# Sonix Technology Co., Ltd. and Subsidiaries

**Consolidated Financial Statements for the Years Ended December 31, 2016 and 2015 and Independent Auditors' Report**

**DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES**

The entities that are required to be included in the combined financial statements of Sonix Technology Co., Ltd. as of and for the year ended December 31, 2016, under the Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are all the same as those included in the consolidated financial statements prepared in conformity with the International Financial Reporting Standard 10 “Consolidated Financial Statements”. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Sonix Technology Co., Ltd. and Subsidiaries do not prepare a separate set of combined financial statements.

Very truly yours,

SONIX TECHNOLOGY CO., LTD.

By

________________________________

CHEN XIAN CHE
Chairman

March 15, 2017

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Sonix Technology Co., Ltd.

### Opinion

We have audited the accompanying consolidated financial statements of Sonix Technology Co., Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's consolidated financial statements for the year ended December 31, 2016 are stated as follows:

Timing Cut-off of Revenue Recognition

The Company's revenue is mainly comprised of export trade. The Company adopts the policy of FOB destination revenue recognition and provides related instructions regarding to the timing of revenue recognition in accordance with IAS 18. A transaction meets the criteria for revenue recognition only when the Company transfers all of the significant risk of ownership and rewards to the buyer. However, the time gap in the delivery of goods from when they are shipped from the warehouse to the point at which the transfer is completed. There remains a risk of sales being recorded in an inappropriate period, i.e. before the risks and rewards have been transferred to the customers in which physical deliveries have not been fulfilled but where the Company has recognized revenue since the point of shipment. Consequently, we will focus on the validity of the timing of revenue recognition. Thus, we determined this to be a key audit matter.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of the key controls over the cut-off for the timing to recognize revenue.

2. Sent confirmations to verify the balance of the accounts receivable and performed alternative procedures including verifying source documents and inspecting the conditions of the collections on the confirmations not replied to during our audit session.

3. Sampled from the period before and after when revenue was recognized, operated cut-off tests, reviewed documents signed by entities to verify that the timing of revenue recognition met the criteria.

Valuation for Inventories

The Company designs integrated circuits ("IC") for consumer electronics, an activity which is characterized by rapid changes. The amount of inventories was considered to be significant, and the calculation for inventory valuation is complex. When the net realizable value of inventories was below cost, the assessment of the amount of allowance for the reduction of inventory to market price required significant judgment from management. Thus, the Company emphasizes the valuation for inventories. Resultantly, we determined this to be a key audit matter.

For our audit procedures performed in respect of the above area, we:

1. Understood and tested the design and operating effectiveness of the key controls over the valuation for inventories.

2. Substantiated that the assessment of the net realizable value of each item was reasonable and consistent with the latest sales slips.

3. Verified that the allowance for inventory was based on the Company's policy for inventory valuation.

4. Calculated and assessed the reasonableness and methodology used in estimating sales expenses.

5. Calculated the allowance for the reduction of inventory to market prices to confirm whether it is accurate and whether the assessed amount is adequate.

## Other Matter

The financial statements of Paradigm Venture Capital Company, an associate of the Company, and its investments in Jian Mau Investment Co., Ltd., which were accounted for under the equity method, were audited by other auditors. Therefore, the amounts within the accompanying consolidated financial statements for the aforementioned investments accounted for under the equity method as well as the gains and losses and relevant information are based solely on the report from other auditors. The aforementioned investments accounted for under the equity method amounted to NT$12,051 thousand and NT$9,648 thousand, representing 0.33% and 0.26% of the Company's consolidated total assets, as of December 31 2016 and 2015, respectively. The related share of the comprehensive income from the aforementioned investments accounted for under the equity method amounted to NT$3,303 thousand and NT$863 thousand, representing 1.30% and 0.23% of the Company's consolidated comprehensive income for the years ended December 31, 2016 and 2015, respectively.

