EUR:NTD	35.75	210
RMB:NTD	4.55	(305)

- v. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Nine months ended September 30, 2018			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1.00%	\$ 2,133	\$ -
HKD:NTD	1.00%	302	-
AUD:NTD	1.00%	104	-
EUR:NTD	1.00%	40	-
RMB:NTD	1.00%	742	-
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	1.00%	20	-

Nine months ended September 30, 2017			
Sensitivity analysis			
	Degree of variation	Effect on profit or loss	Effect on other comprehensive income
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD:NTD	1.00%	\$ 1,771	\$ -
HKD:NTD	1.00%	228	-
AUD:NTD	1.00%	110	-
EUR:NTD	1.00%	41	-
RMB:NTD	1.00%	697	-

Price risk

- The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- The Group's investments in equity securities comprise domestic beneficiary certificates and equity instrument issued by foreign listed companies and domestic companies. The prices of equity securities would change due to the variation of the future value of investee companies. If the prices of these equity securities had increased or decreased by 1% with

all other variables held constant, post-tax profit for the nine months ended September 30, 2018 and 2017 would have increased or decreased by \$0 and \$115, respectively, as a result of gains or losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased or decreased by \$28 and \$0, respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms, and the contract cash flows of debt instruments stated at amortised cost.
- ii. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition:

If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- v. The Group classifies customers' accounts receivable and contract assets in accordance with customer types. The Group applies the simplified approach using provision matrix, loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vi. The following indicators are used to determine whether the credit impairment of debt instruments has occurred:
 - (i) It becomes probable that the issuer will enter bankruptcy or other financial reorganization due to their financial difficulties;
 - (ii) The disappearance of an active market for that financial asset because of financial difficulties;
 - (iii) Default or delinquency in interest or principal repayments;
 - (iv) Adverse changes in national or regional economic conditions that are expected to cause a default.

vii. The Group used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable and contract assets. On September 30, 2018, the provision matrix and loss rate methodology is as follows:

<u>Group 1</u>	<u>Without past due</u>	<u>Up to 90 days</u>	<u>91-180 days</u>	<u>181-270 days</u>	<u>Over 271 days</u>	<u>Total</u>
<u>September 30, 2018</u>						
Expected loss rate	0%	0.05%~ 0.17%	0.27%~ 1.31%	3.92%~ 41.67%	100.00%	
Total book value	\$ 81,258	\$ 12,875	\$ 792	\$ 2,499	\$ 2,203	\$ 99,627
Loss allowance	\$ 3	\$ 9	\$ 3	\$ 264	\$ 2,203	\$ 2,482
		<u>Group 2</u>	<u>Group 3</u>	<u>Total</u>		
<u>September 30, 2018</u>						
Expected loss rate		0%	0%			
Total book value	\$	3,101	\$	22,082	\$	25,183
Loss allowance	\$	-	\$	-	\$	-

Group 1: general business

Group 2: government-owned corporation

Group 3: government organisations

As of September 30, 2018, contract assets are \$54,676, and loss allowance is \$0 if measured at expected credit loss rate of 0%.

ix. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable and contract assets are as follows:

	<u>2018</u>			
	<u>Accounts receivable</u>	<u>Contract assets</u>	<u>Notes receivable</u>	<u>Total</u>
At January 1_IAS 39	\$ 7,460	\$ -	\$ -	\$ 7,460
Adjustments under new standards	-	-	-	-
At January 1_IFRS 9	7,460	-	-	7,460
Write-offs	(1,028)	-	-	(1,028)
Reversal of impairment loss	(3,950)	-	-	(3,950)
September 30, 2018	<u>\$ 2,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,482</u>

x. Credit risk information for the third quarter of 2017 is provided in Note 12(4)

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date for non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Non-derivative financial

liabilities:

	Less than 3 months	Between 3 months and 2 years	Between 2 and 5 years
September 30, 2018			
Notes payable	\$ 13	\$ -	\$ -
Accounts payable	49,550	2,485	-
Accounts payable to related parties	2,606	-	-
Other payables	50,599	26,132	-

