

**TECO IMAGE SYSTEMS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS AND**  
**REVIEW REPORT OF INDEPENDENT ACCOUNTANTS**  
**MARCH 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.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM  
CHINESE

PWCR18000009

To the Board of Directors and Shareholders of Teco Image Systems Co., Ltd.

***Introduction***

We have reviewed the accompanying consolidated balance sheets of Teco Image Systems Co., Ltd. and subsidiaries (the “Group”) as at March 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the three-month periods then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

***Scope of Review***

We conducted our reviews in accordance with the Statement of Auditing Standards No. 65 “Review of Financial Information Performed by the Independent Auditor of the Entity” in the Republic of China. A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

***Conclusion***

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2018 and 2017, and of its consolidated financial performance and its consolidated cash flows for the three-month periods then ended in accordance with “Regulations Governing the Preparations of Financial Reports by Securities Issuers” and International Accounting Standard 34, “Interim Financial Reporting” as endorsed by the Financial Supervisory Commission.

Wu, Yu Lung

Huang, Shih Chun

For and on behalf of PricewaterhouseCoopers, Taiwan

May 7, 2018

---

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the review of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and review 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.

**TECO IMAGE SYSTEMS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of March 31, 2018 and 2017 are reviewed, not audited)

Assets	Notes	March 31, 2018		December 31, 2017		March 31, 2017		
		AMOUNT	%	AMOUNT	%	AMOUNT	%	
<b>Current assets</b>								
1100	Cash and cash equivalents	6(1)	\$ 894,632	34	\$ 732,958	26	\$ 732,011	27
1110	Financial assets at fair value through profit or loss - current	6(2) and 12(4)	201,909	8	355,609	13	338,409	12
1150	Notes receivable, net	6(4) and 12(4)	5,990	-	10,876	-	2,401	-
1170	Accounts receivable, net	6(4) and 12(4)	245,638	9	575,842	20	459,997	17
1180	Accounts receivable - related parties		-	-	9	-	10	-
1200	Other receivables		4,637	-	8,379	-	37,965	1
1220	Current income tax assets	6(18)	9,866	1	12,738	1	39,979	2
130X	Inventories, net	6(5)	132,356	5	130,800	5	136,679	5
1410	Prepayments	7(2)	32,165	1	30,455	1	91,924	3
1470	Other current assets	6(1)	8,364	-	31,964	1	31,680	1
11XX	<b>Current Assets</b>		<u>1,535,557</u>	<u>58</u>	<u>1,889,630</u>	<u>67</u>	<u>1,871,055</u>	<u>68</u>
<b>Non-current assets</b>								
1517	Financial assets at fair value through other comprehensive income - noncurrent	6(3)	1,037,020	39	-	-	-	-
1523	Available-for-sale financial assets - noncurrent	12(4)	-	-	854,254	30	834,693	30
1600	Property, plant and equipment, net	6(6)	21,169	1	21,260	1	27,031	1
1780	Intangible assets		10,852	1	12,288	1	5,378	-
1840	Deferred income tax assets	6(18)	36,636	1	38,637	1	24,541	1
1900	Other non-current assets		7,230	-	5,262	-	4,515	-
15XX	<b>Non-current assets</b>		<u>1,112,907</u>	<u>42</u>	<u>931,701</u>	<u>33</u>	<u>896,158</u>	<u>32</u>
1XXX	<b>Total assets</b>		<u>\$ 2,648,464</u>	<u>100</u>	<u>\$ 2,821,331</u>	<u>100</u>	<u>\$ 2,767,213</u>	<u>100</u>

(Continued)

**TECO IMAGE SYSTEMS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of New Taiwan dollars)  
(The balance sheets as of March 31, 2018 and 2017 are reviewed, not audited)

Liabilities and Equity	Notes	March 31, 2018		December 31, 2017		March 31, 2017	
		AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>Current liabilities</b>							
2130	Contract liabilities - current	\$ 35,304	1	\$ -	-	\$ -	-
2170	Accounts payable	303,169	12	450,355	16	367,832	13
2180	Accounts payable - related parties	7(2) 105	-	430	-	1,026	-
2200	Other payables	6(7) and 7(2) 213,016	8	250,009	9	240,038	9
2230	Current income tax liabilities	6(18) 15,265	1	20,600	1	15,967	1
2250	Provisions for liabilities - current	6(10) 32,461	1	32,500	1	57,854	2
2300	Other current liabilities	6(8) 1,584	-	84,609	3	111,197	4
21XX	<b>Current Liabilities</b>	<u>600,904</u>	<u>23</u>	<u>838,503</u>	<u>30</u>	<u>793,914</u>	<u>29</u>
<b>Non-current liabilities</b>							
2570	Deferred income tax liabilities	6(18) 462	-	393	-	258	-
2600	Other non-current liabilities	<u>29,443</u>	<u>1</u>	<u>29,872</u>	<u>1</u>	<u>40,063</u>	<u>1</u>
25XX	<b>Non-current liabilities</b>	<u>29,905</u>	<u>1</u>	<u>30,265</u>	<u>1</u>	<u>40,321</u>	<u>1</u>
2XXX	<b>Total Liabilities</b>	<u>630,809</u>	<u>24</u>	<u>868,768</u>	<u>31</u>	<u>834,235</u>	<u>30</u>
<b>Equity attributable to owners of parent</b>							
<b>Share capital</b> 6(11)							
3110	Share capital - common stock	1,125,365	42	1,125,365	40	1,125,365	41
<b>Retained earnings</b> 6(12)							
3310	Legal reserve	334,178	13	334,178	12	316,278	12
3350	Unappropriated retained earnings	351,414	13	383,468	13	338,641	12
<b>Other equity interest</b>							
3400	Other equity interest	<u>206,698</u>	<u>8</u>	<u>109,552</u>	<u>4</u>	<u>87,811</u>	<u>3</u>
31XX	<b>Equity attributable to owners of the parent</b>	<u>2,017,655</u>	<u>76</u>	<u>1,952,563</u>	<u>69</u>	<u>1,868,095</u>	<u>68</u>
36XX	<b>Non-controlling interest</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,883</u>	<u>2</u>
3XXX	<b>Total equity</b>	<u>2,017,655</u>	<u>76</u>	<u>1,952,563</u>	<u>69</u>	<u>1,932,978</u>	<u>70</u>
<b>Significant contingent liabilities and unrecognized contract commitments</b> 9							
3X2X	<b>Total liabilities and equity</b>	<u>\$ 2,648,464</u>	<u>100</u>	<u>\$ 2,821,331</u>	<u>100</u>	<u>\$ 2,767,213</u>	<u>100</u>

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

**TECO IMAGE SYSTEMS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Expressed in thousands of New Taiwan dollars, except earnings per share amounts)  
(UNAUDITED)

		Three months ended March 31			
		2018		2017	
Items	Notes	AMOUNT	%	AMOUNT	%
4000	Sales revenue	\$ 461,507	100	\$ 539,281	100
5000	Operating costs	( 331,730)	( 72)	( 382,417)	( 71)
5900	Net operating margin	129,777	28	156,864	29
<b>Operating expenses</b>					
6100	Selling expenses	( 13,922)	( 3)	( 18,647)	( 3)
6200	General and administrative expenses	( 36,389)	( 8)	( 40,342)	( 8)
6300	Research and development expenses	( 41,131)	( 9)	( 48,715)	( 9)
6450	Impairment loss (impairment gain and reversal of impairment loss) determined in accordance with IFRS 9	( 51)	-	-	-
6000	Total operating expenses	( 91,493)	( 20)	( 107,704)	( 20)
6900	Operating profit	38,284	8	49,160	9
<b>Non-operating income and expenses</b>					
7010	Other income	759	-	808	-
7020	Other gains and losses	( 4,248)	( 1)	( 20,609)	( 4)
7000	Total non-operating income and expenses	( 3,489)	( 1)	( 19,801)	( 4)
7900	Profit before income tax	34,795	7	29,359	5
7950	Income tax expense	( 856)	-	( 5,696)	( 1)
8200	Profit for the period	\$ 33,939	7	\$ 23,663	4
<b>Other comprehensive income</b>					
<b>Components of other comprehensive income that will not be reclassified to profit or loss</b>					
8316	Unrealized gain on valuation of equity instruments at fair value through other comprehensive income	\$ 28,661	6	\$ -	-
8349	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	( 69)	-	-	-
8310	Components of other comprehensive income that will not be reclassified to profit or loss	28,592	6	-	-
<b>Components of other comprehensive income (loss) that will be reclassified to profit or loss</b>					
8361	Financial statement translation differences of foreign operations	2,561	1	( 11,506)	( 2)
8362	Unrealized gain on valuation of available-for-sale financial assets	-	-	59,540	11
8360	Components of other comprehensive income that will be reclassified to profit or loss	2,561	1	48,034	9
8300	Total other comprehensive income for the period	\$ 31,153	7	\$ 48,034	9
8500	Total comprehensive income for the period	\$ 65,092	14	\$ 71,697	13
<b>Profit attributable to:</b>					
8610	Owners of the parent	\$ 33,939	7	\$ 23,663	4
8620	Non-controlling interest	-	-	-	-
<b>Comprehensive income (loss) attributable to:</b>					
8710	Owners of the parent	\$ 65,092	14	\$ 75,044	14
8720	Non-controlling interest	-	-	( 3,347)	( 1)
9750	Basic earnings per share	\$ 0.30		\$ 0.21	
9850	Diluted earnings per share	\$ 0.30		\$ 0.21	