We have also audited the parent company only financial statements of Sonix Technology Co., Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion for the year ended December 31, 2016 and a modified unqualified opinion for the year ended December 31, 2015.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with the requirements of the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards, International Accounting Standards, Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee as endorsed by Financial Supervisory Commission of the Republic of China and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the ability to continue as a going concern of the Company, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee and supervisors, are responsible for overseeing the financial reporting process of the Company.

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern of the Company. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the accompanying notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are C. J. Chang and Ching Ting Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 15, 2017

<u>*Notice to Readers*</u>

*The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **ASSETS** | **Amount** | **%** | **Amount** | **%** |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 4 and 6) | $ 1,328,601 | 36 | $ 1,045,784 | 28 |
| Available-for-sale financial assets - current (Notes 4 and 7) | 82,571 | 2 | 113,654 | 3 |
| Debt investments with no active market - current (Notes 4, 9 and 27) | 555,312 | 15 | 987,806 | 27 |
| Notes receivable from unrelated parties (Notes 4, 5, 10 and 26) | 470,353 | 13 | 455,560 | 12 |
| Inventories (Notes 4, 5 and 11) | 500,200 | 13 | 322,993 | 9 |
| Other current assets | 57,902 | 2 | 51,893 | 1 |
| Total current assets | 2,994,939 | 81 | 2,977,690 | 80 |
| NON-CURRENT ASSETS | | | | |
| Financial assets measured at cost - non-current (Notes 4 and 8) | 34 | - | 34 | - |
| Investments accounted for using equity method (Notes 4 and 13) | 12,051 | - | 9,648 | - |
| Property, plant and equipment (Notes 4, 14 and 27) | 422,437 | 12 | 457,571 | 12 |
| Investment properties (Notes 4 and 15) | 175,588 | 5 | 193,460 | 5 |
| Intangible assets (Notes 4 and 16) | 48,335 | 1 | 50,239 | 2 |
| Deferred tax assets (Notes 4 and 21) | 33,467 | 1 | 31,572 | 1 |
| Refundable deposits | 6,847 | - | 7,308 | - |
| Total non-current assets | 698,759 | 19 | 749,832 | 20 |
| TOTAL | $ 3,693,698 | 100 | $ 3,727,522 | 100 |
| **LIABILITIES AND EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Notes payable to unrelated parties | $ 4,139 | - | $ 32,268 | 1 |
| Trade payables to unrelated parties | 272,552 | 7 | 232,648 | 6 |
| Other payables (Note 17) | 217,792 | 6 | 209,536 | 6 |
| Current tax liabilities (Notes 4 and 21) | 56,055 | 2 | 26,614 | 1 |
| Other current liabilities | 34,056 | 1 | 16,785 | - |
| Total current liabilities | 584,594 | 16 | 517,851 | 14 |
| NON-CURRENT LIABILITIES | | | | |
| Provisions - non-current (Note 4) | 8,473 | - | 9,430 | - |
| Deferred tax liabilities (Notes 4 and 21) | 1,779 | - | 1,768 | - |
| Net defined benefit liabilities - non-current (Notes 4 and 18) | 32,718 | 1 | 24,850 | 1 |
| Deposits received | 68,371 | 2 | 60,846 | 1 |
| Total non-current liabilities | 111,341 | 3 | 96,894 | 2 |
| Total liabilities | 695,935 | 19 | 614,745 | 16 |
| EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY | | | | |
| Share capital | | | | |
| Ordinary shares | 1,678,770 | 45 | 1,678,770 | 45 |
| Capital surplus | 62,661 | 2 | 62,661 | 2 |
| Retained earnings | | | | |
| Legal reserve | 978,373 | 26 | 939,474 | 25 |
| Special reserve | 228 | - | 228 | - |
| Unappropriated earnings | 295,584 | 8 | 431,442 | 12 |
| Total retained earnings | 1,274,185 | 34 | 1,371,144 | 37 |
| Other equity | (17,853) | - | 202 | - |
| Total equity attributable to owners of the Company | 2,997,763 | 81 | 3,112,777 | 84 |
| Total equity | 2,997,763 | 81 | 3,112,777 | 84 |
| TOTAL | $ 3,693,698 | 100 | $ 3,727,522 | 100 |