Non-derivative financial

liabilities:

	Less than 3 months	Between 3 months and 2 years	Between 2 and 5 years
December 31, 2017			
Accounts payable	\$ 63,205	\$ 875	\$ -
Accounts payable to related parties	1,706	-	-
Other payables	55,328	33,278	-

Non-derivative financial

liabilities:

	Less than 3 months	Between 3 months and 2 years	Between 2 and 5 years
September 30, 2017			
Notes payable	\$ 12	\$ -	\$ -
Accounts payable	37,296	-	-
Accounts payable to related parties	1,179	-	-
Other payables	114,978	39,840	-

(3) Fair value information

- A. The different levels that the inputs to valuation techniques are used to measure fair value of financial and non-financial instruments have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks, beneficiary certificates are included in Level 1.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

B. Financial instruments not measured at fair value

Except for those listed in the table below, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, notes payable, accounts payable and other payables are approximate to their fair values.

C. The related information of financial and non-financial instruments measured at fair value by level on the basis of the nature, characteristics and risks of the assets and liabilities are as follows:

September 30, 2018	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value</u>				
<u>measurements</u>				
Financial assets at fair value through other comprehensive income	\$ -	\$ -	\$ 2,775	\$ 2,775

December 31, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value</u>				
<u>measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities investment	\$ -	\$ -	\$ -	\$ -

September 30, 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value</u>				
<u>measurements</u>				
Financial assets at fair value through profit or loss				
Equity securities investment	\$ -	\$ -	\$ -	\$ -

D. The methods and assumptions the Group used to measure fair value are as follows:

(a) The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:

	<u>Listed shares</u>	<u>Closed-end fund</u>	<u>Open-end fund</u>
Market quoted price	Closing price	Closing price	Net asset value

- (b) Except for financial instruments with active markets, the fair value of other financial instruments is measured by using valuation techniques or by reference to counterparty quotes. The fair value of financial instruments measured by using valuation techniques can be referred to current fair value of instruments with similar terms and characteristics in substance, discounted cash flow method or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).
- E. For the nine months ended September 30, 2018 and 2017, there was no transfer between Level 1 and Level 2.
- F. For the nine months ended September 30, 2018 and 2017, there was no transfer into or out from Level 3.
- G. Finance segment is in charge of valuation procedures for fair value measurements being categorised within Level 3, which is to verify independent fair value of financial instruments. Such assessment is to ensure the valuation results are reasonable by applying independent information to make results close to current market conditions, confirming the resource of information is independent, reliable and in line with other resources and represented as the exercisable price, and frequently calibrating valuation model, performing back-testing, updating inputs used to the valuation model and making any other necessary adjustments to the fair value.
- H. Valuation techniques of fair value that the Group used in level 3 are net asset value and market comparable companies. The significant unobservable input of market comparable companies is the discount for lack of marketability. If the input and discount for lack of marketability are higher, the fair value will be lower.

(4) Effects on initial application of IFRS 9 and information on application of IAS 39 in 2017

- A. Details of adopting significant accounting policies in 2017 and the third quarter of 2017 are provided in Note 4 of the 2017 consolidated financial statements.
- B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

IFRS9	IAS 39	Effects			
		Other current assets	Financial assets at cost	Undistributed earnings	Other equity
Transferred into and measured at fair value through profit or loss					
Transferred into and measured at fair value through other comprehensive income-equity		\$ -	\$ 2,252	\$ -	\$ -
Transferred into and measured at amortised cost		238,311	-	-	-
Fair value adjustment		-	(182)	-	(182)
Impairment loss adjustment		-	-	5,386	(5,386)
		<u>\$ 238,311</u>	<u>\$ 2,070</u>	<u>\$ 5,386</u>	<u>(\$ 5,568)</u>

