

ARES INTERNATIONAL CORP.
PARENT COMPANY ONLY FINANCIAL
STATEMENTS AND REPORT OF INDEPENDENT
ACCOUNTANTS
DECEMBER 31, 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.

REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

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

Opinion

We have audited the accompanying parent company only balance sheets of Ares International Corp. (the “Company”) as at December 31, 2018 and 2017, and the related parent company only statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and reports of other independent accountants, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as at December 31, 2018 and 2017, and its parent company only financial performance and its parent company only cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”.

Basis for opinion

We conducted our audits in accordance with the “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and generally accepted auditing standards in the Republic of China(“ROC GAAS”). Our responsibilities under those standards are further described in the *Independent Accountant’s Responsibilities for the Audit of Parent Company Only Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. Based on our audits and reports of other independent accountants, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key audit matters for the Company’s parent company only financial statements of the current year are stated as follows:

Service revenue recognition

Description

Refer to Note 4(24) for accounting policies on service revenue recognition and Note 6(17) for details of service revenue.

The Company recognises service revenue by considering the possibility of incurred cost recovery when unable to reasonably measure the performance obligation result of the service contract. The Company recognises service revenue within the amount of incurred costs when the incurred costs are likely to be recovered before the acceptance by the client. At the time the work performed is accepted by the client, the service revenue for the period is recognised based on the difference between total contract price and accumulated recognised service revenue. Therefore, the timing of service revenue recognition is affected by the accuracy of the time of client acceptance, and service revenue recognition was identified as a key audit matter.

How our audit addressed the matter

The procedures that we have performed in response to specific aspects of the abovementioned key audit matter are summarised as follows:

- A. Obtained an understanding of the internal control relevant to the service revenue process and assessed the effectiveness of its implementation.
- B. Obtained a summary of service revenue and performed the following procedures on contracts which could not be reasonably estimated:
 - (a) Service contracts accepted by clients during the year:
 - Sampled and checked the certificate of client acceptance confirmation.
 - Verified the total contract price.
 - Ascertained whether the date on the certificate of acceptance was consistent with the timing of the recognition of service revenue and the appropriate accounting entry was made.
 - (b) Service contracts which have not been accepted by the client during the year:
 - Reconciled the amount of input costs with service revenue recognition.
 - Sampled and checked the consistency between the input costs and original documents.

Existence of cash and cash equivalents

Description

Refer to Note 4(5) for the accounting policies on cash equivalents. For detailed description of cash and cash equivalents and current financial assets at amortised cost (time deposits that do not meet the definition of a cash equivalents), refer to Notes 6(1) and (2) of the parent company only financial statements.

As of December 31, 2018, the combined balance of cash and cash equivalents and time deposits with maturity over 3 months (included in current financial assets at amortised cost) was NT\$710,024 thousand, accounting for 64% of total assets. The aforementioned balance constitutes a significant portion of total assets of the Company which has high inherent risk. Thus, we have included the existence of cash and cash equivalents as a key audit matter.

How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the abovementioned key audit matter are summarised as follows:

- A. Examined statements, passbooks, and online banking information in order to confirm that the cash was owned by the Company.
- B. Received external confirmation on the bank accounts and confirmed the existence of cash and cash equivalents and the associated rights and obligations.
- C. Verified the authenticity of bank confirmation.
- D. Tested the accuracy of the calculations in the bank reconciliation table; sampled and reviewed reconciling items and confirmed that there were no significant and unusual adjusted items.

Other matter – Scope of the Audit

For the years ended December 31, 2018 and 2017, the parent company only financial statements of certain investees accounted for using equity method were audited by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, is based solely on the audit reports of the other independent accountants. These investments accounted for using equity method amounted to NT\$50,298 thousand and NT\$47,449 thousand, constituting 4.51% and 4.32% of the total assets as of December 31, 2018 and 2017, respectively and total comprehensive income amounted to NT\$8,336 thousand and NT\$8,549 thousand, constituting 13.99% and 26.83% of the total comprehensive income for the years then ended, respectively.

Responsibilities of management and those charged with governance for the parent company only financial statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including supervisors, are responsible for overseeing the Company’s financial reporting process.

Independent accountant’s responsibilities for the audit of the parent company only financial statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CPA Lin, Yi-Fan
CPA Yu, Shu-Fen

For and on behalf of PricewaterhouseCoopers, Taiwan
March 21, 2019

The accompanying parent company only 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 parent company only 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.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Assets		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current assets						
1100	Cash and cash equivalents	6(1)	\$ 476,064	43	\$ 469,634	43
1136	Financial assets at amortised cost	6(2) and 8				
	- current		233,960	21	-	-
1140	Contract assets - current	6(17)	55,406	5	-	-
1150	Notes receivable, net	6(3) and 12(4)	4,871	1	1,971	-
1170	Accounts receivable, net	6(3) and 12(4)	103,998	9	156,551	14
1180	Accounts receivable - related parties	7	4,846	-	933	-
1200	Other receivables		4,755	-	7,506	1
1410	Prepayments	6(4)	31,647	3	24,369	2
1470	Other current assets	8 and 12(4)	50,284	5	271,375	25
11XX	Total current assets		965,831	87	932,339	85
Non-current assets						
1517	Financial assets at fair value through other comprehensive income - non-current	6(5)	2,775	-	-	-
1543	Financial assets carried at cost - non-current	12(4)	-	-	2,252	-
1550	Investments accounted for under equity method	6(6)	102,136	9	92,134	8
1600	Property, plant and equipment	6(7)	7,779	1	24,840	2
1780	Intangible assets		1,247	-	2,398	-
1840	Deferred income tax assets	6(22)	28,285	2	30,718	3
1920	Guarantee deposits paid	8	7,314	1	7,344	1
1940	Long-term notes and accounts receivable - related parties	7	-	-	5,343	1
15XX	Total non-current assets		149,536	13	165,029	15
1XXX	Total assets		\$ 1,115,367	100	\$ 1,097,368	100

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ARES INTERNATIONAL CORP.
PARENT COMPANY ONLY BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

Liabilities and Equity		Notes	December 31, 2018		December 31, 2017	
			AMOUNT	%	AMOUNT	%
Current liabilities						
2130	Contract liabilities - current	6(17)	\$ 90,782	8	\$ -	-
2170	Accounts payable	6(8)	49,253	5	60,042	6
2180	Accounts payable - related parties	7	11,821	1	15,574	1
2200	Other payables	6(9)	98,202	9	87,494	8
2230	Current income tax liabilities		3,007	-	-	-
2250	Provisions for liabilities - current	6(13)	2,152	-	5,784	1
2300	Other current liabilities	6(10) and 12(5)	-	-	58,639	5
21XX	Total current liabilities		255,217	23	227,533	21
Non-current liabilities						
2570	Deferred income tax liabilities	6(22)	217	-	-	-
2640	Accrued pension liabilities	6(11)	135,946	12	142,230	13
2645	Guarantee deposits received		-	-	193	-
2670	Other non-current liabilities	6(10)	-	-	15,618	1
25XX	Total non-current liabilities		136,163	12	158,041	14
2XXX	Total liabilities		391,380	35	385,574	35
Equity						
Share capital		6(14)				
3110	Share capital - common stock		472,539	42	472,539	43
Capital surplus		6(15)				
3200	Capital surplus		146,592	13	164,777	14
Retained earnings		6(16)				
3310	Legal reserve		45,439	4	42,609	4
3320	Special reserve		2,858	-	6,430	1
3350	Unappropriated retained earnings		64,267	6	28,297	3
Other equity interest						
3400	Other equity interest		(7,708)	-	(2,858)	-
3XXX	Total equity		723,987	65	711,794	65
Significant contingent liabilities and unrecognised contract commitments		9				
Significant events after the balance sheet date		11				
3X2X	Total liabilities and equity		\$ 1,115,367	100	\$ 1,097,368	100

The accompanying notes are an integral part of these parent company only financial statements.

ARES INTERNATIONAL CORP.
PARENT COMPANY ONLY STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

Items	Notes	Year ended December 31			
		2018		2017	
		AMOUNT	%	AMOUNT	%
4000 Operating revenue	6(17), 7 and 12(5)	\$ 642,095	100	\$ 660,431	100
5000 Operating cost	6(20)(21) and 7	(400,413)	(62)	(427,451)	(65)
5950 Gross profit		<u>241,682</u>	<u>38</u>	<u>232,980</u>	<u>35</u>
Operating expenses	6(20)(21) and 7				
6100 Selling expenses		(58,121)	(9)	(61,261)	(9)
6200 General and administrative expenses		(51,666)	(8)	(48,021)	(7)
6300 Research and development expenses		(91,063)	(14)	(64,644)	(10)
6450 Reversal of expected credit losses	6(20) and 12(2)	<u>2,363</u>	<u>-</u>	<u>-</u>	<u>-</u>
6000 Total operating expenses		<u>(198,487)</u>	<u>(31)</u>	<u>(173,926)</u>	<u>(26)</u>
6900 Operating profit		<u>43,195</u>	<u>7</u>	<u>59,054</u>	<u>9</u>
Non-operating income and expenses					
7010 Other income	6(18) and 7	7,250	1	6,989	1
7020 Other gains and losses	6(19)	4,656	1	(21,055)	(3)
7050 Finance costs		(273)	-	(33)	-
7070 Share of profit/(loss) of associates and joint ventures accounted for using equity method	6(6)	<u>8,561</u>	<u>1</u>	<u>(8,469)</u>	<u>(1)</u>
7000 Total non-operating income and expenses		<u>20,194</u>	<u>3</u>	<u>(22,568)</u>	<u>(3)</u>
7900 Profit before income tax		<u>63,389</u>	<u>10</u>	<u>36,486</u>	<u>6</u>
7950 Income tax expense	6(22)	(6,204)	(1)	(4,270)	(1)
8200 Profit for the year		<u>\$ 57,185</u>	<u>9</u>	<u>\$ 32,216</u>	<u>5</u>
Other comprehensive income					
Components of other comprehensive income that will not be reclassified to profit or loss					
8311 Actuarial gain (loss) on defined benefit plan	6(11)	\$ 1,665	-	(\$ 3,963)	(1)
8316 Unrealised 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)	(110)	-	44	-
8310 Other comprehensive income (loss) that will not be reclassified to profit or loss		<u>2,260</u>	<u>-</u>	<u>(3,919)</u>	<u>(1)</u>
Components of other comprehensive income that will be reclassified to profit or loss					
8361 Financial statements translation differences of foreign operations	6(6)	63	-	4,304	1
8399 Income tax relating to components of other comprehensive income	6(22)	<u>91</u>	<u>-</u>	<u>(732)</u>	<u>-</u>
8360 Other comprehensive income that will be reclassified to profit or loss		<u>154</u>	<u>-</u>	<u>3,572</u>	<u>1</u>
8500 Total comprehensive income for the year		<u>\$ 59,599</u>	<u>9</u>	<u>\$ 31,869</u>	<u>5</u>
Earnings per share	6(23)				
9750 Basic earnings per share		<u>\$ 1.21</u>		<u>\$ 0.69</u>	
9850 Diluted earnings per share		<u>\$ 1.20</u>		<u>\$ 0.69</u>	

