Sonix Technology Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2017 and 2016

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	June 30, 2017 (Reviewed)		December 31, 2016 (Audited)		June 30, 2016 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents	$ 1,180,381	31	$ 1,328,601	36	$ 1,264,983	33
Financial assets in available-for-sale - current	84,549	2	82,571	2	702,868	18
Debt investments with no active market - current	637,611	17	555,312	15	234,287	6
Notes and trade receivables from unrelated parties	549,768	14	470,353	13	544,371	14
Inventories, net	577,660	15	500,200	13	334,085	9
Other current assets	65,596	2	57,902	2	52,115	1
Total current assets	3,095,565	81	2,994,939	81	3,132,709	81
NON-CURRENT ASSETS						
Financial assets measured at cost - non-current	34	-	34	-	34	-
Investments accounted for using equity method	11,811	-	12,051	-	9,602	-
Property, plant and equipment	439,717	12	422,437	12	449,589	12
Investment properties	165,767	4	175,588	5	191,066	5
Intangible assets	52,571	2	48,335	1	52,014	1
Deferred tax assets	35,485	1	33,467	1	32,683	1
Refundable deposits	6,524	-	6,847	-	7,261	-
Total non-current assets	711,909	19	698,759	19	742,249	19
TOTAL	$ 3,807,474	100	$ 3,693,698	100	$ 3,874,958	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Notes payable	$ 384	-	$ 4,139	-	$ 37,382	1
Trade payables to unrelated parties	300,106	8	272,552	7	210,982	5
Other payables	529,472	14	217,792	6	572,837	15
Current tax liabilities	32,612	1	56,055	2	40,863	1
Other current liabilities	27,528	-	34,056	1	37,331	1
Total current liabilities	890,102	23	584,594	16	899,395	23
NON-CURRENT LIABILITIES						
Provisions for employee benefits	9,194	-	8,473	-	10,197	-
Deferred tax liabilities	452	-	1,779	-	489	-
Defined benefit liability	32,286	1	32,718	1	24,412	1
Guarantee deposits	68,856	2	68,371	2	62,541	2
Total non-current liabilities	110,788	3	111,341	3	97,639	3
Total liabilities	1,000,890	26	695,935	19	997,034	26
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY						
Share capital						
Ordinary shares	1,678,770	44	1,678,770	45	1,678,770	43
Capital surplus	62,661	2	62,661	2	62,661	2
Retained earnings						
Legal reserve	952,614	25	978,373	26	978,373	25
Special reserve	18,081	1	228	-	228	-
Unappropriated earnings	118,776	3	295,584	8	163,988	4
Total retained earnings	1,089,471	29	1,274,185	34	1,142,589	29
Other equity	(24,318)	(1)	(17,853)	-	(6,096)	-
Total equity	2,806,584	74	2,997,763	81	2,877,924	74
TOTAL	$ 3,807,474	100	$ 3,693,698	100	$ 3,874,958	100

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

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUES								
Sales	$ 941,844	100	$ 946,192	100	$ 1,674,805	100	$ 1,564,802	100
OPERATING COSTS								
Cost of goods sold	590,968	63	553,571	59	1,043,256	62	914,445	58
GROSS PROFIT	350,876	37	392,621	41	631,549	38	650,357	42
OPERATING EXPENSES								
Selling and marketing expenses	18,485	2	17,928	2	34,806	2	35,593	2
General and administrative expenses	37,449	4	37,953	4	69,949	4	70,585	5
Research and development expenses	205,997	22	203,685	21	378,925	23	377,839	24
Total operating expenses	261,931	28	259,566	27	483,680	29	484,017	31
PROFIT FROM OPERATIONS	88,945	9	133,055	14	147,869	9	166,340	11
NON-OPERATING INCOME AND EXPENSES								
Interest income	3,300	-	3,252	1	5,690	-	7,330	-
Leasing income	2,003	-	2,906	-	4,577	-	5,843	-
Share of profit or loss of associates accounted for using equity method	(235)	-	(21)	-	(240)	-	(46)	-
Other income	6,806	1	867	-	9,205	1	2,413	-
Foreign exchange gains or losses	3,948	1	807	-	(20,113)	(1)	(7,722)	-
Other expenditures	(92)	-	(923)	-	(1,189)	-	(1,350)	-
Total non-operating income and expenses	15,730	2	6,888	1	(2,070)	-	6,468	-
PROFIT BEFORE INCOME TAX	104,675	11	139,943	15	145,799	9	172,808	11
INCOME TAX EXPENSE	18,972	2	26,468	3	28,334	2	32,033	2
NET PROFIT FOR THE PERIOD	85,703	9	113,475	12	117,465	7	140,775	9
OTHER COMPREHENSIVE INCOME AND LOSS								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	4,545	1	(2,991)	-	(8,443)	-	(5,512)	-
Unrealized loss on available-for-sale financial assets	2,378	-	(410)	-	1,978	-	(786)	-
Total other comprehensive income and loss	6,923	1	(3,401)	-	(6,465)	-	(6,298)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 92,626	10	$ 110,074	12	$ 111,000	7	$ 134,477	9

