Sonix Technology Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and 2017

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	September 30, 2018 (Reviewed)		December 31, 2017 (Audited)		September 30, 2017 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents	$ 687,701	20	$ 798,224	22	$ 647,332	18
Financial assets at fair value through profit or loss - current	87,961	3	-	-	-	-
Available-for-sale financial assets - current	-	-	90,292	3	101,521	3
Financial assets measured at cost - current	189,536	5	-	-	-	-
Debt investments with no active market - current	-	-	936,551	26	936,549	27
Notes and trade receivables from unrelated parties	506,025	14	410,422	12	472,884	13
Inventories	615,916	18	599,908	17	586,213	17
Other current assets	66,621	2	53,315	1	65,818	2
Total current assets	2,153,760	62	2,888,712	81	2,810,317	80
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income - non-current	299,334	9	-	-	-	-
Financial assets measured at cost - non-current	-	-	34	-	34	-
Investments accounted for using equity method	6,342	-	5,805	-	6,361	-
Property, plant and equipment	403,161	11	421,906	12	425,775	12
Investment properties	160,809	5	163,407	5	165,275	5
Intangible assets	49,709	1	44,298	1	48,781	2
Deferred tax assets	37,846	1	31,067	1	33,256	1
Refundable deposits	6,204	-	6,868	-	6,942	-
Prepayment for buildings and land - for operating purpose	382,498	11	-	-	-	-
Total non-current assets	1,345,903	38	673,385	19	686,424	20
TOTAL	$ 3,499,663	100	$ 3,562,097	100	$ 3,496,741	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Notes payable to unrelated parties	$ 199	-	$ -	-	$ 358	-
Trade payables to unrelated parties	253,199	7	263,555	7	243,751	7
Other payables	193,035	6	221,492	6	216,950	6
Current tax liabilities	28,655	1	28,859	1	12,061	-
Other current liabilities	11,545	-	23,891	1	23,510	1
Total current liabilities	486,633	14	537,797	15	496,630	14
NON-CURRENT LIABILITIES						
Provisions for employee benefits	7,604	-	6,468	-	9,555	-
Deferred tax liabilities	-	-	6	-	-	-
Defined benefit liability	26,902	1	27,491	1	32,062	1
Guarantee deposits	60,219	2	57,740	2	66,222	2
Total non-current liabilities	94,725	3	91,705	3	107,839	3
Total liabilities	581,358	17	629,502	18	604,469	17
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY						
Share capital						
Ordinary shares	1,678,770	48	1,678,770	47	1,678,770	48
Capital surplus	62,661	2	62,661	2	62,661	2
Retained earnings						
Legal reserve	936,044	27	952,614	27	952,614	27
Special reserve	21,894	-	18,081	-	18,081	1
Unappropriated earnings	305,341	9	242,135	7	199,508	6
Total retained earnings	1,263,279	36	1,212,830	34	1,170,203	34
Other equity	(86,405)	(3)	(21,666)	(1)	(19,362)	(1)
Total equity	2,918,305	83	2,932,595	82	2,892,272	83
TOTAL	$ 3,499,663	100	$ 3,562,097	100	$ 3,496,741	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 September 30				For the Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
Sales	$ 859,817	100	$ 887,663	100	$ 2,386,231	100	$ 2,562,468	100
OPERATING COST								
Cost of goods sold	505,686	59	541,193	61	1,461,128	61	1,584,449	61
GROSS PROFIT	354,131	41	346,470	39	925,103	39	978,019	39
OPERATING EXPENSES								
Selling and marketing expenses	18,322	2	17,396	2	52,700	2	52,202	2
General and administrative expenses	38,822	4	38,046	4	117,081	5	107,995	4
Research and development expenses	194,764	23	199,791	23	538,491	23	578,716	23
Total operating expenses	251,908	29	255,233	29	708,272	30	738,913	29
PROFIT FROM OPERATIONS	102,223	12	91,237	10	216,831	9	239,106	10
NON-OPERATING INCOME AND EXPENSES								
Interest income	1,527	-	3,336	1	6,808	-	9,026	-
Leasing income	1,767	-	973	-	4,833	-	5,550	-
Other income	8,200	1	2,593	-	41,691	2	11,798	1
Share of profit or loss of associates accounted for using equity method	80	-	110	-	34	-	(130)	-
Gain on disposal of investment	45,546	5	3	-	45,546	2	3	-
Gain (loss) on financial assets at fair value through profit or loss	227	-	-	-	(2,331)	-	-	-
Foreign exchange gains or losses	(2,223)	-	1,975	-	19,058	1	(18,138)	(1)
Other expenditures	(272)	-	(786)	-	(3,697)	-	(1,975)	-
Total non-operating income and expenses	54,852	6	8,204	1	111,942	5	6,134	-
PROFIT BEFORE INCOME TAX	157,075	18	99,441	11	328,773	14	245,240	10
INCOME TAX EXPENSE	20,467	2	18,709	2	49,145	2	47,043	2
NET PROFIT FOR THE PERIOD	136,608	16	80,732	9	279,628	12	198,197	8