The accompanying notes are an integral part of these parent company only financial statements.

ARES INTERNATIONAL CORP.
PARENT COMPANY ONLY STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

		Capital Reserves					Retained Earnings			Other Equity Interest				
	Notes	Share capital - common stock	Share premium	Treasury stock transactions	Donated assets received	Change in net equity of associates and joint ventures accounted for under equity method	Employee stock warrants	Legal reserve	Special reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealised gains (losses) from financial assets measured at fair value through other comprehensive income	Treasury stocks	Total equity
Year ended December 31, 2017														
Balance at January 1, 2017		\$ 472,539	\$ 114,768	\$ 45,366	\$ -	\$ 1,179	\$ -	\$ 34,859	\$ -	\$ 77,506	(\$ 6,430)	\$ -	(\$ 25,895)	\$ 713,892
Profit for the year		-	-	-	-	-	-	-	-	32,216	-	-	-	32,216
Other comprehensive income (loss)		-	-	-	-	-	-	-	-	(3,919)	3,572	-	-	(347)
Total comprehensive income		-	-	-	-	-	-	-	-	28,297	3,572	-	-	31,869
Appropriations of 2016 earnings	6(16)													
Legal reserve		-	-	-	-	-	-	7,750	-	(7,750)	-	-	-	-
Special reserve		-	-	-	-	-	-	-	6,430	(6,430)	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(63,326)	-	-	-	(63,326)
Issuance of employee stock options	6(12)	-	-	-	-	-	3,416	-	-	-	-	-	-	3,416
Treasury stocks sold to employees	6(14)	-	-	3,372	-	-	(3,416)	-	-	-	-	-	25,895	25,851
Donated by the shareholders		-	-	-	92	-	-	-	-	-	-	-	-	92
Balance at December 31, 2017		\$ 472,539	\$ 114,768	\$ 48,738	\$ 92	\$ 1,179	\$ -	\$ 42,609	\$ 6,430	\$ 28,297	(\$ 2,858)	\$ -	\$ -	\$ 711,794
Year ended December 31, 2018														
Balance at January 1, 2018		\$ 472,539	\$ 114,768	\$ 48,738	\$ 92	\$ 1,179	\$ -	\$ 42,609	\$ 6,430	\$ 28,297	(\$ 2,858)	\$ -	\$ -	\$ 711,794
Effect of retrospective application and restatement	12(4)	-	-	-	-	-	-	-	-	5,386	-	(5,568)	-	(182)
Balance after restatement on January 1		472,539	114,768	48,738	92	1,179	-	42,609	6,430	33,683	(2,858)	(5,568)	-	711,612
Profit for the year		-	-	-	-	-	-	-	-	57,185	-	-	-	57,185
Other comprehensive income		-	-	-	-	-	-	-	-	1,696	154	564	-	2,414
Total comprehensive income		-	-	-	-	-	-	-	-	58,881	154	564	-	59,599
Appropriations of 2017 earnings	6(16)													
Legal reserve		-	-	-	-	-	-	2,830	-	(2,830)	-	-	-	-
Reversal of special reserve		-	-	-	-	-	-	-	(3,572)	3,572	-	-	-	-
Cash dividends		-	-	-	-	-	-	-	-	(29,039)	-	-	-	(29,039)
Capital surplus distributed as dividends	6(16)	-	(18,214)	-	-	-	-	-	-	-	-	-	-	(18,214)
Donated by the shareholders		-	-	-	29	-	-	-	-	-	-	-	-	29
Balance at December 31, 2018		\$ 472,539	\$ 96,554	\$ 48,738	\$ 121	\$ 1,179	\$ -	\$ 45,439	\$ 2,858	\$ 64,267	(\$ 2,704)	(\$ 5,004)	\$ -	\$ 723,987

The accompanying notes are an integral part of these parent company only financial statements.

ARES INTERNATIONAL CORP.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31,	
		2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Profit before tax		\$ 63,389	\$ 36,486
Adjustments			
Adjustments to reconcile profit (loss)			
Reversal of allowance for doubtful accounts	6(18) and 12(4)	- (	263)
Gain on expected credit loss impairment	12(2)	(2,363)	-
Depreciation	6(7)(20)	5,790	2,377
Amortisation	6(20)	1,151	1,056
Interest income	6(18)	(6,842 ) (	6,321)
Interest expense		273	33
Gain on disposal of property, plant and equipment	6(19)	(286 ) (	28)
Reversal of impairment loss recognised in profit or loss, financial assets	6(19)	-	7,406
Gain on financial assets at fair value through profit or loss	6(19) and 12(4)	- (	779)
Impairment loss on financial assets carried at cost-non-current	6(19) and 12(4)	-	245
Share of (profit) loss of associates and joint ventures accounted for under equity method	6(6)	(8,561)	8,469
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	(	23,697)	-
Notes receivable	(	2,900)	672
Accounts receivable		23,207 (	33)
Accounts receivable - related parties	(	3,913)	2,847
Other receivables		3,027 (	330)
Other receivables - related parties		-	649
Prepayments	(	7,278)	1,970
Other current assets	(	6,823)	7,802
Changes in operating liabilities			
Contract liabilities		36,379	-
Accounts payable	(	10,789)	21,898
Accounts payable - related parties	(	3,753 ) (	10,385)
Other payables		10,708 (	8,926)
Provisions for liabilities - current	(	3,632 ) (	382)
Other current liabilities	(	1,012 ) (	13,990)
Accrued pension liabilities	(	3,754)	2,330
Cash inflow generated from operations		58,321	60,219
Interest received		6,434	5,688
Income tax paid	(572) (1,239)
Net cash flows from operating activities		64,183	64,668

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ARES INTERNATIONAL CORP.
PARENT COMPANY ONLY STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars)

	Notes	Years ended December 31,	
		2018	2017
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Increase in financial assets at amortised cost-current		(\$ 163,788)	\$ -
Decrease in financial assets at amortised cost-current		157,742	-
Increase in time deposits with maturity over three months		-	(51,247)
Decrease in time deposits with maturity over three months		-	42,171
Return of capital from held-to-maturity financial assets-non-current	12(4)	-	1,310
Return of capital from financial assets carried at cost-non-current	12(4)	-	994
Increase in investments accounted for under equity method	6(6)	(6,865)	-
Dividends received		5,487	7,780
Proceeds from disposal of equity interest in subsidiary	6(6)	-	2,656
Acquisition of property, plant and equipment	6(25)	(8,764)	(841)
Proceeds from disposals of property, plant and equipment	6(19)	286	28
Acquisition of intangible assets		-	(3,454)
Decrease (increase) in refundable deposits		30	(22)
Decrease in long-term notes and accounts receivable - related parties		5,343	-
Net cash flows used in investing activities		(10,529)	(625)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>			
Cash dividends paid	6(16)	(29,039)	(63,326)
Capital surplus distributed as cash dividends paid	6(16)	(18,214)	-
Donation by the shareholders		29	92
Treasury stocks sold to employees		-	25,851
Net cash flows used in financing activities		(47,224)	(37,383)
Net increase in cash and cash equivalents		6,430	26,660
Cash and cash equivalents at beginning of year		469,634	442,974
Cash and cash equivalents at end of year		\$ 476,064	\$ 469,634

The accompanying notes are an integral part of these parent company only financial statements.

ARES INTERNATIONAL CORP.
NOTES TO THE PARENT COMPANY ONLY FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in thousands of New Taiwan dollars, except as otherwise indicated)

1. HISTORY AND ORGANISATION

Ares International Corp. (hereinafter referred to as ‘the Company’) was established on December 3, 1980. The Company is mainly engaged in the design, sales, lease, maintenance and technology consultation of computer equipment, internet and related software, and analysis, design, modification, 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 PARENT COMPANY ONLY FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These parent company only financial statements were authorised for issuance by the Board of Directors on March 21, 2019.

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:

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
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 Company's financial condition and financial performance based on the Company'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 Company 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 Company 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 Company 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 Company 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 \$54,403.

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

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 Company's financial condition and financial performance based on the Company's assessment.

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.