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

(With Deloitte & Touche audits' report dated March 15, 2017)

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| OPERATING REVENUE (Notes 4 and 26) | | | | |
| Sales | $ 3,216,843 | 100 | $ 3,306,229 | 100 |
| OPERATING COSTS (Notes 11, 20 and 26) | | | | |
| Cost of goods sold | 1,906,777 | 59 | 1,879,750 | 57 |
| GROSS PROFIT | 1,310,066 | 41 | 1,426,479 | 43 |
| OPERATING EXPENSES | | | | |
| Sales and marketing expenses | 77,416 | 3 | 76,816 | 2 |
| General and administrative expenses | 147,775 | 5 | 117,376 | 4 |
| Research and development expenses | 780,993 | 24 | 840,323 | 25 |
| Total operating expenses | 1,006,184 | 32 | 1,034,515 | 31 |
| PROFIT FROM OPERATIONS | 303,882 | 9 | 391,964 | 12 |
| NON-OPERATING INCOME AND EXPENSES | | | | |
| Interest income (Note 4) | 12,375 | 1 | 19,910 | 1 |
| Rent revenue (Notes 4 and 20) | 11,258 | - | 11,143 | - |
| Other income (Note 26) | 37,675 | 1 | 7,402 | - |
| Share of profit or loss of associates and joint ventures (Notes 4 and 13) | 4,348 | - | (1,434) | - |
| Gains on disposal of investments | 3,408 | - | (383) | - |
| Net foreign exchange gains (Notes 4 and 20) | (12,285) | - | 27,515 | 1 |
| Other expenditures (Note 20) | (3,428) | - | (2,169) | - |
| Total non-operating income and expenses | 53,351 | 2 | 61,984 | 2 |
| PROFIT BEFORE INCOME TAX | 357,233 | 11 | 453,948 | 14 |
| INCOME TAX EXPENSE (Notes 4 and 21) | 77,609 | 2 | 64,963 | 2 |
| NET PROFIT FOR THE YEAR | 279,624 | 9 | 388,985 | 12 |

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## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| OTHER COMPREHENSIVE INCOME AND LOSS | | | | |
| Items that will not be reclassified subsequently to profit or loss: | | | | |
| Remeasurement of defined benefit plans (Notes 4 and 18) | $ (8,739) | - | $ (7,678) | - |
| Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 21) | 1,486 | - | 1,306 | - |
| | (7,253) | - | (6,372) | - |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translating foreign operations | (16,972) | (1) | (3,756) | - |
| Unrealized gain (loss) on available-for-sale financial assets | (38) | - | (4,310) | (1) |
| Share of the other comprehensive income of associates and joint ventures accounted for using equity method | (1,045) | - | 356 | - |
| | (18,055) | (1) | (7,710) | (1) |
| Other comprehensive income for the year, net of income tax | (25,308) | (1) | (14,082) | (1) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | $ 254,316 | 8 | $ 374,903 | 11 |
| EARNINGS PER SHARE (Note 22) | | | | |
| From continuing and discontinued operations | | | | |
| Basic | $ 1.67 | | $ 2.32 | |
| Diluted | $ 1.64 | | $ 2.27 | |

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

(With Deloitte & Touche audits' report dated March 15, 2017) (Concluded)

**SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | Equity Attributable to Owners of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Retained Earnings | | | | Other Equity | | | | |
| | Share (In Thousands) | Share Capital | Capital Surplus | Legal Reserve | Special Reserve | Unappropriated Earnings | Total | Exchange Differences on Translating Foreign Operations | Unrealized Gain (Loss) on Available-for-sale Financial Assets | Total | Total Equity |
| BALANCE AT JANUARY 1, 2015 | 167,877 | $ 1,678,770 | $ 62,661 | $ 887,026 | $ 7,616 | $ 631,096 | $ 1,525,738 | $ 7,961 | $ (49) | $ 7,912 | $ 3,275,081 |
| Appropriation of 2014 earnings | | | | | | | | | | | |
| Legal reserve | - | - | - | 52,448 | - | (52,448) | - | - | - | - | - |
| Special reserve | - | - | - | - | (7,388) | 7,388 | - | - | - | - | - |
| Cash dividends distributed by the Company | - | - | - | - | - | (537,207) | (537,207) | - | - | - | (537,207) |
| Net profit for the year ended December 31, 2015 | - | - | - | - | - | 388,985 | 388,985 | - | - | - | 388,985 |
| Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax | - | - | - | - | - | (6,372) | (6,372) | (3,756) | (3,954) | (7,710) | (14,082) |
| Total comprehensive income (loss) for the year ended December 31, 2015 | - | - | - | - | - | 382,613 | 382,613 | (3,756) | (3,954) | (7,710) | 374,903 |
| BALANCE AT DECEMBER 31, 2015 | 167,877 | 1,678,770 | 62,661 | 939,474 | 228 | 431,442 | 1,371,144 | 4,205 | (4,003) | 202 | 3,112,777 |
| Appropriation of 2015 earnings | | | | | | | | | | | |
| Legal reserve | - | - | - | 38,899 | - | (38,899) | - | - | - | - | - |
| Special reserve | - | - | - | - | - | (369,330) | (369,330) | - | - | - | (369,330) |
| Net profit for the year ended December 31, 2016 | - | - | - | - | - | 279,624 | 279,624 | - | - | - | 279,624 |
| Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax | - | - | - | - | - | (7,253) | (7,253) | (16,972) | (1,083) | (18,055) | (25,308) |
| Total comprehensive income (loss) for the year ended December 31, 2016 | - | - | - | - | - | 272,371 | 272,371 | (16,972) | (1,083) | (18,055) | 254,316 |
| BALANCE AT DECEMBER 31, 2016 | 167,877 | $ 1,678,770 | $ 62,661 | $ 978,373 | $ 228 | $ 295,584 | $ 1,274,185 | $ (12,767) | $ (5,086) | $ (17,853) | $ 2,997,763 |

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

(With Deloitte & Touche audits' report dated March 15, 2017)

## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax from continuing operations | $ 357,233 | $ 453,948 |
| Adjustments for: | | |
| Depreciation expenses | 68,563 | 58,454 |
| Amortization expenses | 20,099 | 23,928 |
| Interest income | (12,375) | (19,910) |
| Compensation costs of employee share options | (871) | (926) |
| Share of (profit) loss of associates and joint ventures | (4,348) | 1,434 |
| Write-down of inventories | 17,626 | (8,258) |
| (Gain) loss on disposal of property, plant and equipment | (27) | 574 |
| (Gain) loss on disposal of investment properties | (2,815) | - |
| Net (gain) loss on fair value change of financial assets designated as at fair value through profit or loss | (3,408) | 383 |
| Net (gain) loss on foreign currency exchange | 760 | (8,959) |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in notes and trade receivables | (9,944) | (4,639) |
| (Increase) decrease in inventories | (194,475) | 97,580 |
| (Increase) decrease in other current assets | (6,651) | 3,918 |
| Increase (decrease) in notes payable | (28,129) | (13,663) |
| Increase (decrease) in trade payables | 36,493 | (30) |
| Increase (decrease) in other payables | 7,745 | (19,136) |
| Increase (decrease) in provisions | (957) | 887 |
| Increase (decrease) in other current liabilities | 17,217 | 11,963 |
| Cash generated from operations | 261,736 | 577,548 |
| Interest received | 12,979 | 21,719 |
| Income tax paid | (48,634) | (78,773) |
| Net cash generated from operating activities | 226,081 | 520,494 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of available-for-sale financial assets | (580,000) | (20,000) |
| Proceeds on sale of available-for-sale financial assets | 613,408 | 29,617 |
| Proceeds on sale of debt investments with no active market | 430,951 | 455,112 |
| Payments for property, plant and equipment | (35,465) | (63,112) |
| Payments for intangible assets | (18,282) | (14,924) |
| Proceeds from disposal of property, plant and equipment | 280 | 1,134 |
| Proceeds from disposal of investment properties | 15,867 | - |
| Increase in refundable deposits | 375 | 264 |
| Return of capital reduction from investees under equity method | 1,945 | 1,975 |
| Net cash generated from investing activities | 429,079 | 390,066 |