(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 September 30				For the Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME AND (LOSS)								
Items that will not be reclassified subsequently to profit or loss								
Unrealized loss on investments in equity instruments designated as at fair value through other comprehensive income	$ (69,503)	(8)	$ -	-	$ (12,245)	(1)	$ -	-
Share of the other comprehensive income of associated accounted for using the equity method	-	-	-	-	1,104	-	-	-
	(69,503)	(8)	-	-	(11,141)	(1)	-	-
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating the financial statements of foreign operations	(26,819)	(3)	2,983	1	(30,962)	(1)	(5,460)	-
Unrealized gain on available-for-sale financial assets	-	-	1,973	-	-	-	3,951	-
	(26,819)	(3)	4,956	1	(30,962)	(1)	(1,509)	-
Total other comprehensive income and loss	(96,322)	(11)	4,956	1	(42,103)	(2)	(1,509)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 40,286	5	$ 85,688	10	$ 237,525	10	$ 196,688	8
EARNINGS PER SHARE								
Basic	$ 0.81		$ 0.48		$ 1.67		$ 1.18	
Diluted	$ 0.80		$ 0.48		$ 1.64		$ 1.17	

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$30.525 to US$1.00 at September 30, 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)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Company										
							Other Equity				
			Retained Earnings								
	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	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value	Total	Total Equity
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 nine months ended September 30, 2017	-	-	-	-	198,197	198,197	-	-	-	-	198,197
Other comprehensive income (loss) for the nine months ended September 30, 2017, net of income tax	-	-	-	-	-	-	(5,460)	3,951	-	(1,509)	(1,509)
Total comprehensive income (loss) for the nine months ended September 30, 2017	-	-	-	-	198,197	198,197	(5,460)	3,951	-	(1,509)	196,688
BALANCE AT SEPTEMBER 30, 2017	$ 1,678,770	$ 62,661	$ 952,614	$ 18,081	$ 199,508	$ 1,170,203	$ (18,227)	$ (1,135)	$ -	$ (19,362)	$ 2,892,272
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
Appropriation of 2017 earnings											
Legal reserve	-	-	23,720	-	(23,720)	-	-	-	-	-	-
Special reserve	-	-	-	3,813	(3,813)	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(211,525)	(211,525)	-	-	-	-	(211,525)
Issuance of share dividends from legal reserve	-	-	(40,290)	-	-	(40,290)	-	-	-	-	(40,290)
Net income for the nine months ended September 30, 2018	-	-	-	-	279,628	279,628	-	-	-	-	279,628
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	-	-	(30,962)	-	(11,141)	(42,103)	(42,103)
Total comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	-	279,628	279,628	(30,962)	-	(11,141)	(42,103)	237,525
BALANCE AT SEPTEMBER 30, 2018	$ 1,678,770	$ 62,661	$ 936,044	$ 21,894	$ 305,341	$ 1,263,279	$ (50,264)	$ -	$ (36,141)	$ (86,405)	$ 2,918,305

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$30.525 to US$1.00 at September 30, 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 Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 328,773	$ 245,240
Adjustments for:		
Depreciation expenses	42,830	56,334
Amortization expenses	14,648	16,163
Bad debt expenses	-	993
Net loss on fair value changes of financial assets designated as at fair value through profit or loss	2,331	-
Interest income	(6,808)	(9,026)
Dividend income	(2,848)	-
Share of loss (profit) of associates accounted for using equity method	(34)	130
Net loss (gain) on disposal of property, plant and equipment	(8,530)	20
Net gain on disposal of investment properties	-	(756)
Gain on disposal of subsidiary	(45,546)	-
Net gain on disposal of available-for-sale financial assets	-	(3)
Price reduction of inventory	12,345	7,610
Net loss (gain) on foreign currency exchange	1,382	(1,808)
Pension contribution	(589)	(656)
Changes in operating assets and liabilities		
Trade and notes receivables	(97,967)	(2,891)
Inventories	(28,615)	(93,501)
Other current assets	(21,400)	(9,533)
Notes payable	199	(3,781)
Trade payables	(9,611)	(29,335)
Other payables	(26,316)	79
Provisions for employee benefits	1,136	1,082
Other current liabilities	27,239	(10,633)
Cash used in operations	182,619	165,728
Interest received	9,812	10,562
Dividends received	2,848	-
Income tax paid	(56,840)	(92,645)
Net cash generated from operating activities	138,439	83,645
CASH FLOWS FROM INVESTING ACTIVITIES		
Financial assets at fair value through other comprehensive income	(312,020)	-
Proceeds from financial assets measured at cost	746,948	-
Purchase of available-for-sale financial assets	-	(30,000)
Proceeds from sale of available-for-sale financial assets	-	15,003
Purchase of debt investments with no active market	-	(381,549)
Proceeds from disposal of subsidiary	12,643	-