The Company expects to recognise the lease contract of lessees in line with IFRS 16. However, the Company intends not to restate the financial statements of prior period (referred herein as the "modified retrospective approach"). On January 1, 2019, it is expected that 'right-of-use asset' and lease liability will both be increased by \$29,846.

(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
Amendments 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 Company's financial condition and financial performance based on the Company's assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these parent company only financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

These parent company only financial statements of the Company have been prepared in accordance with the “Regulations Governing the Preparation of Financial Statements by Securities Issuers”.

(2) Basis of preparation

- A. Except for the following items, the parent company only 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 Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the parent company only financial statements are disclosed in Note 5.
- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Company 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 were not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with International Accounting Standard 39 (‘IAS 39’), International Accounting Standard 11 (‘IAS 11’), 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) Foreign currency translation

Items included in the financial statements of the Company’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The parent company only financial statements are presented in New Taiwan dollars, which is the Company’s functional and presentation currency.

A. Foreign currency transactions and balances

- (a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- (b) Monetary assets and liabilities denominated in foreign currencies at the period end are re-translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- (c) Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.
- (d) All foreign exchange gains and losses are presented in the statement of comprehensive income within 'other gains and losses'.

B. Translation of foreign operations

- (a) The operating results and financial position of all the Company entities, associates and joint arrangements that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
 - i. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
 - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period; and
 - iii. All resulting exchange differences are recognised in other comprehensive income.
- (b) When the foreign operation partially disposed of or sold is an associate, exchange differences that were recorded in other comprehensive income are proportionately reclassified to profit or loss as part of the gain or loss on sale. In addition, even when the Company retains partial interest in the former foreign associate after losing significant influence over the former foreign associate, or losing joint control of the former joint arrangement, such transactions should be accounted for as disposal of all interest in these foreign operations.
- (c) When the foreign operation partially disposed of or sold is a subsidiary, cumulative exchange differences that were recorded in other comprehensive income are proportionately transferred to the non-controlling interest in this foreign operation. In addition, even when the Company retains partial interest in the former foreign subsidiary after losing control of the former foreign

subsidiary, such transactions should be accounted for as disposal of all interest in the foreign operation.

(4) Classification of current and non-current items

The Company's business includes sale of computer equipment and software and system integration design services. The operating cycle lasts more than one year. Therefore all assets and liabilities associated with the sale of computer equipment and software and system integration design services are classified as current or non-current based on the length of the operating cycle. The classification criteria for all other accounts are as follows:

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (a) Assets arising from operating activities that are expected to be realised, or are intended to be sold or consumed within the normal operating cycle;
 - (b) Assets held mainly for trading purposes;
 - (c) Assets that are expected to be realised within twelve months from the balance sheet date;
 - (d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to settle liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (a) Liabilities that are expected to be settled within the normal operating cycle;
 - (b) Liabilities arising mainly from trading activities;
 - (c) Liabilities that are to be settled within twelve months from the balance sheet date;
 - (d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

(5) Cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits that meet the definition above and are held for the purpose of meeting short-term cash commitments in operations are classified as cash equivalents.

(6) 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 Company 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 Company'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 Company measures the financial assets at fair value plus transaction costs. The Company 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 Company and the amount of the dividend can be measured reliably.

(7) 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 Company'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 Company 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 Company'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.

(8) Accounts and notes receivable

- A. Accounts and notes receivable entitle the Company 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.

(9) 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 Company 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 Company recognises the impairment provision for lifetime ECLs.

(10) Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to receive the cash flows from the financial asset expire.

(11) Investments accounted for using equity method / subsidiaries and associates

- A. Subsidiaries are all entities (including structured entities) controlled by the Company. The Company controls an entity when the Company is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.
- B. Inter-company transactions, balances and unrealised gains or losses on transactions between the Company and subsidiaries are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- C. The Company's share of its subsidiaries' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Company continues to recognise the losses in proportion to the ownership.
- D. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary (transactions with non-controlling interests) are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity.
- E. When the Company loses control of a subsidiary, the Company remeasures any investment retained in the former subsidiary at its fair value. That fair value is regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of the associate or joint venture. Any difference between fair value and carrying amount is recognised in profit or loss. All amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss on the same basis as would be required if the related assets or liabilities were disposed of. That is, when the Company loses control of a subsidiary, all gains or losses previously recognised in other comprehensive income in relation to the subsidiary should be reclassified from equity to profit or loss, if such gains or losses would be reclassified to profit or loss when the related assets or liabilities are disposed of.

- F. Associates are all entities over which the Company has significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognised at cost.
- G. The Company's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- H. When changes in an associate's equity do not arise from profit or loss or other comprehensive income of the associate and such changes do not affect the Company's ownership percentage of the associate, the Company recognises the Company's share of change in equity of the associate in 'capital surplus' in proportion to its ownership.
- I. Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Company.
- J. In the case that an associate issues new shares and the Company does not subscribe or acquire new shares proportionately, which results in a change in the Company's ownership percentage of the associate but maintains significant influence on the associate, then 'capital surplus' and 'investments accounted for under the equity method' shall be adjusted for the increase or decrease of its share of equity interest. If the above condition causes a decrease in the Company's ownership percentage of the associate, in addition to the above adjustment, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately on the same basis as would be required if the relevant assets or liabilities were disposed of.
- K. When the Company disposes its investment in an associate and loses significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate, are reclassified to profit or loss, on the same basis as would be required if the relevant assets or liabilities were disposed of. If it retains significant influence over this associate, the amounts previously recognised in other comprehensive income in relation to the associate are reclassified to profit or loss proportionately in accordance with the aforementioned approach.
- L. In accordance with "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the profit or loss and other comprehensive income or loss presented on the parent company only financial statements are consistent with those presented on the consolidated financial statements. In addition, owner's equity presented on the parent company only is consistent with equity attributable to owners of parent presented on the consolidated financial statements.

(12) Property, plant and equipment

- A. Property, plant and equipment are initially recorded at cost. Borrowing costs incurred during the construction period are capitalised.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Land is not depreciated. Other property, plant and equipment apply cost model and are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.
- D. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Machinery and equipment	3~10 years
Transportation equipment	5~6 years
Office equipment	8~11 years
Leasehold improvements	3~10 years
Leased assets	5 years
Other equipment	5~11 years

(13) Leased assets/ operating leases (lessee)

- A. Based on the terms of a lease contract, a lease is classified as a finance lease if the Company assumes substantially all the risks and rewards incidental to ownership of the leased asset.
 - (a) A finance lease is recognised as an asset and a liability at the lease's commencement at the lower of the fair value of the leased asset or the present value of the minimum lease payments.
 - (b) The minimum lease payments are apportioned between the finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.
 - (c) Property, plant and equipment held under finance leases are depreciated over their estimated useful lives. If there is no reasonable certainty that the Company will obtain ownership at the end of the lease, the asset shall be depreciated over the shorter of the lease term and its useful life.

B. Payments made under an operating lease (net of any incentives received from the lessor) are recognised in profit or loss on a straight-line basis over the lease term.

(14) Intangible assets

Computer software is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

(15) Impairment of non-financial assets

The Company assesses at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss is reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortised historical cost would have been if the impairment had not been recognised.

(16) 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.

(17) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or repaid on due.

(18) Provisions

Provisions (including warranties, etc.) are recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation on the balance sheet date, which is discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. When discounting is used, the increase in the provision due to passage of time is recognised as interest expense. Provisions are not recognised for future operating losses.

(19) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in a period and should be recognised as expense in that period when the employees render service.

B. Pensions

(a) Defined contribution plans

For defined contribution plans, the contributions are recognised as pension expense when they are due on an accrual basis. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(b) Defined benefit plans

- i. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Company in current period or prior periods. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The net defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of government bonds (at the balance sheet date).
- ii. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- iii. Past service costs are recognised immediately in profit or loss.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the Company's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Company recognises expense as it can no longer withdraw an offer of termination benefits or it recognises relating restructuring costs, whichever is earlier. Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognised as expense and liability, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates.

(20) Employee share-based payment

- A. For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognised as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity

instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. Ultimately, the amount of compensation cost recognised is based on the number of equity instruments that eventually vest.

- B. For the cash-settled share-based payment arrangements, the employee services received and the liability incurred are measured at fair value of the liability to pay for those services, and are recognised as compensation cost and liability over the vesting period. The fair value of the liability shall be remeasured at each balance sheet date until settled at the settlement date, with any changes in fair value recognised in profit or loss.

(21) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- C. Deferred tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the parent company only balance sheet. However, the deferred tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.
- D. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred tax assets and liabilities are offset on the balance sheet when the entity has the legally

enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

- F. A deferred tax asset shall be recognised for the carryforward of unused tax credits resulting from acquisitions of equipment or technology, research and development expenditures and equity investments to the extent that it is possible that future taxable profit will be available against which the unused tax credits can be utilised.

(22) Share capital

- A. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds.
- B. Where the Company repurchases the Company's equity share capital that has been issued, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently reissued, the difference between their book value and any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(23) Dividends

Dividends are recorded in the Company's financial statements in the period in which they are resolved by the Company's shareholders. Cash dividends are recorded as liabilities.

(24) Revenue recognition

- A. Sales revenue - sales of software

The Company 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 business tax, sales returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognised when the Company 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 Company 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. Service revenue - IT Consulting services

The Company 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 Company are not distinct and are identified to be one performance obligation satisfied over time since the installation services involve significant customisation and modification. The Company recognises revenue on the basis of costs incurred relative to the total expected costs of that performance obligation. Conversely, the Company 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 Company procures the good from a third party and is not involved in designing and manufacturing the good by acting as a principal.

The Company'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 becomes aware of the changes in circumstances.