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

**TECO IMAGE SYSTEMS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Equity attributable to owners of the parent							Total	Non-controlling interest	Total equity
	Retained earnings		Other equity interest							
	Share capital - common stock	Legal reserve	Unappropriated retained earnings	Financial statements translation differences of foreign operations	Unrealized gain on valuation of financial assets at fair value through other comprehensive income	Unrealized gain or loss on available-for-sale financial assets	Total			
Notes										
<u>Three months ended March 31, 2017</u>										
Balance at January 1, 2017	\$ 1,125,365	\$ 316,278	\$ 314,978	\$ 5,500	\$ -	\$ 30,930	\$ 1,793,051	\$ 68,230	\$ 1,861,281	
Profit for the period	-	-	23,663	-	-	-	23,663	-	23,663	
Other comprehensive (loss) income for the period	-	-	-	( 8,159 )	-	59,540	51,381	( 3,347 )	48,034	
Balance at March 31, 2017	<u>\$ 1,125,365</u>	<u>\$ 316,278</u>	<u>\$ 338,641</u>	<u>( \$ 2,659 )</u>	<u>\$ -</u>	<u>\$ 90,470</u>	<u>\$ 1,868,095</u>	<u>\$ 64,883</u>	<u>\$ 1,932,978</u>	
<u>Three months ended March 31, 2018</u>										
Balance at January 1, 2018	\$ 1,125,365	\$ 334,178	\$ 383,468	( \$ 479 )	\$ -	\$ 110,031	\$ 1,952,563	\$ -	\$ 1,952,563	
Effects of retrospective application and retrospective restatement	-	-	( 65,924 )	-	175,955	( 110,031 )	-	-	-	
Balance at 1 January after restatement	1,125,365	334,178	317,544	( 479 )	175,955	-	1,952,563	-	1,952,563	
Profit for the period	-	-	33,939	-	-	-	33,939	-	33,939	
Other comprehensive (loss) income for the period	-	-	( 69 )	2,561	28,661	-	31,153	-	31,153	
Balance at March 31, 2018	<u>\$ 1,125,365</u>	<u>\$ 334,178</u>	<u>\$ 351,414</u>	<u>\$ 2,082</u>	<u>\$ 204,616</u>	<u>\$ -</u>	<u>\$ 2,017,655</u>	<u>\$ -</u>	<u>\$ 2,017,655</u>	

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

**TECO IMAGE SYSTEMS CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Notes	Three months ended March 31	
		2018	2017
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>			
Profit before tax		\$ 34,795	\$ 29,359
Adjustments			
Adjustments to reconcile profit (loss)			
Depreciation	6(16)	2,889	3,029
Amortization	6(16)	1,505	692
Net income on financial assets and liabilities at fair value through profit or loss	6(15)	( 5,901 )	( 11,857 )
Gain on disposal of property, plant and equipment	6(15)	11	-
Gain on reversal of property, plant and equipment impairment loss	6(15)	-	( 791 )
Interest income	6(14)	( 281 )	( 305 )
Estimated warranty liabilities	6(10)	4	12
Changes in operating assets and liabilities			
Changes in operating assets			
Financial assets and liabilities held for trading		5,496	-
Notes receivable		4,886	1,206
Accounts receivable		330,204	95,349
Accounts receivable-related parties		9	( 10 )
Other receivables		3,742	4,790
Inventories		( 1,556 )	( 9,658 )
Prepayments		( 1,710 )	1,486
Changes in operating liabilities			
Advance sales receipts		( 47,639 )	-
Accounts payable		( 147,186 )	( 39,235 )
Accounts payable - related parties		( 325 )	229
Other payables		( 36,993 )	( 17,688 )
Provisions-current		( 43 )	( 80 )
Other current liabilities		( 82 )	( 33,538 )
Other non-current liabilities		( 429 )	( 349 )
Cash inflow generated from operations		141,396	22,641
Interest received		281	305
Income tax paid		( 1,538 )	( 2,218 )
Net cash flows from operating activities		<u>140,139</u>	<u>20,728</u>

(Continued)



TECO IMAGE SYSTEMS CO., LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Expressed in thousands of New Taiwan dollars)  
(UNAUDITED)

	Notes	<u>Three months ended March 31</u>	
		<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Decrease in other current assets		\$ 23,600	\$ 325
Acquisition of property, plant and equipment	6(6)	( 2,525 )	( 994 )
Acquisition of intangible assets		( 57 )	( 766 )
Increase in refundable deposits		( 337 )	( 730 )
Increase in prepayments for business facilities		( 1,728 )	-
Decrease in other non-current assets		<u>59</u>	<u>61</u>
Net cash flows from (used in) investing activities		<u>19,012</u>	<u>( 2,104 )</u>
Effect of exchange rate changes on cash and cash equivalents		<u>2,523</u>	<u>( 11,694 )</u>
Net increase in cash and cash equivalents		161,674	6,930
Cash and cash equivalents at beginning of period		<u>732,958</u>	<u>725,081</u>
Cash and cash equivalents at end of period		<u>\$ 894,632</u>	<u>\$ 732,011</u>

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

TECO IMAGE SYSTEMS CO., LTD. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2018 AND 2017

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

1. HISTORY AND ORGANISATION

(1) Teco Image Systems Co., Ltd. (the “Company”) was incorporated as a company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C) on September 8, 1997 and has begun its operations in the same year. The Company and its subsidiaries (collectively referred herein as the “Group”) are primarily engaged in designing, manufacturing and trading of multi-function printers, fax machines, scanner, etc.

(2) The Company’s shares have been listed on the Taipei Exchange since June 2000.

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

These consolidated financial statements were reported to the Board of Directors on May 7, 2018.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

New Standards, Interpretations and Amendments	Effective date by International Accounting Standards Board
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
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 IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

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

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 measured 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 in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- 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 that 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.

When adopting the new standards endorsed by the FSC effective from 2018, the Company will apply the new rules under IFRS 9 retrospectively from January 1, 2018, with the practical expedients permitted under the statement. The significant effects of applying the standard as of January 1, 2018 are summarised below.

- (a) In accordance with IFRS 9, the Group expects to reclassify financial assets at fair value through profit or loss and available-for-sale financial assets in the amounts of \$154,105 and \$854,254, respectively, and make an irrevocable election at initial recognition on equity instruments not held for dealing or trading purpose, by increasing financial assets at fair value through other comprehensive income, decreasing retained earnings and increasing other equity interest in the amounts of \$1,008,359, (\$65,924) and \$65,924, respectively.
- (b) The Group has advance sales receipts for the sale of goods to external customers, but were previously presented as other current liabilities. In accordance with IFRS 15, the amount which was reclassified to contract liabilities-current on January 1, 2018 was \$82,943.
- (c) Please refer to Note 12(4) and 12(5) for other disclosures in relation to the first-time application of IFRS 9 and IFRS 15.

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

None.

(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:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective date by International Accounting Standards Board</u>
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
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 16, 'Leases'	January 1, 2019
IFRS 17, 'Insurance contracts'	January 1, 2021
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

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

IFRS 16, 'Leases':

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

The Group will adopt the simple modified retrospective transitional provisions of IFRS 16 'Lease', and classify the effects on the lease contract of lessee to January 1, 2019 in accordance with IFRS 16.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(1) Compliance statement

The consolidated financial statements of the Group have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Securities Issuers" and the International Accounting Standard 34, "Interim Financial Reporting" as endorsed by the FSC.

(2) Basis of preparation

A. Except for the following items, the consolidated financial statements have been prepared under the historical cost convention:

- (a) Financial assets at fair value through profit or loss.
- (b) Financial assets at fair value through other comprehensive income/Available-for-sale financial assets measured at fair value.
- (c) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.

B. The preparation of financial statements in conformity with International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs") requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of

judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

- C. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Group has elected to apply 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 first quarter was not restated. The financial statements for the first quarter 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.

### (3) Basis of consolidation

#### A. Basis for preparation of consolidated financial statements

- (a) All subsidiaries are included in the Group's consolidated financial statements. Subsidiaries are all entities (including structured entities) controlled by the Group. The Group controls an entity when the Group 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. Consolidation of subsidiaries begins from the date the Group obtains control of the subsidiaries and ceases when the Group loses control of the subsidiaries.
- (b) Inter-company transactions, balances and unrealised gains or losses on transactions between companies within the Group are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Group.
- (c) Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

#### B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Description
			March 31, 2018	December 31, 2017	March 31, 2017	
The Company	Atlas Tech Investment Co., Ltd. (Atlas)	Professional investment company	100	100	100	-
The Company	Image Holding Limited (IHL)	Professional investment company	-	-	100	Note 1
Atlas	All-In-One International Co., Ltd. (All-In-One)	Professional investment company	100	100	100	-
Atlas	Image Systems International Limited (ISI)	Professional investment company	100	100	100	-
Atlas	Teco Pro-Systems (JiangXi)	Research, development,	100	100	100	Note 2

Name of investor	Name of subsidiary	Main business activities	Ownership (%)			Description
			March 31, 2018	December 31, 2017	March 31, 2017	
	Co., Ltd.	manufacturing and sales of multi-function printers and related products				
All-In-One	TECO Image Systems (Suzhou) Co., Ltd.	Research, technical service, manufacturing and sales of multi-function printers and related products	100	100	100	Note 3
ISI	Teco Image Systems (DongGuan) Co., Ltd.	Research, development, manufacturing and sales of multi-function printers and related products	100	100	100	-
IHL	TIS KARRIE TECHNOLOGIES (H.K) COMPANY LIMITED	Research, development, manufacturing and sales of multi-function printers and related products	-	-	51	Note 4

The financial statements of the abovementioned subsidiaries included in the consolidated financial statements for the three months ended March 31, 2018 and 2017 have been reviewed by the Company's independent accountants.

Note 1: On March 15, 2016, the Board of Directors resolved for the Company to liquidate and cease the business of its wholly-owned subsidiary, Image Holding Limited. The liquidation has been completed in the first half of 2017.

Note 2: On August 6, 2014, the Board of Directors resolved for the Company to liquidate and cease the business of Teco Pro-Systems (JiangXi) Co., Ltd., a wholly-owned subsidiary held by the Company's wholly-owned subsidiary, Atlas Tech Investment Co., Ltd.. As of May 7, 2018, the liquidation process is still ongoing.

Note 3: On March 15, 2016, the Board of Directors resolved for the Company to liquidate and cease the business of TECO Image Systems (Suzhou) Co., Ltd., a wholly-owned subsidiary held by the Company's wholly-owned subsidiary, All-In-One International Co., Ltd.. As of May 7, 2018, the liquidation process is still ongoing.

Note 4: On January 15, 2013, the Board of Directors resolved for the Company to liquidate and cease the business of TIS KARRIE TECHNOLOGIES (H.K) COMPANY LIMITED, a 51% owned subsidiary held by the Company's wholly-owned subsidiary, Image Holding Limited. The liquidation has been completed in the first half of 2017.

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

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

E. Significant restrictions: None.

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

#### (4)Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan dollars (NTD), which is the Company's functional and the Group's 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 recognized 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 recognized 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 recognized 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 recognized 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 under "other gains and losses".