(Continued)

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
EARNINGS PER SHARE								
Basic	$ 0.51		$ 0.68		$ 0.70		$ 0.84	
Diluted	$ 0.51		$ 0.67		$ 0.69		$ 0.83	

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT$30.42 to US$1.00 at June 30, 2017, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars, Except Amount Per Share)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company									
			Retained Earnings				Other Equity			
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Loss on Available-for-sale Financial Assets	Total	Total Equity
BALANCE AT JANUARY 1, 2016	$ 1,678,770	$ 62,661	$ 939,474	$ 228	$ 431,442	$ 1,371,144	$ 4,205	$ (4,003)	$ 202	$ 3,112,777
Appropriation of 2015 earnings										
Legal reserve	-	-	38,899	-	(38,899)	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(369,330)	(369,330)	-	-	-	(369,330)
Net income for the six months ended June 30, 2016	-	-	-	-	140,775	140,775	-	-	-	140,775
Other comprehensive income (loss) for the six months ended June 30, 2016, net of income tax	-	-	-	-	-	-	(5,512)	(786)	(6,298)	(6,298)
Total comprehensive income (loss) for the six months ended June 30, 2016	-	-	-	-	140,775	140,775	(5,512)	(786)	(6,298)	134,477
BALANCE AT JUNE 30, 2016	$ 1,678,770	$ 62,661	$ 978,373	$ 228	$ 163,988	$ 1,142,589	$ (1,307)	$ (4,789)	$ (6,096)	$ 2,877,924
BALANCE AT JANUARY 1, 2017	$ 1,678,770	$ 62,661	$ 978,373	$ 228	$ 295,584	$ 1,274,185	$ (12,767)	$ (5,086)	$ (17,853)	$ 2,997,763
Appropriation of 2016 earnings										
Legal reserve	-	-	27,962	-	(27,962)	-	-	-	-	-
Special reserve	-	-	-	17,853	(17,853)	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(248,458)	(248,458)	-	-	-	(248,458)
Issuance of share dividends from legal reserve	-	-	(53,721)	-	-	(53,721)	-	-	-	(53,721)
Net income for the six months ended June 30, 2017	-	-	-	-	117,465	117,465	-	-	-	117,465
Other comprehensive income (loss) for the six months ended June 30, 2017, net of income tax	-	-	-	-	-	-	(8,443)	1,978	(6,465)	(6,465)
Total comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	117,465	117,465	(8,443)	1,978	(6,465)	111,000
BALANCE AT JUNE 30, 2017	$ 1,678,770	$ 62,661	$ 952,614	$ 18,081	$ 118,776	$ 1,089,471	$ (21,210)	$ (3,108)	$ (24,318)	$ 2,806,584

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT$30.42 to US$1.00 at June 30, 2017, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

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

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 145,799	$ 172,808
Adjustments for:		
Depreciation expenses	39,682	34,558
Amortization expenses	10,545	11,016
Interest income	(5,690)	(7,330)
Price reduction (recovery) of inventory	842	3,569
Share of loss of associates accounted for using equity method	240	46
Net (gain) loss on disposal of investment property	(756)	-
Loss on disposal of property, plant and equipment	-	46
Net (gain) loss on disposal of available-for-sale financial assets	-	(679)
Net (gain) loss on foreign currency exchange	(6,690)	2,227
Pension contribution	(432)	(438)
Changes in operating assets and liabilities		
Trade and notes receivables	(76,315)	(91,297)
Inventories	(78,105)	(14,512)
Other current assets	(8,292)	(1,101)
Notes payable	(3,755)	5,114
Trade payables	27,923	(21,962)
Other payables	11,962	(5,848)
Other current liabilities	(6,535)	20,574
Provisions for employee benefits	721	767
Cash used in operations	51,144	107,558
Interest received	6,215	8,231
Income tax paid	(55,149)	(20,196)
Net cash used in operating activities	2,210	95,593
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in available-for-sale financial assets	-	(610,000)
Proceeds on sale of available-for-sale financial assets	-	20,679
Proceeds on sale of debt investments with no active market	(82,690)	752,445
Payments for property, plant and equipment	(57,133)	(27,308)
Proceeds from disposal of investment properties	8,238	-
Decrease in refundable deposits	91	100
Payments for intangible assets	(14,841)	(12,782)
Net cash used in investing activities	(146,335)	123,134
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from guarantee deposits received	2,228	3,630