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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 Nine Months Ended September 30	
	2018	2017
Return of capital reduction from investees under equity method	$ 601	$ 1,646
Payments for property, plant and equipment	(26,858)	(58,330)
Proceeds from disposal of property, plant and equipment	11,662	-
Increase in refundable deposits	(250)	(320)
Payments for intangible assets	(21,446)	(16,634)
Proceeds from disposal of investment properties	-	8,238
Increase in prepayment for buildings and land - for operating purpose	(382,498)	-
Dividends received from associates	-	3,914
Net cash generated from (used in) investing activities	28,782	(458,032)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from guarantee deposits received	3,540	-
Refunds of guarantee deposits received	-	(633)
Dividends paid to owners of the Company	(251,815)	(302,179)
Net cash used in financing activities	(248,275)	(302,812)
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	(29,469)	(4,070)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,523)	(681,269)
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	$ 687,701	$ 647,332

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$30.525 to US$1.00 at September 30, 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)

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 approved by the Company's board of directors on November 7, 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 amendments

      IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments 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 of January 1, 2018, 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 of January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
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 maturities 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**
FVTPL	$ -				
Add: Reclassification from available-for-sale (IAS 39)	-	$ 90,292	$ -		b)
	-	90,292	-	$ 90,292	
FVTOCI	-				
Add: Reclassification from available-for-sale (IAS 39)	-	34	-		b)
	-	34	-	34	
Amortized cost	-				
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 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 at amortized cost with an assessment of expected credit losses under IFRS 9.

3) IFRS 15 "Revenue from Contracts with Customers" and related amendments

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. The Group applied the above amendments retrospectively in 2018.

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. 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 by the FSC for application starting from 2019

New, Amended or Revised Standards and Interpretations (the "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)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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: 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.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16, in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group will recognize right-of-use assets, or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts, including property interest qualified as investment properties, are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

a) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

b) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

c) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

The Group as lessor

Except for sublease transactions, the Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

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

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 Group expects to better predict the resolution of the uncertainty. The Group has to reassess its judgments and estimates if facts and circumstances change.

Upon initial application of IFRIC 23, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

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 Group's net investment in an associate or joint venture.

For long-term interests that, in substance, form part of the Group's net investment in an associate or joint venture and are governed by IFRS 9, the Group shall, based on the facts and circumstances that exist on January 1, 2019, perform an assessment of the classification under IFRS 9 applied retrospectively.

Upon initial application of the above amendments, the Group will recognize the cumulative effect of retrospective application in retained earnings on January 1, 2019.

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.

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 1)**
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Materiality"	January 1, 2020 (Note 3)

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 Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

1) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e. the Group's share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e. the Group's share of the gain or loss is eliminated.

2) Amendments to IFRS 3 "Definition of a Business"

The amendments clarify that, to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process applied to the input that together significantly contribute to the ability to create outputs. The amendments narrow the definitions of outputs by focusing on goods and services provided to customers, and the reference to an ability to reduce costs is removed. Moreover, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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, 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 an 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 an asset or liability.

c. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (i.e. its subsidiaries, including structured entities).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective dates of acquisitions up to the effective dates of disposals, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the interests of the Group and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (ii) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Group directly disposed of the related assets or liabilities.

See Note 12, Tables 6 and 7 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, 2017.

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 issuance 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 assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 26.

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 the 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 such a financial asset, except for:

i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii) Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets.

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, it 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.

<u>2017</u>

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 FVTPL.

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 as 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

<u>2018</u>

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 a 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 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 such a financial asset.

<u>2017</u>

Financial assets, other than those at FVTPL, 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 such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets 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 with 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 at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

For a financial asset 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 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 such an investment can be objectively related to an event occurring after the recognition of the impairment loss.

For a financial asset such an 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 its 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.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through 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.

The 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, issuance 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.

<u>Revenue recognition</u>

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

- Revenue from the sale of goods

  Revenue from the 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 receivables are recognized concurrently.

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

Employee benefits

- Retirement benefits

  Pension costs for an interim period are calculated on a year-to-date basis by using the actuarially determined pension cost rate as determine 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

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. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and this is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

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.