

**Sonix Technology Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Three Months Ended March 31, 2018 and 2017**

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	March 31, 2018 (Reviewed)		December 31, 2017 (Audited)		March 31, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents	\$ 822,070	23	\$ 798,224	22	\$ 1,147,268	31
Financial assets at fair value through profit or loss - current	89,284	2	-	-	-	-
Financial assets in available-for-sale - current	-	-	90,292	3	82,171	2
Financial assets measured at cost - current	533,642	15	-	-	-	-
Debt investments with no active market - current	-	-	936,551	26	637,513	17
Notes and trade receivables from unrelated parties	324,027	9	410,422	12	416,996	11
Inventories, net	705,341	20	599,908	17	607,380	17
Other current assets	73,505	2	53,315	1	72,308	2
Total current assets	2,547,869	71	2,888,712	81	2,963,636	80
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income - non-current	346,978	10	-	-	-	-
Financial assets measured at cost - non-current	-	-	34	-	34	-
Investments accounted for using equity method	6,883	-	5,805	-	12,046	-
Property, plant and equipment	414,350	12	421,906	12	454,767	12
Investment properties	162,916	5	163,407	5	166,412	5
Intangible assets	52,748	1	44,298	1	52,160	2
Deferred tax assets	34,942	1	31,067	1	35,258	1
Refundable deposits	6,828	-	6,868	-	6,471	-
Prepayment for buildings and land - for operating purpose	16,200	-	-	-	-	-
Total non-current assets	1,041,845	29	673,385	19	727,148	20
TOTAL	\$ 3,589,714	100	\$ 3,562,097	100	\$ 3,690,784	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Notes payable to unrelated parties	\$ -	-	\$ -	-	\$ 360	-
Trade payables to unrelated parties	245,444	7	263,555	7	314,053	8
Other payables	158,263	5	221,492	6	180,499	5
Current tax liabilities	36,447	1	28,859	1	56,559	2
Other current liabilities	48,785	1	23,891	1	17,937	-
Total current liabilities	488,939	14	537,797	15	569,408	15
NON-CURRENT LIABILITIES						
Provisions for employee benefits	6,847	-	6,468	-	8,834	-
Deferred tax liabilities	-	-	6	-	-	-
Defined benefit liability	27,248	1	27,491	1	32,505	1
Guarantee deposits	54,273	1	57,740	2	63,900	2
Total non-current liabilities	88,368	2	91,705	3	105,239	3
Total liabilities	577,307	16	629,502	18	674,647	18
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY						
Share capital						
Ordinary shares	1,678,770	47	1,678,770	47	1,678,770	46
Capital surplus	62,661	2	62,661	2	62,661	2
Retained earnings						
Legal reserve	952,614	27	952,614	27	978,373	26
Special reserve	18,081	-	18,081	-	228	-
Unappropriated earnings	290,706	8	242,135	7	327,346	9
Total retained earnings	1,261,401	35	1,212,830	34	1,305,947	35
Other equity	9,575	-	(21,666)	(1)	(31,241)	(1)
Total equity	3,012,407	84	2,932,595	82	3,016,137	82
TOTAL	\$ 3,589,714	100	\$ 3,562,097	100	\$ 3,690,784	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 March 31			
	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUES				
Sales	\$ 615,751	100	\$ 732,961	100
OPERATING COSTS				
Cost of goods sold	<u>390,654</u>	<u>63</u>	<u>452,288</u>	<u>62</u>
GROSS PROFIT	<u>225,097</u>	<u>37</u>	<u>280,673</u>	<u>38</u>
OPERATING EXPENSES				
Selling and marketing expenses	16,484	3	16,321	2
General and administrative expenses	35,777	6	32,500	4
Research and development expenses	<u>157,031</u>	<u>25</u>	<u>172,928</u>	<u>24</u>
Total operating expenses	<u>209,292</u>	<u>34</u>	<u>221,749</u>	<u>30</u>
PROFIT FROM OPERATIONS	<u>15,805</u>	<u>3</u>	<u>58,924</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	2,932	-	2,390	-
Leasing income	602	-	2,574	1
Share of loss of associates accounted for using equity method	(26)	-	(5)	-
Other income	19,349	3	2,399	-
Loss on disposal of financial assets at fair value through profit or loss	(1,008)	-	-	-
Foreign exchange losses	(6,086)	(1)	(24,061)	(3)
Other expenditures	<u>(874)</u>	<u>-</u>	<u>(1,097)</u>	<u>-</u>
Total non-operating income and expenses	<u>14,889</u>	<u>2</u>	<u>(17,800)</u>	<u>(2)</u>
PROFIT BEFORE INCOME TAX	30,694	5	41,124	6
INCOME TAX EXPENSE	<u>4,759</u>	<u>1</u>	<u>9,362</u>	<u>1</u>
NET PROFIT FOR THE PERIOD	<u>25,935</u>	<u>4</u>	<u>31,762</u>	<u>5</u>