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## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars)**

| | 2016 | 2015 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from deposits received | $ 8,683 | $ - |
| Refund of deposits received | - | (948) |
| Dividends paid to owners of the Company | (369,330) | (537,207) |
| Net cash used in financing activities | (360,647) | (538,155) |
| EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES | (11,696) | 4,100 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 282,817 | 376,505 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 1,045,784 | 669,279 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 1,328,601 | $ 1,045,784 |

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

(With Deloitte & Touche audits' report dated March 15, 2017) (Concluded)

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

## 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's shares have been listed on the Taipei Exchange since November 2000.

The consolidated financial statements for the Company and its subsidiaries (collectively, the "Group") are presented in the Company's functional currency, the New Taiwan dollar.

## 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the board of directors and authorized for issue on March 15, 2017.

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

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that, starting January 1, 2017, the Group should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2010-2012 Cycle | July 1, 2014 (Note 2) |
| Annual Improvements to IFRSs 2011-2013 Cycle | July 1, 2014 |
| Annual Improvements to IFRSs 2012-2014 Cycle | January 1, 2016 (Note 3) |
| Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 "Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |

(Continued)

| New, Amended or Revised Standards and Interpretations (the "New IFRSs") | Effective Date Announced by IASB (Note 1) |
|---|---|
| Amendment to IAS 27 "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets" | January 1, 2014 |
| Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| IFRIC 21 "Levies" | January 1, 2014 |

(Concluded)

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant dates on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition dates on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Group's accounting policies, except for the following:

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

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

2) Annual Improvements to IFRSs 2010-2012 Cycle

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

   IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combinations with acquisition dates on or after January 1, 2017.

The amended IFRS 8 requires the Group to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments and the economic indicators assessed in determining whether the aggregated operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker. The judgments made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

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

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the services paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. When the amendment becomes effective in 2017, the Group which provides key management personnel services to the Group will be treated retrospectively as a related party and disclosed accordingly.

3) Annual Improvements to IFRSs: 2011-2013 Cycle

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

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

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

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

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

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

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

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

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

The amendment is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

5) Annual Improvements to IFRSs 2012-2014 Cycle

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

IAS 19 was amended to clarify that the depth of the market for high quality corporate bonds used to estimate the discount rate for post-employment benefits should be assessed by the market of corporate bonds denominated in the same currency as the benefits are to be paid, i.e. assessed at currency level (instead of country or regional level). The amendment will be applied from January 1, 2016, and any adjustment arising from the initial application of the amendment will be recognized in net defined benefit liabilities, deferred tax assets and retained earnings.

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

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

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

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

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

Except for the above impacts, as of the date the consolidated financial statements were authorized for issue, the Group continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Group's financial position and financial performance and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that amendments to IFRS 4 (of which only the overlay approach can be applied), IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC had not announced the effective dates of other new IFRSs.

| New IFRSs | Effective Date Announced by IASB (Note 1) |
|---|---|
| Annual Improvements to IFRSs 2014-2016 Cycle | Note 2 |
| Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" | January 1, 2018 |
| Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures" | January 1, 2018 |
| 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 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers" | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendment to IAS 7 "Disclosure Initiative" | January 1, 2017 |
| Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IAS 40 "Transfers of Investment Property" | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |

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

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

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Group's accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

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

Impairment of financial assets

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

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

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period, and restatement of prior periods is not required.