- (a) Under IAS 39, because the equity instruments, which were classified as: financial assets at cost, amounting to \$2,252, were not held for the purpose of trading, they were reclassified as "financial assets at fair value through other comprehensive income (equity instruments)" amounting to \$2,070, increased retained earnings and decreased other equity interest in the amounts of \$5,386 and \$5,568 on initial application of IFRS 9.
- (b) In accordance with IFRS 9, the Group reclassified other current assets, by increasing financial assets at amortised cost, and decreasing other current assets in the amounts of \$238,311 and \$238,311, respectively.
- C. The significant accounts as of December 31, 2017 and September 30, 2017, are as follows:

- (a) Financial assets at fair value through profit or loss

Items	December 31, 2017	September 30, 2017
Financial assets held for trading		
Open-end fund	\$ -	\$ 11,491
Foreign stocks	-	-
	-	11,491
Valuation adjustments of financial assets held for trading	-	(11,491)
Total	<u>\$ -</u>	<u>\$ -</u>

For the three months and nine months ended September 30, 2017, the Group recognises net gain in the amount of \$607 and \$779, respectively.

(b) Notes receivable

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Notes receivable	\$ 1,971	\$ 1,344
Less: Loss allowance	-	(760)
	<u>\$ 1,971</u>	<u>\$ 584</u>

i. Movement analysis of financial assets that were impaired is as follows:

	<u>2017</u>		
	<u>Individual provision</u>	<u>Group provision</u>	<u>Total</u>
At January 1	\$ -	\$ -	\$ -
Provision for impairment	-	760	760
At September 30	<u>\$ -</u>	<u>\$ 760</u>	<u>\$ 760</u>

ii. The credit quality of notes receivable that were neither past due nor impaired was in the following categories based on the Group's credit quality control policy:

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Group 1	\$ 1,840	\$ 453
Group 2	131	131
	<u>\$ 1,971</u>	<u>\$ 584</u>

Group 1: Clients from Commercial segment

Group 2: Clients from Project segment

iii. The Group has no discounted notes receivable.

(c) Accounts receivable, net

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Accounts receivable	\$ 64,683	\$ 72,824
Less: Loss allowance	(7,460)	(5,268)
	<u>57,223</u>	<u>67,556</u>
Service revenue receivable	107,483	82,271
Less: Advance receipts from service	(5,877)	(14,916)
	<u>101,606</u>	<u>67,355</u>
	<u>\$ 158,829</u>	<u>\$ 134,911</u>

i. Movement analysis of financial assets that were impaired is as follows:

	2017		
	Individual provision	Group provision	Total
At January 1	\$ -	\$ 7,723	\$ 7,723
Reversal of impairment loss	-	(2,455)	(2,455)
At September 30	\$ -	\$ 5,268	\$ 5,268

ii. The credit quality of accounts receivable that were neither past due nor impaired was in the following categories based on the Group's credit quality control policy:

	December 31, 2017	September 30, 2017
Group 1	\$ 72,673	\$ 78,678
Group 2	55,223	39,059
Group 3	30,933	17,174
	<u>\$ 158,829</u>	<u>\$ 134,911</u>

Group 1: Clients from Commercial segment

Group 2: Clients from Financial business segment

Group 3: Clients from Project segment

(d) Held-to-maturity financial assets

i. The Group invested in the financial bonds issued by Medical Provider Financial Corp., which have been entrusted to Wells Fargo Bank due to Medical Provider Financial Corp. having an improper operation. Since the possibility of redemption is remote based on the Group's assessment, therefore the Group provided impairment loss amounting to \$31,663 at the end of 2009. The subsequent recovery is as follows:

- (i) In February and March, 2014, the Group received a ruling from USA court that Wells Fargo Bank and Medical Provider Financial Corp., which are commissioned to entrust the Group's financial bonds, shall return certain original investment amounting to US\$223 thousand and US\$138 thousand, respectively, and the reversal of impairment is \$10,933. All the returned investments have been collected in cash.
- (ii) In July, 2016, the Group received a ruling from USA court that the bank, which is commissioned to entrust the Group's financial bonds, shall return certain original investment amounting to US\$969, and the reversal of impairment is \$31.
- (iii) In January, 2017, the Group received a ruling from USA court that the bank, which is commissioned to entrust the Group's financial bonds, shall return certain original investment amounting to US\$40,866, and the reversal of impairment is \$1,310.

ii. As of December 31, 2017 and September 30, 2017, no held-to-maturity financial assets held by the Group were pledged to others.