##### B. Translation of foreign operations

- (a) The operating results and financial position of all the group entities 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 exchange rate prevailing at the dates of that balance sheet;
  - ii. Income and expenses for each statement of comprehensive income are translated at average exchange rates of that period;
  - iii. All resulting exchange differences are recognised in other comprehensive income.



- (b) 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 Group 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.

(5)Classification of current and non-current items

- 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 realized, 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 realized 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.

(6)Cash equivalents

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

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

- A. Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value and recognises the transaction costs in profit or loss. The Group subsequently measures the financial assets at fair value, and recognises the gain or loss in profit or loss.

(8)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, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income.
- B. On a regular way purchase or sale basis, financial assets at fair value through other comprehensive income are recognised and derecognised using settlement date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. The Group subsequently measures the financial assets at fair value. The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

(9)Financial assets at amortised cost

- A. Financial assets at amortised cost are those that meet all of the following criteria:
  - (a) The objective of the Group's business model is achieved by collecting contractual cash flows.
  - (b) The assets' contractual cash flows represent solely payments of principal and interest.
- B. On a regular way purchase or sale basis, financial assets at amortised cost are recognised and derecognised using trade date accounting.
- C. At initial recognition, the Group measures the financial assets at fair value plus transaction costs. 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.

(10)Accounts and notes receivable

- A. Accounts and notes receivable entitle the Group a legal right to receive consideration in exchange for transferred goods or rendered services.

B. The short-term accounts and notes receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

(11) Impairment of financial assets

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

(12) Derecognition of financial assets

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

(13) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the moving average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads. It excludes borrowing costs. The item by item approach is used in applying the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and applicable variable selling expenses.

(14) 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 Group 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. 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	3~5 years
Mold equipment	3~5 years
Testing equipment	3~5 years
Transportation equipment	6 years
Office equipment	3~4 years
Leasehold improvements	3 years
Others	3~4 years

(15) Leases (lessee)

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.

(16) Intangible assets

Intangible assets mainly refer to computer software and royalty which is stated at cost and amortised on a straight-line basis over its estimated useful life of 3 to 5 years.

(17) Impairment of non-financial assets

The Group 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.

(18) 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.

(19) Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is either discharged or cancelled or expires.

(20) Non-hedging and embedded derivatives

Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

(21) Provisions

Provisions for warranty are recognised when the Group 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.

(22) 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 Group 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 net 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) of a currency and term consistent with the currency and term of the employment benefit obligations.
- 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.
- iv. Pension cost for the interim period is calculated on a year-to-date basis by using the pension cost rate derived from the actuarial valuation at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant curtailments, settlements, or other significant one-off events. And, the related information is disclosed accordingly.

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

Employees' compensation and directors' and supervisors' remuneration are recognised as expenses and liabilities, 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. If employee compensation is paid by shares, the Group calculates the number of shares based on the closing price at the previous day of the board meeting resolution.

(23) 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 and its subsidiaries operate 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. The rate of tax on undistributed surplus earnings was 5% for the year ended December 31, 2018.

- 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 consolidated balance sheet. Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is determined using tax rates (and laws) 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 liability simultaneously. Deferred tax assets is 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. The interim period income tax expense is recognised based on the estimated average annual effective income tax rate expected for the full financial year applied to the pretax income of the interim period, and the related information is disclosed accordingly.
- H. If a change in tax rate is enacted or substantively enacted in an interim period, the Group recognises the effect of the change immediately in the interim period in which the change occurs. The effect of the change on items recognised outside profit or loss is recognised in other comprehensive income or equity while the effect of the change on items recognised in profit or loss is recognised in profit or loss.

#### (24) Share capital

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.

#### (25) 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; stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

#### (26) Revenue recognition

##### A. Sales of goods

(a) The Group manufacture and sale multi-function printer, fax machine, scanner and related products. Sales revenue are recognised when the control of product is transferred to customer, it means when product is transferred to customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(b) The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

(c) A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

##### B. Financing components

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

#### (27) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Group's Chief Operating Decision-Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

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

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Group'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; and the related information is addressed below:

(1)Critical judgements in applying the Group’s accounting policies

After assessment, the Group’s accounting policies have no significant uncertainty.

(2)Critical accounting estimates and assumptions

Evaluation of inventories:

As inventories are stated at the lower of cost and net realisable value, the Group must determine the net realisable value of inventories on balance sheet date using judgements and estimates. Due to the rapid technology innovation, the Group evaluates the amounts of normal inventory consumption, obsolete inventories or inventories without market selling value on balance sheet date, and writes down the cost of inventories to the net realisable value. Such an evaluation of inventories is principally based on the demand for the products within the specified period in the future. Therefore, there might be material changes to the evaluation.

As of March 31, 2018, the carrying amount of inventories was \$132,356.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1)Cash and cash equivalents

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Cash on hand	\$ 751	\$ 395	\$ 920
Checking accounts and demand deposits	893,881	732,563	730,035
Time deposits	-	-	1,056
	<u>\$ 894,632</u>	<u>\$ 732,958</u>	<u>\$ 732,011</u>

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

B. The Group has no cash and cash equivalents pledged to others.

C. As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group’s deposits with original maturity between 3 months and 1 year (shown as other current assets) amounted to \$8,364, \$31,964 and \$31,680, respectively.

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

	<u>March 31, 2018</u>
Current items:	
Financial assets mandatorily measured at fair value through profit or loss	
Beneficiary certificates	\$ 197,915
Non-hedging derivatives	<u>741</u>
	198,656
Valuation adjustment	<u>3,253</u>
	<u>\$ 201,909</u>

A. Amounts recognised in profit or loss in relation to financial assets at fair value through profit or loss are listed below:

	<u>Three months ended March 31, 2018</u>
Financial assets mandatorily measured at fair value through profit or loss	
Beneficiary certificates	\$ 218
Non-hedging derivatives	<u>5,683</u>
	<u>\$ 5,901</u>

B. The Group entered into contracts relating to derivative financial assets which were not accounted for under hedge accounting. The information is listed below:

	<u>March 31, 2018</u>	
<u>Derivative instruments</u>	<u>Contract amount (notional principal)</u>	<u>Contract period</u>
Current items:		
Foreign exchange swap	USD 2,000	2018.02.07~2018.04.09
Foreign exchange swap	USD 2,000	2018.02.21~2018.04.23
Foreign exchange swap	USD 2,000	2018.02.27~2018.04.27
Foreign exchange swap	USD 2,000	2018.03.05~2018.05.07
Foreign exchange swap	USD 2,000	2018.03.23~2018.05.23
Foreign exchange swap	USD 2,000	2018.03.29~2018.05.29

C. The Group has no financial assets at fair value through profit or loss pledged or collateralised.

D. The Group entered into foreign exchange swap to hedge exchange rate risk. However, these foreign exchange swap contracts are not accounted for under hedge accounting.

E. Information relating to credit risk is provided in Note 12(2).

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

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

<u>Items</u>	<u>March 31, 2018</u>
Non-current items:	
Equity instruments	
Listed stocks	\$ 803,837
Unlisted shares	<u>28,567</u>
	832,404
Valuation adjustment	<u>204,616</u>
Subtotal	<u>\$ 1,037,020</u>

- A. The Group has elected to classify equity investments that are considered to be steady dividend income as financial assets at fair value through other comprehensive income.
- B. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	<u>Three months ended March 31, 2018</u>
Equity instruments at fair value through other comprehensive income	
Fair value change recognised in other comprehensive income	<u>\$ 28,661</u>

- C. The Group had no financial assets at fair value through other comprehensive income pledged to others as collateral.
- D. Information relating to credit risk is provided in Note 12(2).
- E. The information on December 31, 2017 and March 31, 2017 is provided in Note 12(4).

(4) Notes and accounts receivable

	<u>March 31, 2018</u>
Notes receivable	\$ 6,018
Less: Loss allowance	<u>( 28)</u>
	<u>\$ 5,990</u>
Accounts receivable	245,661
Less: Loss allowance	<u>( 23)</u>
	<u>\$ 245,638</u>

- A. The ageing analysis of notes receivable and accounts receivable is as follows:

	<u>March 31, 2018</u>
Without past due	\$ 251,445
Up to 30 days	<u>234</u>
	<u>\$ 251,679</u>

The above ageing analysis was based on past due date.

B. The Group did not hold any collaterals for abovementioned notes and accounts receivable.

C. Information relating to credit risk is provided in Note 12(2).

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

(5) Inventories

	March 31, 2018		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 108,040	(\$ 14,196)	\$ 93,844
Work in process	7,454	( 278)	7,176
Finished goods	12,162	( 290)	11,872
Merchandise	23,542	( 4,078)	19,464
	<u>\$ 151,198</u>	<u>(\$ 18,842)</u>	<u>\$ 132,356</u>
	December 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 106,598	(\$ 25,413)	\$ 81,185
Work in process	7,125	( 112)	7,013
Finished goods	20,171	( 1,775)	18,396
Merchandise	23,665	( 2,825)	20,840
Inventory in transit	3,366	-	3,366
	<u>\$ 160,925</u>	<u>(\$ 30,125)</u>	<u>\$ 130,800</u>
	March 31, 2017		
	Cost	Allowance for valuation loss	Book value
Raw materials	\$ 120,171	(\$ 23,795)	\$ 96,376
Work in process	10,017	( 269)	9,748
Finished goods	19,431	( 3,728)	15,703
Merchandise	15,139	( 287)	14,852
	<u>\$ 164,758</u>	<u>(\$ 28,079)</u>	<u>\$ 136,679</u>

A. Abovementioned inventories were not pledged or collateralised.

B. The cost of inventories recognised as expense for the period:

	<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Cost of goods sold	\$ 330,854	\$ 381,955
(Gain on reversal) loss on decline in market value (Note)	( 11,390)	462
Retirement loss	<u>12,266</u>	<u>-</u>
	<u>\$ 331,730</u>	<u>\$ 382,417</u>

Note: Gain on reversal of market value of inventories is generated from disposal of inventories that has been provisioned loss from decline in market value, and reclassified as loss on disposal of inventory.