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

While the Company is unable to reasonably measure the result of performance obligations but is able to estimate the recoverable costs incurred arising from satisfying performance obligations, in such case, the Company could only recognise revenue within the amount of costs incurred until the result of performance obligations can be measured reasonably.

C. Sales revenue - revenue from licencing intellectual property

The Company 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 Company recognises the revenue from licencing when the licence is transferred to a customer either at a point in time or over time based on the nature of the licence granted. The nature of the Company's promise in granting a licence is a promise to provide a right to access the Company's intellectual property if the Company undertakes activities that significantly affect the computer software to which the customer has rights, the customer is affected by the Company'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 abovementioned conditions are not met, the nature of the Company's promise in granting a licence is a promise to provide a right to use the Company's intellectual property. Therefore, the revenue is recognised when transferring the licence to a customer at a point in time.

(25) Government grants

Government grants are recognised at their fair value only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises expenses for the related costs for which the grants are intended to compensate.

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

The preparation of these parent company only financial statements requires management to make critical judgements in applying the Company's accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors. Such assumptions and estimates have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Company has no uncertainty of critical accounting judgements, estimates and assumption.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Cash on hand and revolving funds	\$ 113	\$ 119
Checking accounts and demand deposits	230,682	237,314
Time deposits	245,269	232,201
	<u>\$ 476,064</u>	<u>\$ 469,634</u>

A. The Company 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 December 31, 2018 and 2017, cash and cash equivalents were restricted to the bid bonds and performance guarantee. Please refer to Note 8.

(2) Financial assets at amortised cost

<u>Items</u>	<u>December 31, 2018</u>
Current items:	
Time deposits with maturity over three months	\$ 227,335
Pledged time deposits	6,625
Total	<u>\$ 233,960</u>
Interest rate range of time deposits	0.15%~3.40%

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

	Year ended December 31, 2018
Interest income	\$ <u>3,395</u>

- B. As at December 31, 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 Company was \$233,960.
- C. Details of the Company's financial assets at amortised cost-others pledged to others as collateral are provided in Note 8.
- D. Information relating to credit risk of financial assets at amortised cost is provided in Note 12(2).
- E. Information on December 31, 2017 is provided in Note 12(4).

(3) Notes and accounts receivable

	December 31, 2018
Notes receivable	\$ 4,871
Less: Allowance for uncollectible accounts	-
	<u>\$ 4,871</u>
Accounts receivable	\$ 108,067
Less: Allowance for uncollectible accounts	(4,069)
	<u>\$ 103,998</u>

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

	December 31, 2018	
	Accounts receivable	Notes receivable
Up to 90 days	\$ 91,906	\$ 4,391
91 to 180 days	5,525	-
181 to 365 days	6,610	480
Over 365 days	4,026	-
	<u>\$ 108,067</u>	<u>\$ 4,871</u>

The above ageing analysis was based on invoice date.

- B. The Company has no notes and accounts receivable pledged to others.
- C. The Company has no discounted notes receivable.
- D. The Company does not hold any collateral as security.
- E. As at December 31, 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 Company was \$108,869.

F. Information relating to credit risk of accounts receivable and notes receivable is provided in Note 12(2).

G. Information on December 31, 2017 is provided in Note 12(4).

(4) Prepayments

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Prepaid project cost	\$ 26,343	\$ 19,815
Other prepayments	5,304	4,554
	<u>\$ 31,647</u>	<u>\$ 24,369</u>

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

<u>Items</u>	<u>December 31, 2018</u>
Non-current items:	
Equity instruments	
Unlisted stocks	\$ 7,638
Valuation adjustment	(4,863)
Total	<u>\$ 2,775</u>

A. The Company 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 December 31, 2018.

B. For the year ended December 31, 2018, the Company recognised \$705 in profit or loss and other comprehensive income.

C. The Company has no financial assets at fair value through other comprehensive income pledged to others.

D. The information on December 31, 2017 is provided in Note 12(4).

(6) Investments accounted for using equity method

	2018	2017
At January 1	\$ 92,134	\$ 114,141
Addition of investments accounted for using equity method	6,865	-
Disposal of investments accounted for using equity method	- (	10,062)
Share of profit (loss) of investments accounted for using equity method	8,561 (	8,469)
Earnings distribution of investments accounted for using equity method	(5,487) (	7,780)
Changes in other equity interest	63	4,304
At December 31	<u>\$ 102,136</u>	<u>\$ 92,134</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Subsidiaries	\$ 44,964	\$ 44,685
Associates	57,172	47,449
	<u>\$ 102,136</u>	<u>\$ 92,134</u>

- A. Please refer to Note 4(3) to the consolidated financial statements for the year ended December 31, 2018 for information on the Company's subsidiaries.
- B. The liquidation of the Company's subsidiary ARES INTERNATIONAL CORP. (SAMOA) began on January 13, 2017 and was completed on February 17, 2017. The Company received its share of the investment in the amount of \$2,656 (USD 86 thousand). Investments accounted for under the equity method decreased by \$10,062, and a loss on disposal of \$7,406 was recognised.
- C. In July 2018, the Company set up ARES INTERNATIONAL (THAILAND) CO., LTD. for investment by cash of \$6,865 for a shareholding ratio of 49%. On October 31, 2018, the Investment Commission of the Ministry of Economic Affairs (MOEA) approved the investment.

D. Associates:

(a) The basic information of the associates of the Company is as follows:

Company name	Principal place of business	Ownership (%)		Nature of relationship	Method of measurement
		December 31, 2018	December 31, 2017		
ARES INTERNATIONAL (THAILAND) CO., LTD.	Thailand	49.00%	-	Sale	Equity method
ARGO INTERNATIONAL CORPORATION	Taiwan	34.83%	34.83%	Purchase	Equity method
M-Power Information Co., Ltd.	Taiwan	24.39%	24.39%	Sale	Equity method

(b) The carrying amount of the Company's interests in all individually immaterial associates and the Company's share of the operating results are summarised below:

As of December 31, 2018 and 2017, the carrying amount of the Company's individually immaterial associates amounted to \$57,172 and \$47,449, respectively.

	Years ended December 31,	
	2018	2017
Profit for the year from continuing operations	\$ 8,207	\$ 8,549
Other comprehensive income, net of tax	-	-
Total comprehensive income	\$ 8,207	\$ 8,549

(c) The aforementioned investments accounted for using the equity method-ARGO INTERNATIONAL CORPORATION and M-Power Information Co., Ltd.-were valued based on the financial statements audited by independent accountants assigned by the respective companies.

(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	\$ 8,791	\$ 9,892	\$ 1,720	\$ 5,335	\$ 20,173	\$ 439	\$ 46,350
Accumulated depreciation and impairment	(7,385)	(7,824)	(1,196)	(4,417)	(336)	(352)	(21,510)
	<u>\$ 1,406</u>	<u>\$ 2,068</u>	<u>\$ 524</u>	<u>\$ 918</u>	<u>\$ 19,837</u>	<u>\$ 87</u>	<u>\$ 24,840</u>
<u>2018</u>							
At January 1	\$ 1,406	\$ 2,068	\$ 524	\$ 918	\$ 19,837	\$ 87	\$ 24,840
Additions	-	5,436	104	-	-	-	5,540
Disposals	-	-	-	-	(16,811)	-	(16,811)
Depreciation charges	(551)	(1,753)	(152)	(282)	(3,026)	(26)	(5,790)
At December 31	<u>\$ 855</u>	<u>\$ 5,751</u>	<u>\$ 476</u>	<u>\$ 636</u>	<u>\$ -</u>	<u>\$ 61</u>	<u>\$ 7,779</u>
<u>At December 31, 2018</u>							
Cost	\$ 6,482	\$ 12,058	\$ 1,681	\$ 5,335	\$ -	\$ 268	\$ 25,824
Accumulated depreciation and impairment	(5,627)	(6,307)	(1,205)	(4,699)	-	(207)	(18,045)
	<u>\$ 855</u>	<u>\$ 5,751</u>	<u>\$ 476</u>	<u>\$ 636</u>	<u>\$ -</u>	<u>\$ 61</u>	<u>\$ 7,779</u>

	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Office equipment</u>	<u>Leasehold improvements</u>	<u>Leased assets</u>	<u>Other facilities</u>	<u>Total</u>
<u>At January 1, 2017</u>							
Cost	\$ 7,950	\$ 10,668	\$ 1,720	\$ 5,335	\$ -	\$ 439	\$ 26,112
Accumulated depreciation and impairment	(6,687)	(7,713)	(1,050)	(4,135)	-	(324)	(19,909)
	<u>\$ 1,263</u>	<u>\$ 2,955</u>	<u>\$ 670</u>	<u>\$ 1,200</u>	<u>\$ -</u>	<u>\$ 115</u>	<u>\$ 6,203</u>
<u>2017</u>							
At January 1	\$ 1,263	\$ 2,955	\$ 670	\$ 1,200	\$ -	\$ 115	\$ 6,203
Additions	841	-	-	-	20,173	-	21,014
Depreciation charges	(698)	(887)	(146)	(282)	(336)	(28)	(2,377)
At December 31	<u>\$ 1,406</u>	<u>\$ 2,068</u>	<u>\$ 524</u>	<u>\$ 918</u>	<u>\$ 19,837</u>	<u>\$ 87</u>	<u>\$ 24,840</u>
<u>At December 31, 2017</u>							
Cost	\$ 8,791	\$ 9,892	\$ 1,720	\$ 5,335	\$ 20,173	\$ 439	\$ 46,350
Accumulated depreciation and impairment	(7,385)	(7,824)	(1,196)	(4,417)	(336)	(352)	(21,510)
	<u>\$ 1,406</u>	<u>\$ 2,068</u>	<u>\$ 524</u>	<u>\$ 918</u>	<u>\$ 19,837</u>	<u>\$ 87</u>	<u>\$ 24,840</u>