(e) Other current assets

	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Time deposits with maturity over three months	\$ 221,289	\$ 361,233
Others	<u>50,163</u>	<u>44,444</u>
	<u>\$ 271,452</u>	<u>\$ 405,677</u>
Interest rate range of time deposit	0.15%~3.90%	0.15%~4.00%

i. The Group has no time deposits with maturity over three months pledged to others as collaterals.

ii. Information about the other current assets-others that were pledged to others as collaterals is provided in Note 8.

(f) Financial assets at cost

<u>Item</u>	<u>December 31, 2017</u>	<u>September 30, 2017</u>
Unlisted shares		
Technology Partner IV Venture Capital Corp.	\$ 5,638	\$ 5,638
Formosa First Country Club	<u>2,000</u>	<u>2,000</u>
	7,638	7,638
Accumulated impairment	(5,386)	(5,141)
	<u>\$ 2,252</u>	<u>\$ 2,497</u>

i. According to the Group's intention, its investment in abovementioned corporation stocks should be classified as 'available-for-sale financial assets'. However, as these corporation stocks are not traded in active market, and no sufficient industry information of companies similar to abovementioned corporations or abovementioned corporations' financial information cannot be obtained, the fair value of the investment in these corporation stocks cannot be measured reliably. The Group classified those stocks as 'financial assets measured at cost'.

ii. The net values of financial assets at cost were decreased, and the possibility of reversal is remote due to the operation of the invested companies is not up to the forecast, therefore, the Group provided impairment loss. For three months and nine months ended September 30, 2017, there was no impairment loss. As of December 31, 2017 and September 30, 2017, the accumulated impairment is \$5,386 and \$5,141, respectively.

iii. In September, 2017, Technology Partner IV Venture Capital Corp. decreased the capital, and returned the investment amounting to \$994.

iv. As of December 31, 2017 and September 30, 2017, no financial assets measured at cost held by the Group were pledged to others.

D. Credit risk information on December 31, 2017 and September 30, 2017 are as follows:

- (a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.
- (b) On December 31, 2017 and September 30, 2017, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.
- (c) The individual analysis of financial assets that had been impaired is provided in the Note 12(4) C.

(5) Effects of initial application of IFRS 15 and information on application of IAS 18 in 2017

- A. Details of adopting significant accounting policies in 2017 and the third quarter of 2017 are provided in Note 4 of the 2017 consolidated financial statements.
- B. The revenue recognised by using above accounting policies for the third quarter of 2017 are as follows:

	<u>Three months ended September 30, 2018</u>
Sales of goods	\$ 12,850
Sales of services	137,582
Total	<u>\$ 150,432</u>
	<u>Nine months ended September 30, 2017</u>
Sales of goods	\$ 43,225
Sales of services	409,935
Total	<u>\$ 453,160</u>

- C. The effects on current balance sheet items if the Group continues adopting above accounting policies are as follows:

<u>Balance sheet items</u>	<u>Description</u>	September 30, 2018		
		Balance by using IFRS 15	Balance by using previous accounting policies	Effects from changes in accounting policy
Accounts receivable		\$ 122,636	\$ 177,312	(\$ 54,676)
Contract assets		54,676	-	54,676
Contract liabilities		83,313	-	83,313
Other current liabilities (advance sales receipts)		8,089	91,402	(83,313)

Under IFRS 15, the Group recognised customer-related contract assets and contract liabilities, which were previously presented as accounts receivable and other current liabilities (advance sales receipts) on the balance sheet. It will not impact current revenue and current net income.