(6) Property, plant and equipment

At January 1, 2018

	Machinery and equipment	Mold equipment	Testing equipment	Transportation equipment	Office equipment	Leasehold improvements	Others	Total
Cost	\$ 4,079	\$ 3,037	\$ 26,123	\$ 900	\$ 38,860	\$ 32,764	\$ 9,090	\$ 114,853
Accumulated depreciation and impairment	( 2,185)	( 2,586)	( 25,399)	( 900)	( 34,494)	( 20,772)	( 7,257)	( 93,593)
	<u>\$ 1,894</u>	<u>\$ 451</u>	<u>\$ 724</u>	<u>\$ -</u>	<u>\$ 4,366</u>	<u>\$ 11,992</u>	<u>\$ 1,833</u>	<u>\$ 21,260</u>

2018

Opening net book amount as at January 1	\$ 1,894	\$ 451	\$ 724	\$ -	\$ 4,366	\$ 11,992	\$ 1,833	\$ 21,260
Additions	583	1,528	24	-	210	-	180	2,525
Disposals	-	-	-	-	( 11)	-	-	( 11)
Depreciation charge	( 232)	( 97)	( 94)	-	( 657)	( 1,427)	( 382)	( 2,889)
Net exchange differences	37	14	4	-	24	202	3	284
Closing net book amount as at March 31	<u>\$ 2,282</u>	<u>\$ 1,896</u>	<u>\$ 658</u>	<u>\$ -</u>	<u>\$ 3,932</u>	<u>\$ 10,767</u>	<u>\$ 1,634</u>	<u>\$ 21,169</u>

At March 31, 2018

Cost	\$ 4,740	\$ 4,579	\$ 26,160	\$ 900	\$ 39,084	\$ 33,267	\$ 9,275	\$ 118,005
Accumulated depreciation and impairment	( 2,458)	( 2,683)	( 25,502)	( 900)	( 35,152)	( 22,500)	( 7,641)	( 96,836)
	<u>\$ 2,282</u>	<u>\$ 1,896</u>	<u>\$ 658</u>	<u>\$ -</u>	<u>\$ 3,932</u>	<u>\$ 10,767</u>	<u>\$ 1,634</u>	<u>\$ 21,169</u>

	Machinery and equipment	Mold equipment	Testing equipment	Transportation equipment	Office equipment	Leasehold improvements	Others	Total
<u>At January 1, 2017</u>								
Cost	\$ 4,983	\$ 2,932	\$ 25,964	\$ 900	\$ 37,517	\$ 33,084	\$ 8,598	\$ 113,978
Accumulated depreciation and impairment	( 3,713)	( 2,327)	( 25,691)	( 900)	( 31,898)	( 15,022)	( 5,406)	( 84,957)
	\$ 1,270	\$ 605	\$ 273	\$ -	\$ 5,619	\$ 18,062	\$ 3,192	\$ 29,021
<u>2017</u>								
Opening net book amount as at January 1	\$ 1,270	\$ 605	\$ 273	\$ -	\$ 5,619	\$ 18,062	\$ 3,192	\$ 29,021
Additions	260	-	-	-	734	-	-	994
Reversal of impairment	386	-	183	-	211	-	11	791
Depreciation charge	( 165)	( 65)	( 60)	( -)	( 769)	( 1,506)	( 464)	( 3,029)
Reclassifications (Note)	-	-	-	-	-	-	175	175
Net exchange differences	( 71)	-	( 6)	-	( 40)	( 802)	( 2)	( 921)
Closing net book amount as at March 31	\$ 1,680	\$ 540	\$ 390	\$ -	\$ 5,755	\$ 15,754	\$ 2,912	\$ 27,031
<u>At March 31, 2017</u>								
Cost	\$ 3,253	\$ 2,932	\$ 25,806	\$ 900	\$ 37,927	\$ 31,790	\$ 8,768	\$ 111,376
Accumulated depreciation and impairment	( 1,573)	( 2,392)	( 25,416)	( 900)	( 32,172)	( 16,036)	( 5,856)	( 84,345)
	\$ 1,680	\$ 540	\$ 390	\$ -	\$ 5,755	\$ 15,754	\$ 2,912	\$ 27,031

Note: Reclassification was transferred from prepayments for business facilities.

Abovementioned property, plant and equipment was neither pledged nor collateralised and no interest was capitalised.

(7) Other payables

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Salaries and bonuses payable	\$ 133,344	\$ 163,426	\$ 136,648
Employees' compensation and directors' and supervisors' remuneration	30,496	26,327	28,033
Research and development expense payable	7,431	6,328	13,751
Service charge payable	8,424	11,164	10,103
Others	33,321	42,764	51,503
	<u>\$ 213,016</u>	<u>\$ 250,009</u>	<u>\$ 240,038</u>

(8) Other current liabilities

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Sales revenue received in advance	\$ -	\$ 82,943	\$ 110,323
Other advance receipts	1,584	1,666	874
	<u>\$ 1,584</u>	<u>\$ 84,609</u>	<u>\$ 111,197</u>

(9) Pensions

A. Defined benefit pension plans

- (a) The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company and its domestic subsidiaries contribute monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company and its domestic subsidiaries would assess the balance in the aforementioned labor pension reserve account by December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method to the employees expected to qualify for retirement in the following year, the Company and its domestic subsidiaries will make contributions to cover the deficit by next March.
- (b) For the aforementioned pension plan, the Group recognised pension costs of \$330 and \$477 for the three months ended March 31, 2018 and 2017, respectively.



(c) Expected contributions to the defined benefit pension plans of the Group for the year ending December 31, 2019 amounts to \$2,510.

B. Defined contribution pension 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 based on 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 Company’s consolidated subsidiaries, Atlas, All-In-One and ISI do not have employee retirement plans and there is no requirement according to local regulations. TECO Image Systems (Suzhou) Co., Ltd., Teco Image Systems (DongGuan) Co., Ltd. and Teco Pro-Systems (JiangXi) Co., Ltd. have a defined contribution plan. Monthly contributions to an independent fund administered by the government in accordance with local regulations are based on certain percentage of employees’ monthly salaries and wages. Other than the monthly contributions, the Group has no further obligations.

(c) The pension costs under the defined contribution pension plans of the Group for the three months ended March 31, 2018 and 2017, were \$2,493 and \$3,075, respectively.

(10) Provisions

	Product warranty	Legal claims	Total
At January 1, 2018	\$ 32,500	\$ -	\$ 32,500
Additional provisions	4	-	4
Used during the period	( 43)	-	( 43)
At March 31, 2018	<u>\$ 32,461</u>	<u>\$ -</u>	<u>\$ 32,461</u>

	Product warranty	Legal claims	Total
At January 1, 2017	\$ 32,897	\$ 26,218	\$ 59,115
Additional provisions	12	-	12
Used during the period	( 80)	-	( 80)
Net exchange differences	-	( 1,193)	( 1,193)
At March 31, 2017	<u>\$ 32,829</u>	<u>\$ 25,025</u>	<u>\$ 57,854</u>

Analysis of total provisions:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Current-product warranty	\$ 32,461	\$ 32,500	\$ 32,829
Current-legal claims	<u>-</u>	<u>-</u>	<u>25,025</u>
	<u>\$ 32,461</u>	<u>\$ 32,500</u>	<u>\$ 57,854</u>

- A. The Group provides warranties on multi-function printers sold. Provision for product warranty is estimated based on history warranty data of multi-function printers. It is expected that provision for product warranty will be used in the following years.
- B. The Group's provision for legal claims relates to the fire which broke out at the Company's sub-subsidiary, Teco Image Systems (DongGuan) Co., Ltd., on December 29, 2014. The adjacent company, Global Brands Manufacture Ltd., was reached by the fire and its plant equipment and inventories were destroyed. After paying the insurance proceeds to Global Brands Manufacture Ltd. and acquiring the subrogation right, PICC Property and Casualty Company Limited initiated litigation against Teco Image Systems (DongGuan) Co., Ltd.. On August 19, 2016, Dongguan People's Court in Guangdong Province, Mainland China rendered a judgement that Teco Image Systems (DongGuan) Co., Ltd. indemnify PICC Property and Casualty Company Limited for insurance compensation and interest. Teco Image Systems (DongGuan) Co. has filed for an appeal. On November 2, 2017, Intermediate People's Court of Dongguan Municipality, Guangdong Province decided in the second instance, that Teco Image Systems (DongGuan) Co. has to pay a compensation of \$25,824. The Group had already paid the compensation in December, 2017.

(11) Share capital

- A. As of March 31, 2018, the Company's authorised capital was \$1,710,000, consisting of 171 million shares of ordinary stock, and the paid-in capital was \$1,125,365 with a par value of \$10 (in dollars) per share. All proceeds from shares issued have been collected.
- B. For the three months ended March 31, 2018 and 2017, the number of ordinary shares outstanding at the beginning of the period was consistent with the number at the end of the period which amounted to 112,536,565 shares.

(12) Retained earnings

- A. Under the Company's Articles of Incorporation, the current year's earnings, if any, shall be distributed in the following order: (a) Pay all taxes; (b) Offset prior years' losses; (c) Set aside 10% as legal reserve; (d) Set aside or reverse special reserve; and (e) The remainder along with the beginning unappropriated earnings and reversal of special reserve is the shareholders' accumulated distributable earnings. The appropriation of the accumulated distributable earnings shall be proposed by the Board of Directors and resolved by the shareholders as the

shareholders' bonus.

- B. The Company's dividends policy is summarised below: The Company operates in a steady growth environment with investment made in developing business. In consideration of possible plant expansion and investment, the residual dividend policy is adopted. Cash dividends shall account for at least 5% of the total dividends distributed.
- 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. Appropriation of the Company's earnings is as follows:
- (a) Details of appropriation of 2017 and 2016 earnings as proposed by the Board of Directors and resolved by the shareholders on March 19, 2018 and June 21, 2017, respectively, are as follows:

	Years ended December 31,			
	2017		2016	
	Amount	Dividends per share (in dollars)	Amount	Dividends per share (in dollars)
Legal reserve appropriated	\$ 22,077		\$ 17,900	
Cash dividends	168,805	\$ 1.50	135,044	\$ 1.20
	<u>\$ 190,882</u>		<u>\$ 152,944</u>	

As of May 7, 2018, the abovementioned earnings distribution has not yet been resolved by the shareholders.

- F. For the information relating to employees' compensation and directors' and supervisors' remuneration, please refer to Note 6(17).