A. The Company has no interest capitalised.

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

(8) Accounts payable

	December 31, 2018	December 31, 2017
Accounts payable	\$ 16,551	\$ 23,484
Project costs payable	32,702	36,558
	<u>\$ 49,253</u>	<u>\$ 60,042</u>

(9) Other payables

	December 31, 2018	December 31, 2017
Wages and bonus payable	\$ 71,735	\$ 65,541
Labor and health insurance fees payable	3,418	3,520
Employees' compensation and directors' and supervisors' remuneration payable	8,644	4,976
Other accrued expenses	14,405	13,457
	<u>\$ 98,202</u>	<u>\$ 87,494</u>

(10) Lease liabilities

In December 2017, the Company 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 Company without any condition. On September 25, 2018, the contract was terminated by mutual agreement based on the Company's assessment on the function of the aforementioned equipment which has been excluded from the Company's requirement. The Company derecognised leased assets (recorded in property, plant and equipment) and lease obligations payable (recorded in other current liabilities and other non-current liabilities), thus, no future minimum lease payments would be recognised as of December 31, 2018. Future minimum lease payments and their present values as at December 31, 2017 are as follows:

	December 31, 2017		
	Total finance lease liabilities	Future finance charges	Present value of finance lease liabilities
<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>	19,854
Less: Current lease liabilities			(4,236)
			<u>\$ 15,618</u>

(11) Pensions

A. Defined benefit plan

(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 contributes 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 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 will make contributions for the deficit by next March.

(b) The amounts recognised in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of defined benefit obligations	(\$ 182,268)	(\$ 182,633)
Fair value of plan assets	46,322	40,403
Net defined benefit liability	(\$ 135,946)	(\$ 142,230)

(c) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2018	\$ 182,633	\$ 40,403	\$ 142,230
Balance at January 1	2,621	-	2,621
Current service cost	2,009	-	2,009
Interest cost	-	444	(444)
Interest income	187,263	40,847	146,416

Remeasurements:

Return on plan assets

(excluding amounts included in
interest income or expense)

Change in financial assumptions 3,049 - 3,049

Experience adjustments (3,556) 1,158 (4,714)

(507) 1,158 (1,665)

Pension fund contribution - 8,805 (8,805)

Paid pension (4,488) (4,488) -

Balance at December 31 \$ 182,268 \$ 46,322 \$ 135,946

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
2017	\$ 173,812	\$ 38,166	\$ 135,646
Balance at January 1	2,600	-	2,600
Current service cost	2,433	-	2,433
Interest cost	-	535	(535)
Interest income	178,845	38,701	140,144

Remeasurements:

Return on plan assets

(excluding amounts included in
interest income or expense)

Change in financial assumptions	4,984	-	4,984
Experience adjustments	(1,196)	(175)	(1,021)
	3,788	(175)	3,963
Pension fund contribution	-	1,877	(1,877)
Balance at December 31	\$ 182,633	\$ 40,403	\$ 142,230

- (d) The Bank of Taiwan was commissioned to manage the Fund of the Company's defined benefit pension plan in accordance with the Fund's annual investment and utilisation plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilisation of the Labor Retirement Fund" (Article 6: The scope of utilisation for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.). With regard to the utilisation of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Company has no right to participate in managing and operating that fund and hence the Company is unable to disclose the classification of plan assets fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilisation Report announced by the government.

- (e) The principal actuarial assumptions used were as follows:

	Years ended December 31,	
	2018	2017
Discount rate	0.90%	1.10%
Future salary increases	4.00%	4.00%

For the years ended December 31, 2018 and 2017, future mortality rate was estimated based on the 5th Taiwan Standard Ordinary Experience Mortality Table.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
December 31, 2018				
Effect on present value of defined benefit obligation	(\$ 3,797)	\$ 3,938	\$ 3,436	(\$ 3,338)
December 31, 2017				
Effect on present value of defined benefit obligation	(\$ 4,169)	\$ 4,329	\$ 3,793	(\$ 3,680)

The sensitivity analysis above is based on one assumption which changed while the other conditions remain unchanged. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

(f) Expected contributions to the defined benefit pension plan of the Company for the year ending December 31, 2019 amount to \$1,804.

(g) As of December 31, 2018, the weighted average duration of the retirement plan is 10 years.

B. Defined contribution plan:

(a) Effective 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.

(b) The pension costs under the defined contribution pension plan of the Company for the years ended December 31, 2018 and 2017 were \$11,762 and \$11,949, respectively.

(12) Share-based payment

A. For the year ended December 31, 2017, the Company’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 above share-based payment arrangements are settled by equity.

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

	2017	
	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 December 31	-	-

As of December 31, 2017, the Company's share-based payment agreements have been fully implemented and there were no additional share-based payment arrangements for the year ended December 31, 2018.

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
Treasury stock transferred to employees	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 year, and the standard deviation of return on the stock during this period.

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

	Years ended December 31,	
	2018	2017
Equity-settled	\$ -	\$ 3,416

(13) Provisions

	Warranty	
	2018	2017
Balance at January 1	\$ 5,784	\$ 6,166
Additional provisions	3,144	4,766
Used during the year	(3,062)	(1,590)
Unused amounts reversed	(3,714)	(3,558)
Balance at December 31	\$ 2,152	\$ 5,784

Analysis of total provisions:

	December 31, 2018	December 31, 2017
Current	\$ 2,152	\$ 5,784

The Company provides warranties on project contract. Provision for warranty is estimated based on historical warranty data.

(14) Share capital

A. As of December 31, 2018, the Company's authorised capital was \$1,156,000 (including 10 million shares reserved for employee stock options and 20 million shares reserved for convertible bonds issued by the Company), and the paid-in capital was \$472,539, consisting of 47,254 thousand shares of ordinary stock with a par value of \$10 (in dollars) per share.

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 December 31	47,254	47,254

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 totaling 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 the company recognised 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.

(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 is 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 dividends. 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:

- (a) On June 22, 2018 and June 20, 2017, the shareholders during their meeting resolved the distribution of 2017 and 2016 retained earnings, respectively as follows:

	<u>Year ended December 31, 2017</u>		<u>Year ended December 31, 2016</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Legal reserve	\$ 2,830		\$ 7,750	
(Reversal of)	(3,572)		6,430	
appropriation for 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.

- (b) On March 21, 2019, the Company's Board of Directors proposed the distribution of 2018 retained earnings as follows:

	<u>Year ended December 31, 2018</u>	
	<u>Amount</u>	<u>Dividends per share (in dollars)</u>
Legal reserve	\$ 6,427	-
Special reserve	4,850	-
Cash dividends	52,990	1.12

Except for the abovementioned distribution of retained earnings, the Board of Directors also proposed appropriation of cash from capital surplus in the amount of \$3,714.

As of March 21, 2019, the abovementioned distribution of 2018 retained earnings has not been resolved at the stockholders' meeting.

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

(17) Operating revenue

<u>Revenue from contracts with customers</u>	<u>Year ended December 31, 2018</u>
Sales revenue	\$ 55,353
Service revenue	586,742
	<u>\$ 642,095</u>

A. Disaggregation of revenue from contracts with customers

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

<u>Year ended December 31, 2018</u>	<u>Asia</u>	<u>America</u>	<u>Taiwan</u>	<u>Total</u>
Timing of revenue recognition				
At a point in time	\$ 7,259	\$ 587	\$ 47,507	\$ 55,353
Over time	<u>60,469</u>	<u>972</u>	<u>525,301</u>	<u>586,742</u>
	<u>\$ 67,728</u>	<u>\$ 1,559</u>	<u>\$ 572,808</u>	<u>\$ 642,095</u>

B. Contract assets and liabilities

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

	<u>December 31, 2018</u>
Contract assets-customer contract	\$ 55,406
Contract liabilities-advance receipt from customers	<u>\$ 90,782</u>

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

	<u>Year ended December 31, 2018</u>
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	
Advance receipt	<u>\$ 40,813</u>

The Company 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 on operating revenue for the year ended December 31, 2017 are provided in Note 12(5) B.

(18) Other income

	Years ended December 31,	
	2018	2017
Interest income:		
Interest income from bank deposits	\$ 3,447	\$ 6,321
Interest income from financial assets measured at amortised cost	3,395	-
Total interest income	6,842	6,321
Commission income	50	50
Allowance for bad debts transferred to revenue	-	263
Other income, others	358	355
	<u>\$ 7,250</u>	<u>\$ 6,989</u>

(19) Other gains and losses

	Years ended December 31,	
	2018	2017
Losses on disposals of investments	\$ -	(\$ 7,406)
Gains on financial assets at fair value through profit or loss	-	779
Foreign exchange gains (losses)	4,590	(15,150)
Gains on disposals of property, plant and equipment	286	28
Reversal of impairment loss recognised in profit or loss, financial assets	-	1,310
Impairment loss on financial assets	-	(245)
Miscellaneous disbursements	(220)	(371)
	<u>\$ 4,656</u>	<u>(\$ 21,055)</u>

(20) Expenses by nature

	Years ended December 31,	
	2018	2017
Employee benefit expense	\$ 348,157	\$ 349,508
Depreciation charges on property, plant and equipment	5,790	2,377
Amortisation charges on intangible assets	1,151	1,056
Advertising costs	724	331
Operating lease payments	17,077	17,036
Traveling expense	5,223	6,145
Service fees	8,763	8,223
Outsourcing software	153,806	159,914
Reversal of expected credit losses	(2,363)	-
Other expenses	19,076	17,164
Cost of sales	41,496	39,623
Operating costs and expenses	<u>\$ 598,900</u>	<u>\$ 601,377</u>

(21) Employee benefit expense

	Years ended December 31,	
	2018	2017
Wages and salaries	\$ 295,893	\$ 296,654
Labor and health insurance fees	21,743	22,366
Pension costs	15,948	16,447
Directors' remuneration	4,384	3,803
Other personnel expenses	10,189	10,238
	<u>\$ 348,157</u>	<u>\$ 349,508</u>

As of December 31, 2018 and 2017, the Company had 272 and 280 employees, respectively. There were 4 non-employee directors for both years.