- D. The significant accounts as of December 31, 2017 and September 30, 2017, are as follows:

Other current liabilities

	December 31, 2017	September 30, 2017
Unearned revenue from service	\$ 52,989	\$ 61,419
Less: Receivable in service fee	(1,526)	(961)
Unearned revenue from service, net	51,463	60,458
Advanced receipts from software	7,057	4,101
Current lease obligations payable	4,236	-
Other advanced receipts	5	-
	<u>\$ 62,761</u>	<u>\$ 64,559</u>

13. SUPPLEMENTARY DISCLOSURES

(1) Significant transactions information

- A. Loans to others: None.
- B. Provision of endorsements and guarantees to others: None.
- C. Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures): Please refer to table 1.
- D. Acquisition or sale of the same security with the accumulated cost exceeding \$300 million or 20% of the Company's paid-in capital: None.
- E. Acquisition of real estate reaching \$300 million or 20% of paid-in capital or more: None.
- F. Disposal of real estate reaching \$300 million or 20% of paid-in capital or more: None.

G. Purchases or sales of goods from or to related parties reaching \$100 million or 20% of paid-in capital or more: None.

H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: None.

I. Trading in derivative instruments undertaken during the reporting periods: None.

J. Significant inter-company transactions during the reporting periods: Please refer to table 2.

(2) Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China) : Please refer to table 3.

(3) Information on investments in Mainland China

A. Basic information: Please refer to table 4.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 2.

14. SEGMENT INFORMATION

(1) General information

Management has determined the reportable operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

There is no material change in the basis for formation of entities and division of segments in the Group or in the measurement basis for segment information during this period.

(2) Segment information

The Group's segment profit and loss is measured with the operating income and loss, which is used as a basis for the Group in assessing the performance of the operating segments. The segment information provided to the Chief Operating Decision-Maker for the reportable segments is as follows:

Nine months ended September 30, 2018:

	Commercial segment	Financial business segment	Project segment	Total
Revenue from external customers	\$ 234,481	\$ 114,841	\$ 121,873	\$ 471,195
Inter-segment revenue	2,740	-	-	2,740
Total segment revenue	<u>\$ 237,221</u>	<u>\$ 114,841</u>	<u>\$ 121,873</u>	<u>\$ 473,935</u>
Segment income (loss)	<u>(\$ 7,795)</u>	<u>\$ 12,697</u>	<u>\$ 17,475</u>	<u>\$ 22,377</u>
Segment income (loss), including:				
Depreciation and amortisation	<u>\$ 834</u>	<u>\$ 687</u>	<u>\$ 4,481</u>	<u>\$ 6,002</u>

Nine months ended September 30, 2017:

	Commercial segment	Financial business segment	Project segment	Total
Revenue from external customers	\$ 217,464	\$ 118,248	\$ 117,448	\$ 453,160
Inter-segment revenue	2,278	-	-	2,278
Total segment revenue	<u>\$ 219,742</u>	<u>\$ 118,248</u>	<u>\$ 117,448</u>	<u>\$ 455,438</u>
Segment income (loss)	<u>(\$ 26,558)</u>	<u>\$ 18,776</u>	<u>\$ 11,641</u>	<u>\$ 3,859</u>
Segment income (loss), including:				
Depreciation and amortisation	<u>\$ 665</u>	<u>\$ 554</u>	<u>\$ 1,185</u>	<u>\$ 2,404</u>

The Group did not disclose the information in relation to segment assets and segment liabilities due to these information were not provided to the Chief Operating Decision-Maker.

(3) Reconciliation for segment income and loss

The segment operating loss reported to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. The Group did not provide the amounts of total assets and total liabilities to the Chief Operating Decision-Maker for making operating decisions. The reconciliation on segment revenue, operating revenue, segment income/loss and income/loss before tax from continuing operations of reportable segment are as follows:

Profit or loss	Nine months ended September 30,	
	2018	2017
Total reportable segment revenue	\$ 473,935	\$ 455,438
Write-off of inter-segment revenue	(2,740)	(2,278)
Operating revenue	<u>\$ 471,195</u>	<u>\$ 453,160</u>

Profit or loss	Nine months ended September 30,	
	2018	2017
Segment loss	\$ 22,377	\$ 3,859
Adjustments and write-offs	(2,740)	(2,278)
Non-operating income and expenses	16,404	2,241
Income before tax from continuing operations	<u>\$ 36,041</u>	<u>\$ 3,822</u>

Ares International Corp.