### (13) Operating revenue

- A. Disaggregation of revenue from contracts with customers

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

Three months ended March 31, 2018	Revenue from sale of multi-function printer		Other sales		Adjustment	Total
	Mainland China and Hong Kong	Taiwan and Others	Mainland China and Hong Kong	Japan and Others		
	Revenue from external customer contracts	\$ 380,976	\$ 16,563	\$ 31,949		
Inter-segment revenue	310,876	-	-	-	( 310,876)	-
Total segment revenue	\$ 691,852	\$ 16,563	\$ 31,949	\$ 32,019	(\$ 310,876)	\$ 461,507
Timing of revenue recognition						
At a point in time	\$ 691,852	\$ 16,563	\$ 31,949	\$ 32,019	(\$ 310,876)	\$ 461,507

## B. Contract assets and liabilities

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

	<u>March 31, 2018</u>
Contract liabilities -other sales	<u>\$ 35,304</u>

(b) For the three months ended March 31, 2018, revenue recognised that was included in the contract liability balance at the beginning of the period was \$50,007.

C. Related disclosures for 2017 operating revenue are provided in Note 12(5).

## (14) Other income

	<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Interest from bank deposits	\$ 281	\$ 305
Others	478	503
	<u>\$ 759</u>	<u>\$ 808</u>

## (15) Other gains and losses

	<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Net gains on financial assets / liabilities at fair value through profit or loss	\$ 5,901	11,857
Net currency exchange losses	( 10,060)	( 30,283)
Reversal of impairment gain recognised in profit or loss, property, plant and equipment	-	791
Losses on disposal of property, plant and equipment	( 11)	-
Others	( 78)	( 2,974)
	<u>(\$ 4,248)</u>	<u>(\$ 20,609)</u>

(16) Expenses by nature

	Three months ended March 31,	
	2018	2017
Employee benefit expense	\$ 85,903	\$ 99,647
Depreciation charge	\$ 2,889	\$ 3,029
Amortisation charge	\$ 1,505	\$ 692

(17) Employee benefit expense

	Three months ended March 31,	
	2018	2017
Wages and salaries	\$ 72,941	\$ 84,630
Employees' compensation and directors' and supervisors' remuneration	4,169	3,301
Labour and health insurance fees	2,052	3,946
Pension costs	2,823	3,552
Others	3,918	4,218
	<u>\$ 85,903</u>	<u>\$ 99,647</u>

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 be 5%~15% for employees' compensation and shall not be higher than 5% for directors' and supervisors' remuneration.

B. For the three months ended March 31, 2018 and 2017, employees' compensation was accrued at \$2,727 and \$2,201, respectively; while directors' and supervisors' remuneration was accrued at \$1,442 and \$1,100, respectively. The aforementioned amounts were recognised in salary expenses.

The employees' compensation and directors' and supervisors' remuneration were estimated and accrued based on 7.00% and 3.70% of distributable profit of current year as of the end of reporting period.

Employees' compensation and directors' and supervisors' remuneration for 2017 as resolved by the Board of Directors were in agreement with those amounts recognised in the 2017 financial statements. For the year ended December 31, 2017, employees' compensation will be distributed in the form of cash, but has not yet been distributed.

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

(18) Income tax/ Events after the balance sheet date

A. Income tax expense

(a) Components of income tax expense:

	<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Current tax:		
Current income tax assets	(\$ 9,866)	(\$ 39,979)
Current income tax liabilities	15,265	15,967
Receivables on receipts from income tax in prior years that have not yet been received	7,783	39,964
Payables on payments from income tax in prior years that have not yet been paid	( 13,204)	( 14,735)
Withholding and provisional tax	22	15
Offshore income tax expense	1,516	2,203
Current tax on profit for the period	1,516	3,435
Prior year income tax overestimation	( 2,661)	-
Total current tax	<u>( 1,145)</u>	<u>3,435</u>
Deferred tax:		
Origination and reversal of temporary differences	8,819	2,038
Impact of change in tax rate	( 6,818)	-
Total deferred tax	2,001	2,038
Net exchange differences	-	223
Income tax expense	<u>\$ 856</u>	<u>\$ 5,696</u>

(b) Components of income tax expense:

	<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Impact of change in tax rate of remeasurement of defined benefit obligations	<u>\$ 69</u>	<u>\$ -</u>

(c) For the three months ended March 31, 2018 and 2017, the Company has no income tax relating to income tax (charged)/credited to equity during the period.

B. The Company's income tax returns through 2015 have been assessed and approved by the Tax Authority.

C. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February, 2018, the Company's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Group has assessed the impact of the change in income tax rate.

(19) Earnings per share

	<u>Three months ended March 31, 2018</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic (diluted) earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 33,939	112,537	\$ 0.30
	<u>Three months ended March 31, 2017</u>		
	<u>Amount after tax</u>	<u>Weighted average number of ordinary shares outstanding (shares in thousands)</u>	<u>Earnings per share (in dollars)</u>
<u>Basic (diluted) earnings per share</u>			
Profit attributable to ordinary shareholders of the parent	\$ 23,663	112,537	\$ 0.21

(20) Operating leases

The Group leases in offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 4 years. The Group recognised rental expenses of \$9,540 and \$7,761 for abovementioned transactions in profit or loss for the three months ended March 31, 2018 and 2017, respectively. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Within one year	\$ 28,622	\$ 31,694	\$ 27,785
Later than one year but not later than five years	45,249	48,720	15,682
	<u>\$ 73,871</u>	<u>\$ 80,414</u>	<u>\$ 43,467</u>

7. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Group</u>
Creative Sensor Inc.	Common chairman.
Multilite International Co., Ltd.	Common chairman.
Lien Chang Electronic Enterprise Co., LTD.	Common chairman.
TECO ELECTRIC & MACHINERY CO., LTD.	This company's director is the Company's chairman.

<u>Names of related parties</u>	<u>Relationship with the Group</u>
TECNOS INTERNATIONAL CONSULTANT CO., LTD	The chairman of the securities holding company and the Company's chairman are within second degree of kinship.
Tong An Assets Management & Development Co., Ltd.	The chairman of the securities holding company and the Company's chairman are within second degree of kinship.
Karrie Technologies Co., Ltd. (Note)	Joint venture relationship with the Company.
All directors, president and key management	The Group's key management and governing body.

Note: The joint venture has completed the liquidation and was dissolved in the first half year of 2017, and the joint partnership was therefore ended.

(2) Significant related party transactions and balances

A. Sales

The amounts of sales transactions between the Group and the related parties are not disclosed since it is not significant and did not reach \$3,000.

B. Purchases

(a) Purchases

The details of purchases from the related parties are as follows:

	<u>Three months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Entities with significant influence to the Group	\$ 1,496	\$ 875
Other related parties	-	185
	<u>\$ 1,496</u>	<u>\$ 1,060</u>

Goods are bought from associates on normal commercial terms and conditions. The terms are approximately the same as those to third-party suppliers which is from 30 days after the purchase to 105 days after monthly billing while to related parties is 45 days to 105 days after monthly billing.

(b) Payables

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Entities with significant influence to the Group	<u>\$ 105</u>	<u>\$ 430</u>	<u>\$ 1,026</u>



C. Leases / Operating expense / Other payables

(a) Operating expense

The Group leases offices from the entities with related parties (shown as operating expense):

	Three months ended March 31,	
	2018	2017
Other related parties	\$ 3,712	\$ 3,692

The Group leases offices from the related parties with an agreed price. The rent is paid regularly under the leasing contract.

(b) Other payables

The Group's other payables generated from the abovementioned transactions:

	March 31, 2018	December 31, 2017	March 31, 2017
Other related parties	\$ 2,789	\$ 703	\$ 2,521

D. Transactions of the liquidation of subsidiary company / Prepayments

The Group is preparing for liquidation proceedings of a subsidiary company. As a result, the Group returned share capital to other related parties in advance (shown as other prepayments).

The amounts of prepayment from related party transactions mentioned above are as follows:

	March 31, 2018	December 31, 2017	March 31, 2017
Karrie Technologies Co., Ltd.	\$ -	\$ -	\$ 58,116

E. Transaction of payment on behalf of others / other payables

The amounts of advance money (shown as other payables) in relation to other transactions from the entities with the related parties are as follows:

	March 31, 2018	December 31, 2017	March 31, 2017
Entities with significant influence to the Group	\$ -	\$ -	\$ 168
Other related parties	1,814	2,575	1,653
	\$ 1,814	\$ 2,575	\$ 1,821

(3) Key management compensation

	Three months ended March 31,	
	2018	2017
Short-term employee benefits	\$ 13,457	\$ 11,684
Post-employment benefits	119	120
	\$ 13,576	\$ 11,804

8. PLEDGED ASSETS

None.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACT COMMITMENTS

A. Contingencies

None.

B. Commitments

As of March 31, 2018, December 31, 2017 and March 31, 2017, details of the future aggregate minimum lease payments under non-cancellable operating lease are provided in Note 6(20).

10. SIGNIFICANT DISASTER LOSS

None.

11. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

None.

12. OTHERS

(1) Capital management

The Group's objectives when managing capital are to safeguard the Group'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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the debt to assets ratio. This ratio is calculated as total debt divided by total assets.

During 2018, the Group's strategy was unchanged from 2017. As of March 31, 2018, December 31, 2017 and March 31, 2017, the Group's debt to assets ratio was 24%, 31% and 30%, respectively.

(2) Financial risk of financial instruments

A. Financial instruments by category

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
<b><u>Financial assets</u></b>			
Financial assets measured at fair value through profit or loss-current			
Financial assets mandatorily measured at fair value through profit or loss	\$ 201,909	\$ -	\$ -
Financial assets held for trading	-	355,609	338,409
Financial assets at fair value through other comprehensive income-non-current			
Designation of equity instruments	1,037,020	-	-
Available-for-sale financial assets	-	854,254	834,693
Financial assets at amortised cost/Loans and receivables			
Cash and cash equivalents	894,632	732,958	732,011
Notes receivables	5,990	10,876	2,401
Accounts receivable	245,638	575,842	459,997
Accounts receivable-related parties	-	9	10
Other accounts receivable	4,637	8,379	37,965
Other financial assets	8,364	31,964	31,680
Other noncurrent assets			
-guarantee deposits paid	4,056	3,719	3,454
	<u>\$ 2,402,246</u>	<u>\$ 2,573,610</u>	<u>\$ 2,440,620</u>
<b><u>Financial liabilities</u></b>			
Financial liabilities at amortised cost			
Accounts payable	\$ 303,169	\$ 450,355	\$ 367,832
Accounts payable - related parties	105	430	1,026
Other accounts payable	213,016	250,009	240,038
	<u>\$ 516,290</u>	<u>\$ 700,794</u>	<u>\$ 608,896</u>

## B. Risk management policies

- (a) The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. To minimise any adverse effects on the financial performance of the Group, derivative financial instruments, such as foreign exchange forward contracts and foreign currency option contracts are used to hedge certain exchange rate risk.