- 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 not higher than 15% for employees' compensation and shall not be higher than 3% for directors' and supervisors' remuneration.
- B. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at \$6,483 and \$3,732, respectively; while directors' and supervisors' remuneration was accrued at \$2,161 and \$1,244, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 9% and 3% of distributable profit of current year for the year ended December 31, 2018. The employees' compensation and directors' and supervisors' remuneration resolved

by the Board of Directors were \$6,483 and \$2,161, respectively, and will be distributed in the form of cash.

Employees' compensation and directors' and supervisors' remuneration for 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:

	Years ended December 31,	
	2018	2017
Current tax:		
Current tax on profits for the year	\$ 3,579	\$ -
Prior year income tax overestimation	(6)	(80)
Total current tax	3,573	(80)
Deferred tax:		
Origination and reversal of temporary differences	7,584	4,350
Impact of change in tax rate	(4,953)	-
Total deferred tax	2,631	4,350
Income tax expense	\$ 6,204	\$ 4,270

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

	Years ended December 31,	
	2018	2017
Changes in fair value of financial assets at fair value through other comprehensive income	(\$ 141)	\$ -
Remeasurement of defined benefit obligations	(333)	(44)
Currency translation differences	(13)	732
Impact of change in tax rate	468	-

B. Reconciliation between income tax expense and accounting profit:

	Years ended December 31,	
	2018	2017
Tax calculated based on profit before tax and statutory tax rate	\$ 12,678	\$ 6,203
Expenses disallowed by tax regulation	-	1,616
Tax exempt income by tax regulation	(1,525)	(176)
Change in assessment of realisation of deferred tax assets	10	(3,293)
Prior year income tax overestimation	(6)	(80)
Effect from changes in tax regulation	(4,953)	-
Income tax expense	<u>\$ 6,204</u>	<u>\$ 4,270</u>

C. Amounts of deferred tax assets or liabilities as a result of temporary differences are as follows:

	2018				
	At January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	At December 31
Deferred tax assets:					
Temporary differences:					
Warranty cost	\$ 983	(\$ 551)	\$ -	\$ -	\$ 432
Allowance for bad debts in excess of allowable limit	804	(337)	-	-	467
Unrealised impairment loss on financial assets	294	51	(141)	-	204
Unrealised exchange loss	585	(585)	-	-	-
Unappropriated pensions	19,040	2,072	31	-	21,143
Unused annual leave	1,015	145	-	-	1,160
Loss on investment in foreign companies	4,229	559	91	-	4,879
Loss carryforward	<u>3,768</u>	<u>(3,768)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>30,718</u>	<u>(2,414)</u>	<u>(19)</u>	<u>-</u>	<u>28,285</u>
Deferred tax liabilities:					
Temporary differences:					
Unrealised exchange gain	-	(217)	-	-	(217)
	<u>\$ 30,718</u>	<u>(\$ 2,631)</u>	<u>(\$ 19)</u>	<u>\$ -</u>	<u>\$ 28,068</u>

2017					
	At January 1	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	At December 31
Deferred tax assets:					
Temporary differences:					
Warranty cost	\$ 1,048	(\$ 65)	\$ -	\$ -	\$ 983
Allowance for bad debts in excess of allowable limit	849	(45)	-	-	804
Unrealised impairment loss on financial assets	-	294	-	-	294
Unrealised exchange loss	-	585	-	-	585
Unappropriated pensions	17,815	1,181	44	-	19,040
Unrealised advanced revenue	1,588	(1,588)	-	-	-
Unused annual leave	970	45	-	-	1,015
Loss on investment in foreign companies	14,089	(9,128)	(732)	-	4,229
Loss carryforward	-	3,768	-	-	3,768
	<u>36,359</u>	<u>(4,953)</u>	<u>(688)</u>	<u>-</u>	<u>30,718</u>
Deferred tax liabilities:					
Temporary differences:					
Unrealised exchange gain	(603)	603	-	-	-
	<u>\$ 35,756</u>	<u>(\$ 4,350)</u>	<u>(\$ 688)</u>	<u>\$ -</u>	<u>\$ 30,718</u>

D. The amounts of deductible temporary differences that were not recognised as deferred tax assets:

	December 31, 2018	December 31, 2017
Unrealised impairment loss	\$ 400	\$ 340
Deductible temporary differences	<u>\$ 400</u>	<u>\$ 340</u>

E. As of December 31, 2018, the Company's income tax returns through 2016 have been assessed and approved by the Tax Authority.

F. 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 Company has assessed the impact of the change in income tax rate.

(23) Earning per share

Year ended December 31, 2018			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit for the year	\$ 57,185	47,254	\$ 1.21
<u>Diluted earnings per share</u>			
Profit for the year	57,185	47,254	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	472	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 57,185	47,726	\$ 1.20
Year ended December 31, 2017			
	Amount after tax	Weighted average number of ordinary shares outstanding (shares in thousands)	Earnings per share (in dollars)
<u>Basic earnings per share</u>			
Profit for the year	\$ 32,216	46,716	\$ 0.69
<u>Diluted earnings per share</u>			
Profit for the year	32,216	46,716	
Assumed conversion of all dilutive potential ordinary shares			
Employees' compensation	-	281	
Profit attributable to ordinary shareholders plus assumed conversion of all dilutive potential ordinary shares	\$ 32,216	\$ 46,997	\$ 0.69

(24) Operating leases

The Company leases office buildings under operating leases, with lease terms between 1 to 2 years, and the lease could be renewed. Rental is adjusted every year based on the market price of the nearby area. The adjustment of rent should be notified to the lessee at least three months before the next year of the lease. The Company recognised rental expenses of \$17,077 and \$17,036 for the years ended December 31, 2018 and 2017, respectively. The future aggregate minimum lease payments

under non-cancellable operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	\$ 15,212	\$ 15,587
Later than one year but not later than five years	14,909	2,558
	<u>\$ 30,121</u>	<u>\$ 18,145</u>

(25) Supplemental cash flow information

Investing activities with partial cash payments:

	Years ended December 31,	
	2018	2017
Purchase of property, plant and equipment	\$ 5,540	\$ 21,014
Add: Opening balance of lease obligations payable	20,173	-
Less: Derecognised lease obligations payable	(16,949)	-
Less: Lease obligations payable (shown as other current liabilities and other non-current liabilities)	-	(20,173)
Cash paid during the year	<u>\$ 8,764</u>	<u>\$ 841</u>

7. RELATED PARTY TRANSACTIONS

(1) Names of related parties and relationship

<u>Names of related parties</u>	<u>Relationship with the Company</u>
ARGO INTERNATIONAL CORPORATION	Associate
M-Power Information Co., Ltd.	Associate
ARES INTERNATIONAL (THAILAND) CO., LTD.	Associate
MiTAC INC.	Key management
SHUTTLE INC.	Other related party
APLUSOFT (SUZHOU) CORPORATION	Third-tier subsidiary

Note: For related party transactions, the subsidiaries mentioned in Note 7(2) refer to the total number of the aforementioned related parties.

(2) Significant related party transactions

A. Operating revenue

	Years ended December 31,	
	2018	2017
Sales of goods:		
-Subsidiaries	\$ 2,464	\$ 3,072
-Associates	1,581	404
-Other related parties	271	275
-Key management	488	233
	<u>\$ 4,804</u>	<u>\$ 3,984</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

	Years ended December 31,	
	2018	2017
Purchases of goods:		
-Associates	\$ 15,994	\$ 7,779
Purchases of services:		
-Subsidiaries	2,065	877
-Associates	11,903	17,913
	<u>\$ 29,962</u>	<u>\$ 26,569</u>

- (a) The Company'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) Certain integrated system projects are subcontracted to related parties. The transaction prices are determined through negotiations between the two parties, and the payment terms are 60 days end of month. The rest of the conditions are not significantly different from those with other vendors.

C. Receivables from related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts receivable		
-APLUSOFT (SUZHOU) CORPORATION	\$ 3,307	\$ 563
-ARGO INTERNATIONAL CORPORATION	-	168
-M-Power Information Co., Ltd.	200	202
-ARES INTERNATIONAL (THAILAND) CO., LTD.	1,339	-
	<u>\$ 4,846</u>	<u>\$ 933</u>
Long-term notes and accounts receivable		
-APLUSOFT (SUZHOU) CORPORATION	<u>\$ -</u>	<u>\$ 5,343</u>

Long-term notes, accounts, and overdue receivables are reclassified accounts receivable that have been outstanding for over one year.

D. Payables to related parties

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Accounts payable		
-APLUSOFT (SUZHOU) CORPORATION	\$ 9,079	\$ 13,868
-ARGO INTERNATIONAL CORPORATION	2,742	1,706
	<u>\$ 11,821</u>	<u>\$ 15,574</u>

E. In January, 2018 and 2017, the Company 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 Company signed an ArgoERP eGUI (Electronic Government Uniform Invoice System) maintenance contract with an associate amounting to \$300. For the years ended December 31, 2018 and 2017, operating expense was recognised in the amounts of \$240 and \$510, respectively.