2) 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 will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations starting from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and the related amendment are effective, an entity may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application.

3) IFRS 16 "Leases"

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

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

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

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

4) Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

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

5) 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.

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

The amendments clarify that the Group should transfer to or from investment property when, and only when, the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of 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.

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

7) 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.

The Group shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22 or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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 POLICY

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

b. Basis of preparation

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

The fair value measurements 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, which 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. Classification of current and non-current assets and liabilities

Current assets include:

1) Assets held primarily for the purpose of trading;

2) Assets expected to be realized within twelve months after the reporting period; and

3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

1) Liabilities held primarily for the purpose of trading;

2) Liabilities due to be settled within twelve months after the reporting period; and

3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as current are classified as non-current.

d. 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 date of acquisition up to the effective date of disposal, 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.

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 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. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

See Note 12 and Tables 5 and 6 following the Notes to Consolidated Financial Statements for the detailed information of subsidiaries, including the percentage of ownership and main business.

e. Foreign currencies

In preparing the financial statements of each entity in the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, and in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income attributed to the owners of the Company and non-controlling interests as appropriate.

f. Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process and are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. The net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at their weighted-average costs.

g. Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Group and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

The Group uses the equity method to account for its investments in associates and joint ventures.

Under the equity method, investments in an associate and a joint venture are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of the equity of associates and joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Company subscribes for additional new shares of an associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of the equity of associates and joint ventures. If the Group's ownership interest is reduced due to the additional subscription of new shares of an associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in an associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Group' consolidated financial statements only to the extent that interests in the associate and the joint venture are not related to the Group.

h. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

i. Investment properties

Investment properties are properties held to earn rentals or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

k. Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized on the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

l. 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 fair value through profit or loss) are added to 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 fair value through profit or loss 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

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 amount 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 the investment is disposed of or is 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 are presented in a separate line item as financial assets carried 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 and trade receivables from related parties, cash and cash equivalents) are measured at amortized cost using the effective interest method less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets

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 that, as a result of one or more events that occurred after the initial recognition of the financial asset, 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 as not impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience in the non-collection of payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 days as well as observable changes in national or local economic conditions that correlate with defaults on receivables, and other situations.

For financial assets 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 measured 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 at the date the impairment is reversed 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 that financial asset 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 are 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, the 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 carried at cost, the amount of the impairment loss is measured as the difference between the 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 its 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 a trade receivable and other receivables are considered uncollectable, it is 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 uncollectable 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.

A 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

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

b) Derecognition of financial liabilities

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

m. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Sales returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

a) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

b) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

c) The amount of revenue can be measured reliably;

d) It is probable that the economic benefits associated with the transaction will flow to the Group; and

e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of material ownership.

2) Dividend and interest income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

n. Leasing

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

1) The Group as lessor

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

Contingent rents are recognized as income in the period in which they are incurred.

2) The Group as lessee

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

Contingent rents are recognized as an expense in the period in which they are incurred.

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

o. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service costs, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service costs (including current service costs and net interest on the net defined benefit liability (asset)) are recognized as employee benefits expenses in the period they occur. Remeasurement, comprising actuarial gains and losses and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for a defined benefit plan except that remeasurement is recognized in profit or loss.

4) Termination benefits

A liability for termination benefits is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

p. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which a liability is settled or an asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3) Current tax and deferred tax for the year

Current tax and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current tax and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Write-down of inventory

Net realizable value of inventory is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value was based on current market conditions and the historical experience of selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

## 6. CASH AND CASH EQUIVALENTS

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Cash on hand | $ 195 | $ 281 |
| Checking accounts and demand deposits | 536,857 | 654,267 |
| Cash equivalents (investments with original maturities of less than three months) | | |
| Time deposits | 622,500 | 255,401 |
| Repurchase agreements collateralized by bonds | 169,049 | 135,835 |
| | $ 1,328,601 | $ 1,045,784 |