(b) Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas and matters, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(c) Information about derivative financial instruments that are used to hedge certain exchange rate risk are provided in Note 6(2).

### C. Significant financial risks and degrees of financial risks

#### (a) Market risk

##### Foreign exchange risk

- i. The Group operates internationally and is exposed to exchange rate risk arising from the transactions of the Company and its subsidiaries used in various functional currency, primarily with respect to the USD. Exchange rate risk arises from future commercial transactions and recognised assets and liabilities.
- ii. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency. The companies are required to hedge their entire foreign exchange risk exposure with the Group treasury. Exchange rate risk is measured through a forecast of highly probable USD and RMB expenditures. Cross currency swap are adopted to minimise the volatility of the exchange rate affecting cost of forecast inventory purchases.
- iii. The Group hedges foreign exchange rate by using cross currency swap. However, the Group does not adopt hedging accounting. Details of financial assets or liabilities at fair value through profit or loss are provided in Note 6(2).
- iv. The Group's businesses involve some non-functional currency operations (the Company's and certain subsidiaries' functional currency: NTD; other certain subsidiaries' functional currency: RMB and HKD). The information on assets and liabilities denominated in foreign currencies whose values would be materially affected by the exchange rate fluctuations is as follows:

<u>March 31, 2018</u>			
	Foreign currency		Book value (NTD)
	amount	Exchange rate	
	(In thousands)		
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ 21,217	29.1050 \$	617,521
USD : RMB	276	6.2881	8,033
<u>Investments Accounted for Using Equity Method</u>			
RMB : NTD	31,133	4.6470	144,675
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	3,055	29.1050	88,916
USD : RMB	6,017	6.2881	175,125

<u>December 31, 2017</u>			
	Foreign currency		Book value (NTD)
	amount	Exchange rate	
	(In thousands)		
(Foreign currency: functional currency)			
<u>Financial assets</u>			
<u>Monetary items</u>			
USD : NTD	\$ 25,722	29.7600 \$	765,487
USD : RMB	203	6.5342	6,041
<u>Investments Accounted for Using Equity Method</u>			
RMB : NTD	31,320	4.5650	142,977
<u>Financial liabilities</u>			
<u>Monetary items</u>			
USD : NTD	4,277	29.7600	127,284
USD : RMB	8,452	6.5342	251,532

March 31, 2017				
Foreign currency				
amount		Exchange rate		Book value
(In thousands)				(NTD)
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD : NTD	\$ 22,284	30.3300	\$	675,874
USD : RMB	6,366	6.8993		193,081
<u>Investments Accounted for Using Equity Method</u>				
RMB : NTD	23,487	4.4070		103,506
HKD : NTD	10,278	3.9040		40,125
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD : NTD	10,010	30.3300		303,603
USD : RMB	7,287	6.8993		221,015

- v. Total exchange gain (loss), including realised and unrealised arising from significant foreign exchange variation on the monetary items held by the Group for the three months ended March 31, 2018 and 2017, amounted to (\$10,060) and (\$30,283), respectively.
- vi. Analysis of foreign currency market risk arising from significant foreign exchange variation:

Three months ended March 31, 2018				
Sensitivity analysis				
Degree of variation		Effect on profit or loss	Effect on other comprehensive income (loss)	
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD : NTD	1%	\$ 6,175	\$	-
USD : RMB	1%	80		-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD : NTD	1%	( 889)		-
USD : RMB	1%	( 1,751)		-

Three months ended March 31, 2017

Sensitivity analysis

	<u>Degree of</u>		<u>Effect on</u>	<u>Effect on other</u>
	<u>variation</u>		<u>profit or loss</u>	<u>comprehensive</u>
				<u>income (loss)</u>
(Foreign currency: functional currency)				
<u>Financial assets</u>				
<u>Monetary items</u>				
USD : NTD	1%	\$	6,759	\$ -
USD : RMB	1%		1,931	-
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD : NTD	1%	(	3,036)	-
USD : RMB	1%	(	2,210)	-

Price risk

- i. The Group's equity securities, which are exposed to price risk, are the held financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.
- ii. Shares and beneficiary certificates issued by the domestic companies. The prices of equity securities would change due to the change of the future value of investee companies. If the prices of these equity securities and beneficiary certificates had increased/decreased by 1% with all other variables held constant, post-tax profit for the three months ended March 31, 2018 and 2017 would have increased/decreased by \$2,012 and \$3,384, respectively, as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would have increased/decreased by \$10,370 and \$8,347 respectively, as a result of other comprehensive income classified as available-for-sale equity investment and equity investment at fair value through other comprehensive income.

#### Cash flow and fair value interest rate risk

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions at specified intervals to verify that the maximum loss potential is within the limit given by the management.

#### (b) Credit risk

- i. Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. The main factor is that counterparties could not repay in full the accounts receivable based on the agreed terms.
- ii. The Group manages their credit risk taking into consideration the entire Group's concern. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored.
- iii. The Group adopts following assumptions under IFRS 9 to assess whether there has been a significant increase in credit risk on that instrument since initial recognition. If the contract payments were past due over 30 days based on the terms, there has been a significant increase in credit risk on that instrument since initial recognition.
- iv. The Group adopts the assumptions under IFRS 9, the default occurs when the contract payments are past due over 90 days.
- v. The Group classifies customer's accounts receivable, contract assets and rents receivable in accordance with credit rating of customer, credit risk on trade and customer types. The Group applies the simplified approach using loss rate methodology to estimate expected credit loss under the provision matrix basis.
- vi. The Group wrote-off the financial assets, which cannot be reasonably expected to be recovered, after initiating recourse procedures. However, the Group will continue executing the recourse procedures to secure their rights. As of March 31, 2018, the Group has no written-off financial assets that are still under recourse procedures.



- vii. Customers that are grouped as good customers, who have no default record in the past 5 years, have a historical default rate of 0%. However, in accordance with IFRS 9, when measuring expected credit loss, the possibility of default should take into consideration even the possibility of credit loss is remote.

The Group estimated forecast index before adjustment by the default rate in the past 5 years using each consolidated entity as a unit. The Group considered that in the financial industry, the default rate should not lower than 0.03% for massive and unidentifiable individual investors. However, in accordance to the policy, the Group traced the credit risk of customers at any time, the Group referred to the reference rate set by the financial industry as a basis of forecast adjustment, and adjusted the expected loss rate referring to monitoring indicator and the nature of risk. On March 31, 2018 the loss rate methodology is as follows:

	Without past due	Up to 30 days	Up to 60 days	Up to 90 days	Over 90 days	Total
At March 31, 2018						
Expected loss rate	0.030%	0.033%	0.036%	0.045%	100%	
Total book value	\$ 251,445	\$ 234	\$ -	\$ -	\$ -	\$ 251,679
Loss allowance	\$ 28	\$ 23	\$ -	\$ -	\$ -	\$ 51

- viii. Movements in relation to the group applying the simplified approach to provide loss allowance for accounts receivable are as follows:

	2018	
	Accounts receivable	Notes receivable
At January 1_IAS 39	\$ -	\$ -
Adjustments under new standards	-	-
At January 1_IFRS 9	-	-
Provision of expected credit loss	23	28
At March 31	\$ 23	\$ 28

- ix. Credit risk information of December 31, 2017 and March 31, 2017 is provided in Note 12(4).

(c) Liquidity risk

- i. Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group treasury. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets.
- ii. Surplus cash held by the operating entities over and above balance required for working

capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts, time deposits and marketable securities.

iii. The Group has the following undrawn borrowing facilities:

	<u>March 31, 2018</u>	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Floating rate:			
Expiring within one year	\$ 400,000	\$ 500,000	\$ 500,000

iv. The Group's non-derivative financial assets are analyzed based on the remaining period at the balance sheet date to the contractual maturity date and they are all financial assets due for repayment within one year.

### (3) Fair value information

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Group's investment in listed stocks and beneficiary certificates is 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. The fair value of the Group's investment in derivatives is included in Level 2.

Level 3: Unobservable inputs for the asset or liability. The fair value of the Group's investment in unlisted stocks is included in Level 3.

B. Financial instruments not measured at fair value, the carrying amounts of cash and cash equivalents, notes receivable, accounts receivable, other receivables, short-term borrowings, notes payable, accounts payable and other payables are approximate to their fair values.

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

(a) The related information of natures of the assets and liabilities is as follows:

<u>March 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
- Beneficiary certificates	\$ 201,168	\$ -	\$ -	\$ 201,168
- Non-hedging derivatives	-	741	-	741
Financial assets at fair value through other comprehensive income				
- Equity Securities	<u>1,029,020</u>	<u>-</u>	<u>8,000</u>	<u>1,037,020</u>
	<u>\$ 1,230,188</u>	<u>\$ 741</u>	<u>\$ 8,000</u>	<u>\$ 1,238,929</u>
<u>December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Equity Securities	\$ 154,105	\$ -	\$ -	\$ 154,105
-Beneficiary certificates	200,950	-	-	200,950
-Non-hedging derivatives	-	554	-	554
Available-for-sale financial assets				
-Equity Securities	<u>846,254</u>	<u>-</u>	<u>8,000</u>	<u>854,254</u>
	<u>\$ 1,201,309</u>	<u>\$ 554</u>	<u>\$ 8,000</u>	<u>\$ 1,209,863</u>
<u>March 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
<u>Recurring fair value measurements</u>				
Financial assets at fair value through profit or loss				
-Equity Securities	\$ 138,040	\$ -	\$ -	\$ 138,040
-Beneficiary certificates	200,369	-	-	200,369
Available-for-sale financial assets				
-Equity Securities	<u>826,693</u>	<u>-</u>	<u>8,000</u>	<u>834,693</u>
	<u>\$ 1,165,102</u>	<u>\$ -</u>	<u>\$ 8,000</u>	<u>\$ 1,173,102</u>

(b) The methods and assumptions the Group used to measure fair value are as follows:

- i. The instruments the Group used market quoted prices as their fair values (that is, Level 1) are listed below by characteristics:
  - (i) The fair value of listed shares is the closing price at the balance sheet date.
  - (ii) The fair value of beneficiary certificates is the net asset value at the balance sheet date.
- ii. 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 or other valuation methods, including calculated by applying model using market information available at the consolidated balance sheet date. The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Group's financial and non-financial instruments.