(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 March 31			
	2018		2017	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME AND LOSS				
Items that will not be reclassified subsequently to profit or loss				
Unrealized gain on investment in equity instruments designated as at fair value through other comprehensive income	\$ 48,709	8	\$ -	-
Share of the other comprehensive income of associated accounted for using the equity method	<u>1,104</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>49,813</u>	<u>8</u>	<u>-</u>	<u>-</u>
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	4,064	1	(12,988)	(2)
Unrealized loss on available-for-sale financial assets	<u>-</u>	<u>-</u>	<u>(400)</u>	<u>-</u>
	<u>4,064</u>	<u>1</u>	<u>(13,388)</u>	<u>(2)</u>
Total other comprehensive income and loss	<u>53,877</u>	<u>9</u>	<u>(13,388)</u>	<u>(2)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 79,812</u>	<u>13</u>	<u>\$ 18,374</u>	<u>3</u>
EARNINGS PER SHARE				
Basic	<u>\$ 0.15</u>		<u>\$ 0.19</u>	
Diluted	<u>\$ 0.15</u>		<u>\$ 0.19</u>	

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\$29.105 to US\$1.00 at March 31, 2018, 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						Other Equity			Total	Total Equity
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings		Exchange Differences on Translating Foreign Operations	Unrealized Loss on Available-for-sale Financial Assets	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value		
					Unappropriated Earnings	Total					
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
Net income for the three months ended March 31, 2017	-	-	-	-	31,762	31,762	-	-	-	-	31,762
Other comprehensive income (loss) for the three months ended March 31, 2017, net of income tax	-	-	-	-	-	-	(12,988)	(400)	-	(13,388)	(13,388)
Total comprehensive income (loss) for the three months ended March 31, 2017	-	-	-	-	31,762	31,762	(12,988)	(400)	-	(13,388)	18,374
BALANCE AT MARCH 31, 2017	\$ 1,678,770	\$ 62,661	\$ 978,373	\$ 228	\$ 327,346	\$ 1,305,947	\$ (25,755)	\$ (5,486)	\$ -	\$ (31,241)	\$ 3,016,137
BALANCE AT JANUARY 1, 2018	\$ 1,678,770	\$ 62,661	\$ 952,614	\$ 18,081	\$ 242,135	\$ 1,212,830	\$ (19,302)	\$ (2,364)	\$ -	\$ (21,666)	\$ 2,932,595
Effect of retrospective application	-	-	-	-	22,636	22,636	-	2,364	(25,000)	(22,636)	-
BALANCE AT JANUARY 1, 2018 AS RESTATED	1,678,770	62,661	952,614	18,081	264,771	1,235,466	(19,302)	-	(25,000)	(44,302)	2,932,595
Net income for the three months ended March 31, 2018	-	-	-	-	25,935	25,935	-	-	-	-	25,935
Other comprehensive income (loss) for the three months ended March 31, 2018, net of income tax	-	-	-	-	-	-	4,064	-	49,813	53,877	53,877
Total comprehensive income (loss) for the three months ended March 31, 2018	-	-	-	-	25,935	25,935	4,064	-	49,813	53,877	79,812
BALANCE AT MARCH 31, 2018	\$ 1,678,770	\$ 62,661	\$ 952,614	\$ 18,081	\$ 290,706	\$ 1,261,401	\$ (15,238)	\$ -	\$ 24,813	\$ 9,575	\$ 3,012,407

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\$29.105 to US\$1.00 at March 31, 2018, 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 Three Months Ended March 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 30,694	\$ 41,124
Adjustments for:		
Depreciation expenses	13,085	19,501
Amortization expenses	5,379	4,720
Net loss on fair value changes of financial assets designated as at fair value through profit or loss	1,008	-
Interest income	(2,932)	(2,390)
Share of loss of associates accounted for using equity method	26	5
Net loss on disposal of property, plant and equipment	62	-
Net gain on disposal of investment properties	-	(756)
Price reduction of inventory	302	152
Net gain on foreign currency exchange	(1,414)	(132)
Pension contribution	(243)	(213)
Changes in operating assets and liabilities		
Trade and notes receivables	85,284	47,555
Inventories	(105,799)	(107,027)
Other current assets	(22,711)	(15,786)
Notes payable	-	(3,779)
Trade payables	(17,615)	44,735
Other payables	(62,715)	(35,822)
Provisions for employee benefits	379	361
Other current liabilities	24,897	(16,119)
Cash used in operations	(52,313)	(23,871)
Interest received	4,618	3,663
Income tax paid	(213)	(12,480)
Net cash used in operating activities	<u>(47,908)</u>	<u>(32,688)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at value through profit or loss	(298,235)	-
Proceeds from financial assets measured at cost	402,951	-
Purchase of debt investments with no active market	-	(82,559)
Payments for property, plant and equipment	(3,995)	(54,075)
(Increase) decrease in refundable deposits	(250)	90
Payments for intangible assets	(13,763)	(8,647)
Proceeds from disposal of investment properties	-	8,238
Increase in prepayment for buildings and land - for operating purpose	(16,200)	-
Net cash generated from (used in) investing activities	<u>70,508</u>	<u>(136,953)</u>

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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 Three Months Ended	
	March 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of guarantee deposits received	\$ (1,973)	\$ (1,725)
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	3,219	(9,967)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,846	(181,333)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	798,224	1,328,601
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	\$ 822,070	\$ 1,147,268

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\$29.105 to US\$1.00 at March 31, 2018, 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

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 May 3, 2018.