Holding of marketable securities at the end of the period (not including subsidiaries, associates and joint ventures)

For the nine months ended September 30, 2018

Table 1

Expressed in thousands of NTD

(Except as otherwise indicated)

Securities held by	Marketable securities (Note 1)	Relationship with the securities issuer (Note 2)	General ledger account	As of September 30, 2018				
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	Footnote (Note 4)
Ares International Corp.	Common shares/Technology Partner IV Venture Capital Corp.	-	Financial assets at fair value through other comprehensive income	397,953	\$ 2,775	2.16%	\$ 2,775	-
Ares International Corp.	Common shares/Formosa First Country Club	-	Financial assets at fair value through other comprehensive income	2,025	-	0.01%	-	-

Note 1: Marketable securities in the table refer to stocks, bonds, beneficiary certificates and other related derivative securities in accordance with IAS 39, 'Financial instruments: recognition and measurement'.

Note 2: Leave the column blank if the issuer of marketable securities is a non-related party.

Note 3: Fill in the amount after adjusted at fair value and deducted by accumulated impairment for the marketable securities measured at fair value; fill in the acquisition cost or amortised cost deducted by accumulated impairment for the marketable securities not measured at fair value.

Note 4: The number of shares of securities and their amounts pledged as security or pledged for loans and their restrictions on use under some agreements should be stated in the footnote if the securities presented herein have such conditions.

Ares International Corp.

Significant inter-company transactions during the reporting periods

For the nine months ended September 30, 2018

Table 2

Expressed in thousands of NTD
(Except as otherwise indicated)

Number (Note 1)	Company name	Counterparty	Relationship (Note 2)	Transaction			Percentage of consolidated total operating revenues or total assets (Note 3)
				General ledger account	Amount	Transaction terms	
0	Ares International Corp.	APLUSOFT (SUZHOU) CORPORATION.	1	Accounts payable-related parties	\$ 8,103	Note6	0.76%
0	Ares International Corp.	APLUSOFT (SUZHOU) CORPORATION.	1	Accounts receivable-related parties	3,307	Note5	0.31%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1)Parent company is '0'.

(2)The subsidiaries are numbered in order starting from '1'.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories; fill in the number of category each case belongs to (If transactions between parent company and subsidiaries refer to the same transaction, it is not required to disclose twice. For example, if the parent company has already disclosed its transaction with a subsidiary, then the subsidiary is not required to disclose the transaction.):

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

(3)Subsidiary to subsidiary.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet and accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

Note 4: The Company may decide to disclose or not to disclose transaction details in this table based on the Materiality Principle.

Note 5: Goods are sold based on the price lists in force and terms that would be available to third parties, and the collection period is 60 days after monthly billings under the current transaction volume and market condition.

Note 6: Goods and services are purchased on normal commercial terms and conditions, and the payment term is 60 days after monthly billings under the current transaction volume and market condition.

Ares International Corp.

Names, locations, and related information on investees (excluding information on investment in Mainland China)