F. The Company paid the service fee to the associate. For the year ended December 31, 2018, operating expenses were recognised amounting to \$272.

G. The Company referred business to associates and received commission income of \$50 which was recognised as other income for the years ended December 31, 2018 and 2017.

(3) Key management compensation

	<u>Years ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Salaries and other short-term employee benefits	<u>\$ 39,075</u>	<u>\$ 45,770</u>

8. PLEDGED ASSETS

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

<u>Pledged asset</u>	<u>Book value</u>		<u>Purpose</u>
	<u>December 31, 2018</u>	<u>December 31, 2017</u>	
Pledged as time deposits (shown as current financial assets at amortised cost/ other current assets)	\$ 6,625	\$ 17,022	Bid bond and performance bond
Guarantee deposits paid (shown as other current assets)	50,284	33,064	Bid bond and performance bond
Guarantee deposits paid	<u>7,314</u>	<u>7,344</u>	Guarantees provided for leasing
	<u>\$ 64,223</u>	<u>\$ 57,430</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 has 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 lease agreements

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>December 31, 2018</u>	<u>December 31, 2017</u>
Software products	<u>\$ 14,959</u>	<u>\$ 8,025</u>

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On March 21, 2019, the Company's Board of Directors proposed for the distribution of 2018 retained earnings. Please refer to Note 6(16) for details.

12. OTHERS

(1) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

In 2018, the Company's strategy, which was unchanged from 2017, was to maintain the gearing ratio as low as possible.

(2) Financial instruments

A. Financial instruments by category

	<u>December 31, 2018</u>	<u>December 31, 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
Financial assets at amortised cost/Loans and receivables		
Cash and cash equivalents	476,064	469,634
Current financial assets at amortised cost	233,960	-
Notes receivable	4,871	1,971
Accounts receivable	103,998	156,551
Accounts receivable due from related parties	4,846	933
Other receivables	4,755	7,506
Guarantee deposits paid	7,314	7,344
Other financial assets	50,284	271,375
Long-term notes and accounts receivable due from related parties	-	5,343
	<u>\$ 888,867</u>	<u>\$ 922,909</u>

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
<u>Financial liabilities</u>		
Financial liabilities at amortised cost		
Accounts payable	\$ 49,253	\$ 60,042
Accounts payable to related parties	11,821	15,574
Other payables	98,202	87,494
Guarantee deposits received	-	193
	<u>\$ 159,276</u>	<u>\$ 163,303</u>

B. Financial risk management policies

The Company's financial risks are primarily risks associated with its investments in financial instruments and foreign exchange risk arising from foreign-currency transactions. The Company uses the most rigorous controls to manage the financial risks from investments in various financial products. Each investment is assessed comprehensively, taking into account market risk, credit risk, liquidity risk and cash flow risk, with the goal of choosing the investment with the smallest risk. According to our policy goals of risk management, the Company manages its foreign exchange risk from foreign-currency transactions by optimizing our risk exposure and maintaining an appropriate level of exposure to liquidity risk, thus achieving the best possible hedging strategy.

C. Significant financial risks and degrees of financial risks

(a) Market risk

Foreign exchange risk

- i. The Company operates internationally and is exposed to exchange rate risk arising from the transactions of the Company 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 Company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.
- iii. The Company's businesses involve some non-functional currency operations (the Company's functional currency: NTD. The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

December 31, 2018				
	Foreign currency			
	amount	Exchange	Book value	
	(in thousands)	rate	(NTD)	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD:NTD	\$ 7,059	30.72	\$ 216,852	
HKD:NTD	8,902	3.92	34,896	
AUD:NTD	471	21.67	10,207	
EUR:NTD	114	35.20	4,013	
RMB:NTD	17,533	4.47	78,373	
<u>Non-monetary items</u>				
USD:NTD	451	30.72	13,855	
THB:NTD	7,212	0.95	6,851	
<u>Financial liabilities</u>				
<u>Monetary items</u>				
RMB:NTD	636	4.47	2,843	

December 31, 2017				
	Foreign currency			
	amount	Exchange	Book value	
	(in thousands)	rate	(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	
<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	46	
RMB:NTD	200	4.57	913	

- 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 Company.

Year ended December 31, 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	30.72	\$	580
HKD:NTD	3.92		132
AUD:NTD	21.67	(	175)
EUR:NTD	35.20	(	32)
RMB:NTD	4.47		580

Year ended December 31, 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	29.76	(\$	3,004)
HKD:NTD	3.81	(	381)
AUD:NTD	23.19	(	241)
EUR:NTD	35.57	(	20)
RMB:NTD	4.57		205

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

Year ended December 31, 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%	\$ 2,169	\$ -
HKD:NTD	1.00%	349	-
AUD:NTD	1.00%	102	-
EUR:NTD	1.00%	40	-
RMB:NTD	1.00%	784	-
<u>Non-monetary items</u>			
USD:NTD	1.00%	-	139
THB:NTD	1.00%	-	69
<u>Financial liabilities</u>			
<u>Monetary items</u>			
RMB:NTD	1.00%	28	-

Year ended December 31, 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%	\$ 1,808	\$ -
HKD:NTD	1.00%	232	-
AUD:NTD	1.00%	108	-
EUR:NTD	1.00%	41	-
RMB:NTD	1.00%	701	-
<u>Non-monetary items</u>			
USD:NTD	1.00%	-	127
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD:NTD	1.00%	-	-
RMB:NTD	1.00%	9	-

Price risk

- i. The Company's equity securities, which are exposed to price risk, are the held financial assets at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Company.
- ii. The Company's investments in equity securities comprise equity instruments issued by 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 years ended December 31, 2018 and 2017 would have increased or decreased by \$28 and \$0, respectively, as a result of other comprehensive income classified as equity investment at fair value through other comprehensive income.

(b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Company 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 Company's credit policy, the Company 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 Company adopts the following assumption 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 Company adopts the assumption under IFRS 9, that is, the default occurs when the contract payments are past due over 90 days.
- v. The Company classifies customers' accounts receivable and contract assets in accordance with customer types. The Company 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 Company used the forecastability to adjust historical and timely information to assess the default possibility of accounts receivable and contract assets. On December 31, 2018, the provision matrix and loss rate methodology is as follows:

Group 1	Not past due	Up to 90 days	91-180 days	181-270 days	Over 271 days	Total
<u>December 31, 2018</u>						
Expected loss rate	0%	0.05%~ 0.17%	0.27%~ 1.31%	3.92%~ 41.67%	100%	
Total book value	\$ 59,800	\$ 5,525	\$ 6,610	\$ -	\$ 4,026	\$ 75,961
Loss allowance	\$ 2	\$ 6	\$ 35	\$ -	\$ 4,026	\$ 4,069
		Group 2	Group 3	Total		
<u>December 31, 2018</u>						
Expected loss rate			0%		0%	
Total book value		\$ 19,581	\$ 12,525		\$ 32,106	
Loss allowance		\$ -	\$ -		\$ -	

Company 1: General business

Company 2: Government-owned corporation

Company 3: Government organisations

As of December 31, 2018, contract assets are \$55,406, and loss allowance is \$0 if measured at expected credit loss rate of 0%.

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

	2018			
	Accounts receivable	Contract assets	Notes receivable	Total
At January 1_IAS 39	\$ 6,432	\$ -	\$ -	\$ 6,432
Adjustments under new standards	-	-	-	-
At January 1_IFRS 9	6,432	-	-	6,432
Reversal of impairment loss	(2,363)	-	-	(2,363)
December 31, 2018	<u>\$ 4,069</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,069</u>

x. Credit risk information for 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Company and aggregated by Company treasury. Company treasury monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs.
- ii. The table below analyses the Company'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.

<u>Non-derivative financial liabilities:</u>	Less than 3 months	Between 3 months and 2 years	Between 2 and 5 years	Over 5 years
December 31, 2018				
Accounts payable	\$ 46,876	\$ 2,377	\$ -	\$ -
Accounts payable to related parties	3,717	1,967	3,532	2,605
Other payables	63,373	34,829	-	-

<u>Non-derivative financial liabilities:</u>	Less than 3 months	Between 3 months and 2 years	Between 2 and 5 years	Over 5 years
December 31, 2017				
Accounts payable	\$ 59,167	\$ 875	\$ -	\$ -
Accounts payable to related parties	2,498	2,522	8,930	1,624
Other payables	54,569	33,278	-	-

(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 Company'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, 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:

December 31, 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	\$ -	\$ -	\$ -	\$ -

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

(a) The instruments the Company 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 balance sheet date (i.e. yield curves on the Taipei Exchange, average commercial paper interest rates quoted from Reuters).

- E. For the years ended December 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.
- F. For the years ended December 31, 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 Company 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. Summary of significant accounting policies adopted in 2017

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

- i. Financial assets at fair value through profit or loss are financial assets held for trading or financial assets designated as at fair value through profit or loss on initial recognition. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:
 - (i) Hybrid (combined) contracts; or
 - (ii) They eliminate or significantly reduce a measurement or recognition inconsistency; or
 - (iii) They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using trade date accounting.
- iii. Financial assets at fair value through profit or loss are initially recognised at fair value. Related transaction costs are expensed in profit or loss. These financial liabilities are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial liabilities are recognised in profit or loss.

(b) Available-for-sale financial assets

- i. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- ii. On a regular way purchase or sale basis, available-for-sale financial assets are recognised and derecognised using trade date accounting.
- iii. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. These financial assets are subsequently remeasured and stated at fair value, and any changes in the fair value of these financial assets are recognised in other comprehensive income. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'financial assets measured at cost'.