- iii. When assessing non-standard and low-complexity financial instruments, for example, debt instruments without active market, interest rate swap contracts, foreign exchange swap contracts and options, the Group adopts valuation technique that is widely used by market participants. The inputs used in the valuation method to measure these financial instruments are normally observable in the market.
- iv. The Group takes into account adjustments for credit risks to measure the fair value of financial and non-financial instruments to reflect credit risk of the counterparty and the Group's credit quality.

D. For the three months ended March 31, 2018 and 2017, there was no transfer between Level 1 and Level 2.

E. The following chart is the movement of Level 3 for the three months ended March 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	<u>Non-derivative equity instrument</u>	<u>Non-derivative equity instrument</u>
At January 1	\$ 8,000	\$ 8,000
Gains and losses recognised in other comprehensive income	-	-
At March 31	<u>\$ 8,000</u>	<u>\$ 8,000</u>

F. For the three months ended March 31, 2018 and 2017, there was no transfer into or out from Level 3.

G. Financial function 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 source of information is independent, reliable and in line with other sources and represented as the exercisable price.

H. The following is the qualitative information of significant unobservable inputs and sensitivity analysis of changes in significant unobservable inputs to valuation model used in Level 3 fair value measurement:

(a) March 31, 2018

	<u>Fair value</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Equity instrument:					
Unlisted shares	\$ 8,000	Net asset value	N/A	-	N/A

(b) December 31, 2017

	<u>Fair value</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Equity instrument:					
Unlisted shares	\$ 8,000	Net asset value	N/A	-	N/A

(c) March 31, 2017

	<u>Fair value</u>	<u>Valuation technique</u>	<u>Significant unobservable input</u>	<u>Range (weighted average)</u>	<u>Relationship of inputs to fair value</u>
Equity instrument:					
Unlisted shares	\$ 8,000	Net asset value	N/A	-	N/A

I. The Group has carefully assessed the valuation models and assumptions used to measure fair value. However, use of different valuation models or assumptions may result in different measurement. As of March 31, 2018, December 31, 2017 and March 31, 2017, there is no significant effect on financial assets categorised within Level 3 if the net assets had increased/decreased by 0.1%.

(4) Effects on initial application of IFRS 9

A. Summaries of adopting significant accounting policies in 2017 and the first quarter of 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.
- ii. On a regular way purchase or sale basis, financial assets at fair value through profit or loss are recognised and derecognised using settlement date accounting.
- iii. Financial liabilities 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 settlement 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.

(c) Loans and receivables

Accounts receivable are loans and 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.

(d) Impairment of financial assets

- i. The Group 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 Group 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 Group, 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 Group 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 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) Available-for-sale financial assets

The amount of the impairment loss is measured as the difference between the asset's acquisition cost (less any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, and is reclassified from 'other comprehensive income' to 'profit or loss'. If, in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognised, such impairment loss is reversed through profit or loss. Impairment loss of an investment in an equity instrument recognised in profit or loss shall not be reversed through profit or loss. Impairment loss is recognised and reversed by adjusting the carrying amount of the asset through the use of an impairment allowance account.

B. The carrying amount of financial assets disclosed on December 31, 2017 in accordance with IAS 39 was transferred to IFRS 9 on January 1, 2018. Please refer to Note 3(1).

C. The significant accounts as of December 31, 2017 and March 31, 2017, are as follows:

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

Items	December 31, 2017	March 31, 2017
Current items:		
Financial assets held for trading		
Domestic open-end fund	\$ 197,915	\$ 197,915
Listed stocks	67,614	67,614
Non-hedging derivatives	554	-
	<u>266,083</u>	<u>265,529</u>
Valuation adjustment of financial assets held for trading	89,526	72,880
	<u>\$ 355,609</u>	<u>\$ 338,409</u>

- i. The Group recognised net income from financial assets held for trading in the amount of \$11,857 for the three months ended March 31, 2017.
- ii. The non-hedging derivative instruments transaction and contract information are as follows:

Derivative instruments	December 31, 2017	
	Contract amount (Notional principal)	Contract period
Current items:		
Cross currency swap	USD 2,000	2017.11.06~2018.01.05
Cross currency swap	USD 2,000	2017.12.18~2018.02.21
Cross currency swap	USD 2,000	2017.12.29~2018.01.29
Cross currency swap	USD 2,000	2017.12.29~2018.02.07
Cross currency swap	USD 2,000	2017.12.29~2018.02.27

(A) As of March 31, 2017, the Group has no non-hedging derivative financial assets transactions.

(B) The Group entered into forward foreign exchange swap contracts to hedge exchange rate risk. However, these forward foreign exchange contracts are not accounted for under hedge accounting.

- iii. The Group has financial assets at fair value through profit or loss pledged to others as collateral.



(b) Available-for-sale financial assets

Items	December 31, 2017	March 31, 2017
Non-current items:		
Listed stocks	\$ 736,223	\$ 736,223
Unlisted shares	<u>16,567</u>	<u>16,567</u>
	752,790	752,790
Valuation adjustment of available-for-sale financial assets	110,031	90,470
Accumulated impairment-available-for-sale financial assets	( <u>8,567</u> )	( <u>8,567</u> )
	<u>\$ 854,254</u>	<u>\$ 834,693</u>

- i. The Group recognised \$59,540 in other comprehensive income for fair value change for the three months ended March 31, 2017.
- ii. The Group has no available-for-sale financial assets pledged to other as collaterals.

D. Credit risk information as of December 31, 2017 and March 31, 2017 are as follows:

(a) Credit risk refers to the risk of financial loss to the Group arising from default by the clients or counterparties of financial instruments on the contract obligations. According to the Group's credit policy, each local entity in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Internal risk control assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

(b) For the year ended December 31, 2017 and the first quarter, no credit limits were exceeded during the reporting periods, and management does not expect any significant losses from non-performance by these counterparties.

(c) Accounts receivable

	December 31, 2017	March 31, 2017
Accounts receivable	\$ 575,842	\$ 459,997
Less : Loss allowance	-	-
	<u>\$ 575,842</u>	<u>\$ 459,997</u>

- (d) The Group's accounts receivable that are neither past due nor impaired are fully performing in line with the credit standards prescribed based on counterparties' industrial characteristics, scale of business and profitability.

	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Not past due nor impaired	\$ 575,842	\$ 459,997

- (e) The ageing analysis of financial assets that were past due but not impaired is as follows:

	<u>December 31, 2017</u>	<u>March 31, 2017</u>
Up to 30 days	\$ -	\$ -

The above ageing analysis was based on past due date.

- (f) Movement analysis of financial assets that were impaired is as follows:

- i. As of December 31, 2017 and March 31, 2017, the Group's accounts receivable that were both impaired amounted to \$0.
- ii. Movements in the provision for impairment of accounts receivable are as follows:

	<u>January 1, 2017 to March 31, 2017</u>		
	<u>Individual</u>	<u>Group</u>	
	<u>provision</u>	<u>provision</u>	<u>Total</u>
At January 1	\$ 21,620	\$ -	\$ 21,620
Write-offs during the period	( 21,620)	-	( 21,620)
At March 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

##### (5) Effects of initial application of IFRS 15

- A. The significant accounting policies applied on revenue recognition for the year ended December 31, 2017 and the first quarter are set out below.

###### (a) Sales of goods

- i. The Group manufacture and sale multi-function printer, fax machine and scanner. Revenue is measured at the fair value of the consideration received or receivable taking into account of business tax, returns, rebates and discounts for the sale of goods to external customers in the ordinary course of the Group's activities. Revenue arising from the sales of goods is recognised when the Group has delivered the goods to the customer, the amount of sales revenue can be measured reliably and it is probable that the future economic benefits associated with the transaction will flow to the entity. The delivery of goods is completed when the significant risks and rewards of ownership have been transferred to the customer, the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and the customer has accepted the goods based on the sales contract or there is objective

evidence showing that all acceptance provisions have been satisfied.

- ii. The Group offers customers volume discounts and right of return for defective products. The Group estimates such discounts and returns based on historical experience. Provisions for such liabilities are recorded when the sales are recognised. The volume discounts are estimated based on the anticipated annual sales quantities.

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

	Three months ended
	<u>March 31, 2017</u>
Revenue	<u>\$ 539,281</u>

C. The effects on the current balance sheets if the Group continues adopting above accounting policies are as follows, and there was no material effect to the comprehensive income statements:

	<u>March 31, 2018</u>		
<u>Balance sheet items</u>	<u>Balance by using IFRS 15</u>	<u>Balance by using previous accounting policies</u>	<u>Effects from changes in accounting policy</u>
Contract liabilities -current	\$ 35,304	\$ -	\$ 35,304
Other liabilities	1,584	36,888	( 35,304)

Note: In line with IFRS 15 requirements, the Group changed the presentation of accounts in the balance sheet.

### 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: Please refer to table 2.
- H. Receivables from related parties reaching \$100 million or 20% of paid-in capital or more: Please refer to table 3.

I. Trading in derivative instruments undertaken during the reporting periods: Please refer to Note 6(2) and 12(3).

J. Significant inter-company transactions during the reporting periods: Please refer to table 4.

(2)Information on investees

Names, locations and other information of investee companies (not including investees in Mainland China): Please refer to table 5.

(3)Information on investments in Mainland China

A. Basic information: Please refer to table 6.

B. Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area: Please refer to table 7.

14. SEGMENT INFORMATION

(1)General information

The Group operates business only in a single industry. The Chief Operating Decision-Maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2)Measurement of segment information

The profit or loss of the Group's operation segments is measured by profit before tax and on which the performance is assessed.

