Sonix Technology Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2019 and 2018

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	June 30, 2019 (Reviewed)		December 31, 2018 (Audited)		June 30, 2018 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents	$ 887,405	23	$ 792,348	23	$ 713,632	19
Financial assets at fair value through profit or loss - current	260,447	7	177,359	5	87,734	2
Financial assets at amortized at cost - current	222,198	6	189,562	6	344,630	9
Notes and trade receivables from unrelated parties	543,204	14	387,784	11	531,359	14
Inventories	470,710	12	567,435	16	620,878	16
Other current assets	60,671	2	43,448	1	55,502	2
Total current assets	2,444,635	64	2,157,936	62	2,353,735	62
NON-CURRENT ASSETS						
Financial assets at fair value through other comprehensive income - non-current	351,419	9	274,951	8	360,130	10
Investments accounted for using equity method	8,812	-	8,901	-	6,863	-
Property, plant and equipment	771,816	20	397,779	11	417,074	11
Investment properties	158,853	4	160,196	5	162,086	4
Intangible assets	57,448	2	59,928	2	52,126	1
Deferred tax assets	37,124	1	34,664	1	34,949	1
Other non-current assets	88	-	84	-	-	-
Refundable deposits	6,303	-	6,244	-	6,998	-
Prepayment for buildings and land - for operating purpose	-	-	397,580	11	396,832	11
Total non-current assets	1,391,863	36	1,340,327	38	1,437,058	38
TOTAL	$ 3,836,498	100	$ 3,498,263	100	$ 3,790,793	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Trade payables to unrelated parties	$ 260,589	7	$ 181,234	5	$ 287,995	8
Other payables	562,651	14	208,420	6	437,933	11
Current tax liabilities	33,902	1	39,427	1	32,064	1
Other current liabilities	11,559	-	11,748	-	54,578	1
Total current liabilities	868,701	22	440,829	12	812,570	21
NON-CURRENT LIABILITIES						
Provisions - non-current	6,871	-	6,145	-	7,226	-
Net defined benefit liabilities - non-current	26,655	1	27,099	1	27,037	1
Guarantee deposits	67,895	2	61,793	2	65,941	2
Total non-current liabilities	101,421	3	95,037	3	100,204	3
Total liabilities	970,122	25	535,866	15	912,774	24
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY						
Share capital						
Ordinary shares	1,678,770	44	1,678,770	48	1,678,770	44
Capital surplus	62,661	2	62,661	2	62,661	2
Retained earnings						
Legal reserve	869,185	23	936,044	27	936,044	25
Special reserve	121,110	3	21,894	-	21,894	1
Unappropriated earnings	171,640	4	383,910	11	168,733	4
Total retained earnings	1,161,935	30	1,341,848	38	1,126,671	30
Other equity	(36,990)	(1)	(120,882)	(3)	9,917	-
Total equity	2,866,376	75	2,962,397	85	2,878,019	76
TOTAL	$ 3,836,498	100	$ 3,498,263	100	$ 3,790,793	100

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

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
Sales	$ 933,603	100	$ 910,663	100	$ 1,550,911	100	$ 1,526,414	100
OPERATING COST								
Cost of goods sold	560,395	60	564,788	62	945,996	61	955,442	63
GROSS PROFIT	373,208	40	345,875	38	604,915	39	570,972	37
OPERATING EXPENSES								
Selling and marketing expenses	19,312	2	17,894	2	34,759	2	34,378	2
General and administrative expenses	42,297	4	42,482	5	75,484	5	78,259	5
Research and development expenses	185,369	20	186,696	20	340,382	22	343,727	23
Gain on reversal of expected credit loss	(87)	-	-	-	(160)	-	-	-
Total operating expenses	246,891	26	247,072	27	450,465	29	456,364	30
PROFIT FROM OPERATIONS	126,317	14	98,803	11	154,450	10	114,608	7
NON-OPERATING INCOME AND EXPENSES								
Other income	6,541	1	18,955	2	20,441	1	41,838	3
Other gains and losses	2,833	-	23,266	3	9,519	1	15,298	1
Share of loss of associates accounted for using equity method	(56)	-	(20)	-	(89)	-	(46)	-
Total non-operating income and expenses	9,318	1	42,201	5	29,871	2	57,090	4
PROFIT BEFORE INCOME TAX	135,635	15	141,004	16	184,321	12	171,698	11
INCOME TAX EXPENSE	7,642	1	23,919	3	15,050	1	28,678	2
NET PROFIT FOR THE PERIOD	127,993	14	117,085	13	169,271	11	143,020	9
OTHER COMPREHENSIVE INCOME AND (LOSS)								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized gain on investment in equity instruments at fair value through other comprehensive income	(12,534)	(2)	8,549	1	76,339	5	57,258	4
Share of the other comprehensive income of associated accounted for using the equity method	-	-	-	-	-	-	1,104	-
	(12,534)	(2)	8,549	1	76,339	5	58,362	4

(Continued)

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating the financial statements of foreign operations	$ (9,017)	(1)	$ (8,207)	(1)	$ 7,553	-	$ (4,143)	-
Total other comprehensive income and loss	(21,551)	(3)	342	-	83,892	5	54,219	4
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 106,442	11	$ 117,427	13	$ 253,163	16	$ 197,239	13
EARNINGS PER SHARE								
Basic	$ 0.76		$ 0.70		$ 1.01		$ 0.85	
Diluted	$ 0.76		$ 0.69		$ 1.00		$ 0.84	