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) (collectively, the “IFRSs”) 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) 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” and related amendment

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2017, the Group has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets and financial liabilities as at January 1, 2017.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 798,224	\$ 798,224	-
Equity securities	Available for sale	Fair value through other comprehensive income (i.e. FVTOCI) - equity instruments	34	34	a)
Mutual funds	Available for sale	Mandatorily at fair value through profit or loss (i.e. FVTPL)	90,292	90,292	b)
Time deposits with original maturity of more than 3 months	Loans and receivables	Amortized cost	936,551	936,551	c)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	410,422	410,422	d)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi- cations	Remeasure- ments	IFRS 9 Carrying Amount as of January 1, 2018	Remark
<u>FVTPL</u>	\$ -				
Add: Reclassification from available-for-sale (IAS 39)	-	\$ 90,292	-		b)
	-	90,292	-	\$ 90,292	
<u>FVTOCI</u>	-				
Add: Reclassification from available-for-sale (IAS 39)	-	34	-		b)
	-	34	-	34	
<u>Amortized cost</u>	-				
Add: Reclassification from loans and receivables (IAS 39)	-	2,145,197	-		c) and d)
	-	2,145,197	-	2,145,197	
	\$ -	\$ 2,235,523	\$ -	\$ 2,235,523	

- a) The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously classified as measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$25,000 thousand in other equity - unrealized gain/(loss) on financial assets at FVTOCI and an increase of \$25,000 thousand in retained earnings on January 1, 2018.

- b) Mutual funds previously classified as available-for-sale under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments. The retrospective adjustment resulted in a decrease of \$2,364 thousand in other equity - unrealized gain/(loss) on available-for-sale financial assets and an increase of \$2,364 thousand in retained earnings on January 1, 2018.
- c) Debt investments previously classified as debt investments with no active market and measured at amortized cost under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- d) Notes receivable, trade receivables and other receivables that were previously classified as loans and receivables under IAS 39 were classified as measured at amortized cost with an assessment of expected credit losses under IFRS 9.

3) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and supersedes IAS 18 “Revenue” and a number of revenue-related interpretations. Please refer to Note 4 for related accounting policies.

In identifying performance obligations, IFRS 15 and the related amendments require that a good or service is distinct if it is capable of being distinct (for example, the Group regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each good or service individually rather than to transfer a combined output).

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

The amendments clarify 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 amendments also stipulate 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.

Prior to the amendment, in assessing a deferred tax asset, the Group assumed that it will recover the asset at its carrying amount when estimating probable future taxable profit. When the amendments become effective in 2018, the amendments shall be applied retrospectively.

5) 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 a 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 evidence of a change in use is not limited to those illustrated in IAS 40.

6) 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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
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 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
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

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 FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

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 leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the 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.

On initial application, the Group shall 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.

3) Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”

The amendments clarified that IFRS 9 shall be applied to account for other financial instruments in an associate or joint venture to which the equity method is not applied. These included long-term interests that, in substance, form part of the entity’s net investment in an associate or joint venture.

When the amendments become effective, the Group shall apply the amendments retrospectively. However, the Group may elect to recognize the cumulative effect of the initial application of the amendments in the opening carrying amount at the date of initial application, or to restate prior periods if, and only if, it is possible without the use of hindsight.

4) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

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, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

d. Other significant accounting policies

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

2018

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in equity instruments at FVTOCI.

i. Financial asset at FVTPL

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 25.

ii. Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, notes and trade receivables at amortized cost, are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

- i) Purchased or originated credit-impaired financial asset, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset; and
- ii) Financial asset that has subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

iii. Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: Available-for-sale financial assets, and loans and receivables.

i. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and presented in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

ii. Loans and receivables

Loans and receivables (including notes, trade receivables from related parties, cash and cash equivalents, and debt investments with no active market) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables).

The Group always recognizes lifetime Expected Credit Loss (i.e. ECL) for trade receivables. For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as trade receivables, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with defaults on receivables, and other situations.

For a financial asset carried at amortized cost, the amount of the impairment loss recognized is 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.

For financial assets carried at amortized cost, 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 was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment does not exceed what the amortized cost would have been had the impairment not been recognized.

For any available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for those financial assets because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and other receivables that are written off against the allowance account.

c) Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3) Financial liabilities

a) Subsequent measurement

Financial liabilities are measured at amortized cost using the effective interest method.

b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Revenue recognition

The Group identifies the contract with the customers, allocates the transaction price to the performance obligations, and recognizes revenue when performance obligations are satisfied.

- Revenue from sale of goods

Revenue from sale of goods comes from sales of leisure goods and electronic equipment. Sales of leisure goods and electronic equipment are recognized as revenue when the goods are delivered to the customer's specific location because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivable is recognized concurrently.

The Group does not recognize revenue on materials delivered to subcontractors because this delivery does not involve a transfer of control.

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, 2017.