For the nine months ended September 30, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee (Note 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at September 30, 2018			Net profit (loss) of the investee for the nine months ended September 30, 2018 (Note 2(2))	Investment income(loss) recognised by the Company for the nine months ended September 30, 2018 (Note 2(3))	Footnote
				Balance as at September 30, 2018	Balance as at December 31, 2017	Number of shares	Ownership (%)	Book value			
Ares International Corp.	ARGO INTERNATIONAL CORPORATION	Taiwan	Provides professional service of computer application software and sells computer peripheral equipments	\$ 14,014	\$ 14,014	1,567,476	34.83	\$ 18,324	\$ 3,203	\$ 1,116	
Ares International Corp.	M-Power Information Co., Ltd.	Taiwan	Agency and sale of database system and professional service of software	21,493	21,493	1,950,822	24.39	27,862	12,756	3,111	
Ares International Corp.	ARES GROUP CORP.	Seychelles	Investment business	35,029	35,029	1,500,000	100	18,516	4,667	4,667	Subsidiary
Ares International Corp.	APLUSOFT CO., LTD.	Taiwan	Installation of computer and consultant of information software	30,889	30,889	1,500,000	100	30,130	(503)	(503)	Subsidiary
APLUSOFT CO., LTD.	WELJOIN TECHNOLOGIES LIMITED (BVI)	British Virgin Islands	Investment business	26,177	26,177	50,000	100	29,760	(504)	Note3	Second-tire subsidiary
ARES GROUP CORP.	SHARP KEEN MANAGEMENT LIMITED	British Virgin Islands	Investment business	34,115	34,115	1,120,000	100	18,117	4,701	Note3	Second-tire subsidiary
SHARP KEEN MANAGEMENT LIMITED	BLITZ IT CONSULTANTS PTE LTD.	Singapore	Agency of computer software and internet	33,256	33,256	484,000	25	17,994	26,371	Note3	

Note 1: If a public company is equipped with an overseas holding company and takes consolidated financial report as the main financial report according to the local law rules, it can only disclose the information of the overseas holding company about the disclosure of related overseas investee information.

Note 2: If situation does not belong to Note 1, fill in the columns according to the following regulations:

- (1)The columns of 'Investee', 'Location', 'Main business activities', 'Initial investment amount' and 'Shares held as at September 30, 2018' should fill orderly in the Company's (public company's) information on investees and even directly or indirectly controlled investee's investment information, and note the relationship between the Company (public company) and its investee each (ex. direct subsidiary or indirect subsidiary) in the 'footnote' column.
- (2)The 'Net profit (loss) of the investee for the nine months ended September 30, 2018' column should fill in amount of net profit (loss) of the investee for this period.
- (3)The 'Investment income (loss) recognised by the Company for the nine months ended September 30, 2018' column should fill in the Company (public company) recognised investment income (loss) of its direct subsidiary and recognised investment income (loss) of its investee accounted for under the equity method for this period. When filling in recognised investment income (loss) of its direct subsidiary, the Company (public company) should confirm that direct subsidiary's net profit (loss) for this period has included its investment income (loss) which shall be recognised by regulations.

Note 3: Investment income (loss) for the period was recognised by subsidiaries of investees.

Ares International Corp.
Information on investments in Mainland China
For the nine months ended September 30, 2018

Table 4

Expressed in thousands of NTD
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital (Note 3)	Investment method	Beginning balance of accumulated outflow of investment from Taiwan	Investment flows		Ending balance of accumulated outflow of investment from Taiwan	Net income of investee as of September 30, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the nine months ended September 30, 2018 (Note 2)	Book value of investments in Mainland China as of September 30, 2018	Accumulated amount of investment income remitted back to Taiwan as of September 30, 2018	Note
					Remitted to Mainland China	Remitted back to Taiwan							
APLUSOFT (SUZHOU) CORPORATION.	Research and development of enterprise management software and sale of self-produce product of the Company	\$ 25,228	Note1	\$ 23,806	-	-	\$ 23,806	(\$ 475)	95.88	(\$ 460)	\$ 28,054	-	

Note 1: Through investing in an existing company in the third area, which then invested in the investee in Mainland China. The investee in the third area is WELJOIN TECHNOLOGIES LIMITED (BVI).

Note 2: The financial statements that are not reviewed by the independent accountants.

Note 3: The paid-in capital of Aplusoft (Suzhou) Corporation amounted to RMB5,215,000 (USD750,592).

Company name	Accumulated amount of remittance from Taiwan to Mainland China as of September 30, 2018	Investment amount approved by the Investment Commission of the Ministry of Economic Affairs (MOEA)	Ceiling on investments in Mainland China imposed by the Investment Commission of MOEA
Ares International Corp.	\$ 49,446	\$ 49,446	\$ 419,839
APLUSOFT CO., LTD.	23,806	23,806	