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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										
			Retained Earnings				Other Equity				
	Share Capital	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Exchange Differences on Translating the Financial Statements of Foreign Operations	Unrealized Loss on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	Total Equity
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 profit for the six months ended June 30, 2018	-	-	-	-	143,020	143,020	-	-	-	-	143,020
Other comprehensive income (loss) for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	-	(4,143)	-	58,362	54,219	54,219
Total comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	143,020	143,020	(4,143)	-	58,362	54,219	197,239
BALANCE AT JUNE 30, 2018	$ 1,678,770	$ 62,661	$ 936,044	$ 21,894	$ 168,733	$ 1,126,671	$ (23,445)	$ -	$ 33,362	$ 9,917	$ 2,878,019
BALANCE AT JANUARY 1, 2019	$ 1,678,770	$ 62,661	$ 936,044	$ 21,894	$ 383,910	$ 1,341,848	$ (43,035)	$ -	$ (77,847)	$ (120,882)	$ 2,962,397
Appropriation of 2018 earnings											
Legal reserve	-	-	33,867	-	(33,867)	-	-	-	-	-	-
Special reserve	-	-	-	99,216	(99,216)	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	(248,458)	(248,458)	-	-	-	-	(248,458)
Issuance of share dividends from legal reserve	-	-	(100,726)	-	-	(100,726)	-	-	-	-	(100,726)
Net profit for the six months ended June 30, 2019	-	-	-	-	169,271	169,271	-	-	-	-	169,271
Other comprehensive income (loss) for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	-	7,553	-	76,339	83,892	83,892
Total comprehensive income (loss) for the six months ended June 30, 2019	-	-	-	-	169,271	169,271	7,553	-	76,339	83,892	253,163
BALANCE AT JUNE 30, 2019	$ 1,678,770	$ 62,661	$ 869,185	$ 121,110	$ 171,640	$ 1,161,935	$ (35,482)	$ -	$ (1,508)	$ (36,990)	$ 2,866,376

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

SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 184,321	$ 171,698
Adjustments for:		
Depreciation expenses	27,983	27,642
Amortization expenses	9,208	9,809
Gain on reversal of expected credit loss	(160)	-
Net (gain) loss on fair value changes of financial assets at fair value through profit or loss	(4,094)	2,558
Interest income	(3,935)	(5,281)
Share of loss of associates accounted for using equity method	89	46
Net gain on disposal of property, plant and equipment	-	(4,164)
Write-downs of inventory and loss of obsolete inventory	6,613	8,921
Net (gain) loss on foreign currency exchange	854	(4,581)
Changes in operating assets and liabilities		
Trade and notes receivables	(156,820)	(112,656)
Inventories	90,104	(29,934)
Other current assets	(17,543)	(3,365)
Trade payables	80,399	20,788
Other payables	4,958	(35,700)
Provisions for employee benefits	726	758
Other current liabilities	(192)	30,650
Compensation costs of employee share options	(444)	(454)
Cash generated from operations	222,067	76,735
Interest received	4,174	7,189
Income tax paid	(22,911)	(30,059)
Net cash generated from operating activities	203,330	53,865
CASH FLOWS FROM INVESTING ACTIVITIES		
Financial assets at fair value through other comprehensive income	-	(302,874)
Purchase of financial assets at amortized cost	(32,535)	-
Proceeds from sale of financial assets at amortized cost	-	591,948
Purchase of financial assets at fair value through profit or loss	(100,000)	-
Proceeds from sale of financial assets at fair value through profit or loss	21,006	-
Payments for property, plant and equipment	(17,235)	(22,350)
Proceeds from disposal of property, plant and equipment	-	5,795
Increase in refundable deposits	(106)	(250)
Payments for intangible assets	(6,690)	(17,605)
Increase in prepayment for buildings and land - for operating purpose	-	(396,832)
Net cash used in investing activities	(135,560)	(142,168)

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SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30	
	2019	**2018**
CASH FLOWS FROM FINANCING ACTIVITIES		
Refunds of guarantee deposits received	$ 5,754	$ 8,426
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	21,533	(4,715)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	95,057	(84,592)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	792,348	798,224
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 887,405	$ 713,632

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$31.06 to US$1.00 at June 30, 2019, 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 SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(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 approved by the Company's board of directors on August 9, 2019.

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 Financial Supervisory Commission (FSC)

Except for the following, 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 did not have material impact on the Group's accounting policies:

1) IFRS 16 "Leases"

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects 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 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes 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 asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents 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 are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were 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 are measured at an amount equal to the lease liabilities, the Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

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

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

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

For leases previously classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 are determined as at the carrying amounts of the respective leased assets and finance lease payables on December 31, 2018.

The Group as lessor

The Group does not make any adjustments for leases in which it is a lessor, and it accounts 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 has 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.

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

The amendments clarified that IFRS 9 "Financial Instruments" 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, based on the facts and circumstances that exist on January 1, 2019, performed an assessment of the classification under IFRS 9 applied retrospectively.

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 Group applied the above amendments prospectively.

b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 2)

Note 1: 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 2: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

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

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).

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.

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, 2018.

1) Leases

<u>2019</u>

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

a) The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. The lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of a contract. If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

b) The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

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Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b) The Group as lessee

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

c) Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

2) Employee benefits

- Retirement benefits

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

3) 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 consistently 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, 2018.