(3)Information about segment profit or loss and assets and liabilities

In addition, the accounting policies and accounting estimates adopted by reportable segments are consistent with the summary of significant accounting policies in Note 4 and critical accounting estimates and assumption mentioned in Note 5.

(4)Reconciliation for segment income (loss)

A. The revenue from external customers provided to the Chief Operating Decision-Maker is measured in a manner consistent with that in the statement of comprehensive income. No reconciliation is needed as the Group's reportable segments income (loss) is equal to the income (loss) before tax.

B. The amounts provided to the Chief Operating Decision-Maker with respect to total assets are measured in a manner consistent with that of the balance sheets. No reconciliation is needed as the Group's assets of reportable segments are equal to total assets.

Teco Image Systems Co., Ltd. and its subsidiaries  
Holding of marketable securities at the end of the year (not including subsidiaries, associates and joint ventures)  
Three months ended March 31, 2018

Table 1

Expressed in thousands of NTD  
(Except as otherwise indicated)

Securities held by	Marketable securities	Relationship with the securities issuer	As of March 31, 2018				Footnote	
			General ledger account	Number of shares	Book value	Ownership (%)		
Teco Image Systems Co., Ltd.	Fuh Hwa You Li Money Market Fund	None	Financial assets at fair value through profit or loss -current	1,491,299	\$ 20,008	-	20,008	-
"	Capital Money Market Fund	"	"	5,638,027	90,529	-	90,529	-
"	Mega Diamond Money Market Fund	"	"	7,261,969	90,631	-	90,631	-
		Total		\$ 201,168	\$	\$	201,168	
	Creative Sensor Inc.	Associates	Financial assets at fair value through other comprehensive income - non-current	21,928,260	\$ 596,449	17.26	\$ 596,449	-
"	Koryo Electronics Co., Ltd.	"	"	9,994,000	260,843	19.29	260,843	-
"	TECO ELECTRIC & MACHINERY CO., LTD.	"	"	5,000,000	122,750	0.25	122,750	-
"	International United Technology Co., Ltd.	None	"	309,389	-	1.54	-	-
"	KROM Electronics Co., Ltd.	"	"	622,408	8,000	1.86	8,000	-
"	Convergence Tech Venture II Ltd.	"	"	420,000	-	5.71	-	-
"	Taiwan Pelican Express Co., Ltd.	Associates	"	1,781,000	48,978	1.87	48,978	-
		Total		\$ 1,037,020	\$	\$	1,037,020	

Note: The fair value of listed stocks and closed-end funds is based on the closing price at the end of the year; the fair value of open-end funds is based on the net fund value at the end of the year; the unlisted stocks are measured at fair value.

Teco Image Systems Co., Ltd. and its subsidiaries  
Purchases or sales of goods from or to related parties reaching NT\$100 million or 20% of paid-in capital or more  
Three months ended March 31, 2018

Table 2

Expressed in thousands of NTD  
(Except as otherwise indicated)

Purchaser / seller	Counterparty	Relationship with the counterparty	Purchases (sales)		Amount	Percentage of total purchases (sales)	Differences in transaction terms compared to third party transactions			Notes / accounts receivable (payable)	Percentage of total notes / accounts receivable (payable)	Footnote
			Purchases	Sales			Unit price	Credit term	Balance			
Teco Image Systems Co., Ltd.	Teco Image Systems (DongGuan) Co., Ltd	Subsidiary	Purchases		\$ 221,984	55	60 days after next monthly billings	NA	NA	(\$ 257,736)	( 77)	-
Teco Image Systems (DongGuan) Co., Ltd.	Teco Image Systems Co., Ltd.	Parent Company	Sales		( 221,984)	98	60 days after next monthly billings	NA	NA	257,736	98	-

Teco Image Systems Co., Ltd. and its subsidiaries

Receivables from related parties reaching NT\$100 million or 20% of paid-in capital or more  
Three months ended March 31, 2018

Table 3

Creditor	Counterparty	Relationship with the counterparty	Balance as at March 31, 2018	Turnover rate	Overdue receivables		Amount collected subsequent to the balance sheet date	Allowance for doubtful accounts	Expressed in thousands of NTD (Except as otherwise indicated)
					Amount	Action taken			
Teco Image Systems (DongGuan) Co., Ltd.	Teco Image Systems Co., Ltd.	Parent Company	\$ 257,736	2.89	\$ -	Not applicable	\$ -	-	\$ -

Teco Image Systems Co., Ltd. and its subsidiaries

Significant inter-company transactions during the reporting period  
Three months ended March 31, 2018

Table 4

Expressed in thousands of NTD  
(Except as otherwise indicated)

Number (Note 2)	Company name	Counterparty	Relationship (Note 1)	General ledger account		Amount	Transaction terms	Percentage of consolidated total operating revenues or total assets (Note 3)
				Purchases	Accounts payable			
0	Teco Image Systems Co., Ltd.	Teco Image Systems (DongGuan) Co., Ltd.	Parent company to subsidiary		Purchases	\$ 221,984	Approximately the same as those to third-party suppliers	48%
0	"	Teco Image Systems (DongGuan) Co., Ltd.	Parent company to subsidiary		Accounts payable	257,736	60 days after monthly billings	10%

Note 1: Individual transactions not reaching \$10,000 and the corresponding transactions of transactions disclosed by presenting parent company's transactions will not be disclosed.

Note 2: Parent company is '0'.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on year-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.



Teco Image Systems Co., Ltd. and its subsidiaries  
Information on investees  
Three months ended March 31, 2018

Table 5

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 March 31, 2018	Ownership (%)	Book value	Net profit (loss) of the investee for the three months ended March 31, 2018	Investment income (loss) recognised by the Company for the three months ended March 31, 2018	Footnote
				Balance as at March 31, 2018	Balance as at December 31, 2017						
Teco Image Systems Co., Ltd.	Atlas Tech Investment Co., Ltd.	British Virgin Islands	Professional investment company	\$ 196,096	\$ 196,096	6,248,313	100	\$ 144,846	\$ 868	\$ 868	Subsidiary
Atlas Tech Investment Co., Ltd.	All-In-One International Co., Ltd.	"	"	83,648	83,648	2,410,000	100	9,036	( 145)	-	Sub-subsidiary (Note)
"	Image System International Limited	"	"	148,304	148,304	4,812,423	100	117,633	( 721)	-	Sub-subsidiary (Note)

Note : The investment income was recognized by a subsidiary company.

Teco Image Systems Co., Ltd. and its subsidiaries  
Information on Investments in Mainland China  
Three months ended March 31, 2018

Table 6

Expressed in thousands of NTD  
(Except as otherwise indicated)

Investee in Mainland China	Main business activities	Paid-in capital	Investment method (Note 1)	Amount remitted from Taiwan to Mainland China /		Accumulated amount of remittance from Taiwan to Mainland China as of January 1, 2018 (Note 4)	Remitted back to Taiwan	Net income of investee for the three months ended March 31, 2018	Ownership held by the Company (direct or indirect)	Investment income (loss) recognised by the Company for the three months ended March 31, 2018 (Note 2)	Book value of investments in Mainland China as of March 31, 2018	Accumulated amount of investment income remitted back to Taiwan as of March 31, 2018	Footnote
				Accumulated amount of remittance from Taiwan to Mainland China as of March 31, 2018	Amount remitted back to Taiwan for the three months ended March 31, 2018								
TECO Image Systems (Suzhou) Co., Ltd.	Research, technical service, manufacturing and sales of multi-function printers and related products	\$ 81,528	2	\$ 81,528	\$ -	\$ -	\$ -	\$ 143	100	\$ 143	\$ 8,932	\$ -	Note 5
Teco Pro-Systems (Jiangxi) Co., Ltd.	Research, development, manufacturing and sales of multi-function printers and related products	32,710	2	32,710	-	32,710	-	-	100	-	18,120	-	Note 4
Teco Image Systems (Dongguan) Co., Ltd.	Research, development, manufacturing and sales of multi-function printers and related products	88,647	2	88,647	-	88,647	( 721)	( 721)	100	( 721)	117,623	-	Note 3

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

- (1) Directly invest in a company in Mainland China.
- (2) Through investing in an existing company in the third area, which then invested in the investee in Mainland China.
- (3) Others

Note 2: The financial statements were reviewed by R.O.C. parent company's CPA.

Note 3: On December 25, 2012, the Board of Directors resolved for the Company to establish Teco Image Systems (Dongguan) Co., Ltd. in Mainland Area through Image Systems International Limited, the subsidiary is wholly-owned by Atlas Tech Investment Co., Ltd. The shareholding ratio was 100% and the total investment amount was USD3,000 thousand. The registration for the establishment of the investee company had been completed in January 2013.

Note 4: On August 6, 2014, the Board of Directors resolved for the Company to liquidate and cease the business of Teco Pro-Systems (Jiangxi) Co., Ltd., a wholly-owned subsidiary held by the Company's wholly-owned subsidiary, Atlas Tech Investment Co., Ltd. As of May 7, 2018, the liquidation process is still ongoing.

Note 5: On March 15, 2016, the Board of Directors resolved for the Company to liquidate and cease the business of TECO Image Systems (Suzhou) Co., Ltd., a wholly-owned subsidiary held by the Company's wholly-owned subsidiary, All-In-One International Co., Ltd. As of May 7, 2018, the liquidation process is still ongoing.

Company name	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 (Note 6)
Teco Image Systems Co., Ltd.	\$ 202,885	\$ 341,553
	\$	\$ 1,210,593

Note 6: The limitation is \$80,000 or 60% of net worth.

Teco Image Systems Co., Ltd. and its subsidiaries

Significant transactions, either directly or indirectly through a third area, with investee companies in the Mainland Area  
Three months ended March 31, 2018

Table 7

Expressed in thousands of NTD  
(Except as otherwise indicated)

	Sale (purchase)		Property transaction		Accounts receivable (payable)		Provision of endorsements/guarantees or collaterals		Financing		Interest during the three months ended March 31, 2018	Others
	Amount	%	Amount	%	Balance at March 31, 2018	%	Balance at March 31, 2018	Purpose	Maximum balance during the three months ended March 31, 2018	Balance at March 31, 2018		
Investee in Mainland China												
Teco Image Systems (DongGuan) Co., Ltd.	(\$ 221,984)	(55)	\$ -	-	(\$ 257,736)	(77)	\$ -	-	\$ -	-	0	\$ -