(c) Held-to-maturity financial assets

- i. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables and those that are designated as at fair value through profit or loss or as available-for-sale on initial recognition.
- ii. On a regular way purchase or sale basis, held-to-maturity financial assets are recognized and derecognised using trade date accounting.
- iii. Held-to-maturity financial assets are initially recognised at fair value on the trade date plus transaction costs and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Amortisation of a premium or a discount on such assets is recognised in profit or loss.

(d) Accounts receivable

Accounts receivable is receivables originated by the entity. They are created by the entity by selling goods or providing services to customers in the ordinary course of business. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(e) Impairment of financial assets

- i. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

- ii. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
 - (i) Significant financial difficulty of the issuer or debtor;
 - (ii) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (iii) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
 - (iv) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
 - (v) The disappearance of an active market for that financial asset because of financial difficulties;
 - (vi) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;
 - (vii) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered;
 - (viii) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
- iii. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:
 - (i) Financial assets measured at amortised cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, and is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset does not exceed its amortised cost that would have been at the date of reversal had the impairment loss not been recognised previously. Impairment loss is recognised and reversed by

adjusting the carrying amount of the asset through the use of an impairment allowance account.

(ii) Financial assets at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial asset, and is recognised in profit or loss. Impairment loss recognised for this category shall not be reversed subsequently. Impairment loss is recognised by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, IFRS 9, were as follows:

IFRS 9	IAS 39	Other current assets	Financial assets at cost	Effects	
				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. Accordingly, retained earnings was increased and other equity interest was decreased in the amounts of \$5,386 and \$5,568 on initial application of IFRS 9, respectively.
- (b) In accordance with IFRS 9, the Company 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 are as follows:

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

Items	December 31, 2017
Financial assets held for trading	
Open-end fund	\$ -
Foreign stocks	-
	-
Valuation adjustments of financial assets held for trading	-
	\$ -

For the year ended December 31, 2017, the Company recognised net gain in the amount of \$779.

(b) Notes receivable

	December 31, 2017
Notes receivable	\$ 1,971
Less: Loss allowance	-
	\$ 1,971

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

	December 31, 2017
Group 1	\$ 1,840
Group 2	131
	\$ 1,971

Company 1: Clients from Commercial segment

Company 2: Clients from Project segment

ii. The Company has no discounted notes receivable.

(c) Accounts receivable, net

	December 31, 2017
Accounts receivable	\$ 61,377
Less: Loss allowance	(6,432)
	54,945
Service revenue receivable	107,483
Less: Advance receipts from service	(5,877)
	101,606
	\$ 156,551

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

	2017		
	Individual provision	Group provision	Total
At January 1	\$ -	\$ 6,695	\$ 6,695
Reversal of impairment loss	-	(263)	(263)
At December 31	\$ -	\$ 6,432	\$ 6,432

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

	December 31, 2017
Group 1	\$ 70,395
Group 2	55,223
Group 3	30,933
	<u>\$ 156,551</u>

Company 1: Clients from Commercial segment

Company 2: Clients from Financial business segment

Company 3: Clients from Project segment

iii. The Company does not hold any collateral as security.

(d) Held-to-maturity financial assets

Item	December 31, 2017
Financial bonds	\$ -
Accumulated impairment	-
	<u>\$ -</u>

i. The Company 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 Company's assessment, therefore the Company 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 Company received a ruling from USA court that Wells Fargo Bank and Medical Provider Financial Corp., which are commissioned to entrust the Company'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 Company received a ruling from USA court that the bank, which is commissioned to entrust the Company's financial bonds, shall return certain original investment amounting to US\$969, and the reversal of impairment is \$31.

(iii) In January, 2017, the Company received a ruling from USA court that the bank, which is commissioned to entrust the Company'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, no held-to-maturity financial assets held by the Company were pledged to others as collateral.

(e) Other current assets

	<u>December 31, 2017</u>
Time deposits with maturity over three months	\$ 221,289
Others	<u>50,086</u>
	<u>\$ 271,375</u>
Interest rate range of time deposit	0.15%~3.90%

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

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

(f) Financial assets at cost

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

i. According to the Company'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 Company 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 Company provided impairment loss. For the year ended December 31, 2017, the impairment loss was \$245. As of December 31, 2017, the accumulated impairment is \$5,386.

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, no financial assets measured at cost held by the Company were pledged to others.

D. Credit risk information as of December 31, 2017 is as follows:

- (a) Credit risk refers to the risk of financial loss to the Company arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Company's credit policy, each local entity in the Company 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) For the year ended December 31, 2017, no credit limits were exceeded during the reporting period, 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 Note 12(4) C.

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

A. Summary of significant accounting policies adopted in 2017

(a) Sales revenue

The Company 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 value-added tax, sales returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Company's activities. Revenue arising from the sales of goods is recognised when the Company 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 Company 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) Sales of services

Services refer to specified performance during the contract period by the Company.

If the outcome of the delivery of services can be reasonably estimated, the revenue from the

services is recognized using the percentage-of-completion method. Based on the nature of the project, revenue is recognized according to the percentage of actual services performed to the total services to be performed. The cumulative service revenue for the project is calculated at the end of the period based on actual services performed to date, and then the total service revenue recognized in prior periods is subtracted from this amount to arrive at the service revenue for the current period.

If the outcome of the delivery of services cannot be reasonably estimated, revenue recognition considers the possibility of the recovery of costs incurred. If recovery of incurred costs is likely, revenue is recognized to the extent of such incurred costs; if recovery of incurred costs is not likely, no revenue is recognized and the incurred costs are recognized as expenses.

If we expect to incur losses from rendering services, such losses are immediately recognized.

The amount of service revenue fee receivables in excess of advance payments from the same service contract is included in current assets on the balance sheet; similarly, the amount of advance payments in excess of service fee receivables from the same service contract is included in current liabilities on the balance sheet.

B. The revenue recognised by using above accounting policies for 2017 are as follows:

	Year ended December 31, 2017
Sales of goods	\$ 57,823
Sales of services	602,608
	<u>\$ 660,431</u>

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

		December 31, 2018		
		Balance by	Balance by using	Effects from
<u>Balance sheet items</u>	<u>Description</u>	using IFRS 15	previous accounting policies	changes in accounting policy
Accounts receivable		\$ 103,998	\$ 159,404	(\$ 55,406)
Contract assets		55,406	-	55,406
Contract liabilities		90,782	-	90,782
Other current liabilities (advance sales receipts)		-	90,782	(90,782)

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

D. The significant accounts as of December 31, 2017 are as follows:

Other current liabilities

	<u>December 31, 2017</u>
Unearned revenue from service	\$ 52,989
Less: Receivable in service fee	(1,526)
Unearned revenue from service, net	51,463
Advanced receipts from software	2,940
Current lease obligations payable	4,236
	<u>\$ 58,639</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

Not applicable.

Ares International Corp.

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

For the year ended December 31, 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 December 31, 2018				Footnote (Note 4)
				Number of shares	Book value (Note 3)	Ownership (%)	Fair value	
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 the equity instruments derivative securities in accordance with IFRS 9, 'Financial instruments'.

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 period
For the year ended December 31, 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	\$ 9,079	Note 6	0.81%
0	Ares International Corp.	APLUSOFT (SUZHOU) CORPORATION	1	Accounts receivable-related parties	3,307	Note 5	0.30%

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 or between 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; for transactions between two subsidiaries, if one of the subsidiaries has disclosed the transaction, then the other 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 accounts and based on 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 year ended December 31, 2018

Table 3

Expressed in thousands of NTD
(Except as otherwise indicated)

Investor	Investee (Notes 1 and 2)	Location	Main business activities	Initial investment amount		Shares held as at December 31, 2018			Net profit (loss) of the investee for the year ended December 31, 2018 (Note 2(2))	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2(3))	Footnote
				Balance as at December 31, 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	\$ 18,524	\$ 3,776	\$ 1,314	
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	31,774	28,792	7,022	
Ares International Corp.	ARES GROUP CORP.	Seychelles	Investment business	35,029	35,029	1,500,000	100	14,260	551	551	Subsidiary
Ares International Corp.	APLUSOFT CO., LTD.	Taiwan	Installation of computer and consultancy of information	30,889	30,889	1,500,000	100	30,704	(197)	(197)	Subsidiary
Ares International Corp.	ARES INTERNATIONAL (THAILAND) CO., LTD.	Thailand	Provides professional service of computer application software and sells computer peripheral equipments	6,865	-	1,470,000	49	6,874	(264)	(129)	
APLUSOFT CO., LTD.	WELJOIN TECHNOLOGIES LIMITED (BVI)	British Virgin Islands	Investment business	26,177	26,177	50,000	100	30,334	(197)	Note3	Second-tire subsidiary
ARES GROUP CORP.	SHARP KEEN MANAGEMENT LIMITED	British Virgin Islands	Investment business	34,115	34,115	1,120,000	100	13,859	586	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	13,735	12,437	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 December 31, 2018' should fill orderly in the Company's (public company's) information on investees and every 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 year ended December 31, 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 year ended December 31, 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 year ended December 31, 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 December 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the year ended December 31, 2018 (Note 2)	Book value of investments in Mainland China as of December 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of December 31, 2018	Note
					Remitted to Mainland China	Remitted back to Taiwan							
APLUSOFT (SUZHOU) CORPORATION	Research and development of enterprise management software and sale of self-produced products of the Company	\$ 25,228	Note 1	\$ 23,806	-	-	\$ 23,806	(\$ 165)	95.88	(\$ 158)	\$ 28,614	-	

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 were audited and attested by R.O.C. parent company's CPA.

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 December 31, 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	\$ 434,392
APLUSOFT CO., LTD.	23,806	23,806	