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SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Six Months Ended June 30	
	2017	**2016**
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	$ (6,323)	$ (3,158)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(148,220)	219,199
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,328,601	1,045,784
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 1,180,381	$ 1,264,983

Note: The accompanying financial statements are stated in New Taiwan dollars, the currency of the country in which the Company is incorporated and operates. The translation of New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers outside the Republic of China and has been made at the rate of NT$30.42 to US$1.00 at June 30, 2017, the base rate announced by Bank of Taiwan. Such translation should not be construed as representations that the New Taiwan dollar amounts could be converted at that or any other rate.

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

1. GENERAL INFORMATION

Sonix Technology Co., Ltd. (the "Company") was incorporated in the Republic of China ("ROC") in July 1996. The Company mainly develops, designs, manufactures and trades semiconductors.

The Company was listed at OTC market on November 27, 2000 and submitted applications for listed at stock exchange market to Securities and Futures Bureau, FSC on June 27 then approved by Taiwan Stock Exchange on July 25, 2003. The Company's shares have been traded at the Taiwan Stock Exchange since August 25, 2003.

For greater comparability and consistency of financial reporting, the consolidated financial statements are presented in New Taiwan dollars since the Company's stocks are listed on the Taipei Exchange.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the board of directors and authorized for issue on August 4, 2017.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the FSC

   Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Group's accounting policies:

   1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

      The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Group is required to disclose the fair value hierarchy. If the fair value measurements are categorized within (Level 2/Level 3), the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique.

   2) Annual Improvements to IFRSs: 2010-2012 Cycle

      Several standards, including IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments", were amended in this annual improvement.

IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss.

The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments. The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker.

When the amended IFRS 13 becomes effective in 2017, the short-term receivables and payables with no stated interest rate should be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

IAS 24 "Related Party Disclosures" was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 13 and IAS 40 "Investment Property", were amended in this annual improvement.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required to determine whether the investment property acquired is acquisition of an asset or a business combination.

4) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 "Property, Plant and Equipment" stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 "Intangible Assets" clarifies there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity's use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

5) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards including IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IAS 19 was amended to clarify that the depth of the market for high quality corporate bonds used to estimate discount rate for post-employment benefits should be assessed by the market of the corporate bonds denominated in the same currency as the benefits to be paid, i.e. assessed at currency level (instead of country or regional level).

6) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Group are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 24 for related disclosure

No impact will have on the current period of the application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS). International Accounting Standards (IAS), Internationals of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed by the SFC for application starting from 2018

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment 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
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
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
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized 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

(Concluded)

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

1) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures,” were amended in this annual improvement.

2) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Group’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Group may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Group analyzed the facts and circumstances of its financial assets that exist at June 30, 2017 and performed a preliminary assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Unlisted shares measured at cost will be measured at fair value instead;

b) Mutual funds classified as available-for-sale will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments;

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Group takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Group has performed a preliminary assessment that the Group will apply the simplified approach to recognize lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to the debt instrument investments and the financial guarantee contracts, the Group will assess whether there has been a significant increase in the credit risk to determine whether to recognize 12-month or lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for financial assets.

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Group's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Group will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

4) Amendments to IAS 40 "Transfers of Investment Property"

The amendments clarify that the Group should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

The Group may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist at the date of initial application. The Group is also required to disclose the reclassified amounts and such amounts should be included in the reconciliation of the carrying amount of investment property. Alternatively, the Group may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

5) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulated that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

New IFRSs	Effective Date Announced by IASB (Note)
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 IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

Note: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

1) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Group is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Group may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Group as lessor.

When IFRS 16 becomes effective, the Group may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

2) IFRIC 23 "Uncertainty Over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Group should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Group should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

The Group may elect to apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

b. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for the financial instruments which are measured at fair value.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for the asset or liability.

c. Basis of consolidation

See Note 11, Tables 4 and 5 for the detailed information of subsidiaries (including the percentage of ownership and main business).

d. Other significant accounting policies

Except for the following, for the summary of significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2016.

1) Retirement benefits

Pension cost for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events

2) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The same critical accounting judgments and key sources of estimation uncertainty of consolidated financial statements have been followed in these consolidated financial statements as were applied in the preparation of the consolidated financial statements for the year ended December 31, 2016.