The market rate intervals of deposits in bank at the end of the reporting period were as follows:

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Bank balance | 0.01%-0.13% | 0.01%-0.13% |
| Time deposits with original maturities of less than three months | 0.40%-0.65% | 0.80%-3.00% |
| Repurchase agreements collateralized by bonds | 1.5%-1.6% | 1.5% |

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Current | | |
| Beneficiary certification | $ 82,571 | $ 113,654 |

## 8. FINANCIAL ASSETS MEASURED AT COST

| | December 31 2016 | December 31 2015 |
|---|---|---|
| Current | | |
| Domestic unlisted ordinary shares | $ 34 | $ 34 |

Raylios Technology Inc. issued shares for cash to increase capital in 2015. The Group did not subscribe for these shares at the same ratio of its original shareholding ratio in Raylios Technology Inc. Therefore, the shareholding ratio was reduced to 14.27% as of December 31, 2015 from 33.96% as of December 31, 2014. The Group lost significant influence over Raylios Technology Inc., and the residual equity was recognized as financial assets measured at cost in 2015.

Management believed that the above unlisted equity investments held by the Group had fair values which could not be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

## 9. DEBT INVESTMENTS WITH NO ACTIVE MARKET

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Current | | |
| Time deposits with original maturities of more than 3 months (a) | $ 555,312 | $ 953,868 |
| Repurchase agreements collateralized by bonds with original maturities of more than 3 months (b) | - | 33,938 |
| | $ 555,312 | $ 987,806 |

a. The market interest rates of the time deposits with original maturities of more than 3 months were 0.77%-1.75% and 0.79%-3% per annum, respectively, as of December 31, 2016 and 2015.

b. The market interest rates of the time deposits with original maturities of more than 3 months were 1.75% per annum as of December 31, 2015.

c. Refer to Note 27 for information relating to bond investments with no active market pledged as security.

## 10. NOTES RECEIVABLE AND TRADE RECEIVABLES

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Notes receivable from related parties | $ 11 | $ 260 |
| Trade receivables | $ 473,695 | $ 458,653 |
| Trade receivables from related parties | (3,353) | (3,353) |
| | $ 470,342 | $ 455,300 |

The average credit period of goods sold was 60 days. No interest was charged on trade receivables. In determining the recoverability of a trade receivable, the Group considered any change in the credit quality of the trade receivable since the date credit was initially granted to the end of the reporting period. The Group recognized an allowance for impairment loss of 100% against all receivables over 180 days because historical experience was that receivables that are beyond 180 days past due are not recoverable. Allowance for impairment loss was recognized against trade receivables between 0 days and 180 days based on the estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of their current financial positions.

The aging of receivables was as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Up to 60 days | $ 456,701 | $ 438,967 |
| 61-90 days | 13,994 | 16,686 |
| 91-120 days | 3,000 | 3,000 |
| | $ 473,695 | $ 458,653 |

The above aging schedule was based on the days past due from the invoice date.

The Group has no trade receivables past due but not impaired.

The movements of the allowance for doubtful trade receivables were as follows:

The Group recognized an impairment loss on trade receivables amounting to $3,353 thousand as of December 31, 2016 and 2015, including individually impaired trade receivables with highly doubtful receipt amounting to $3,000 as of December 31, 2016 and 2015. The Group did not hold any collateral over these balances.

## 11. INVENTORIES

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Inventory in transit | $ 728 | 78 |
| Finished goods | 155,160 | 106,212 |
| Work in progress | 288,059 | 186,739 |
| Raw materials | 56,253 | 29,964 |
| | $ 500,200 | $ 322,993 |

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was $1,906,777 thousand and $1,879,750 thousand, respectively. The cost of goods sold included inventory loss due to a market decline on net realizable value of $11,574 thousand and inventory write-downs of $6,052 thousand, respectively.

The cost of goods sold for the years ended December 31, 2016 and 2015 included a reversal of inventory loss due to a market decline on net realizable value of $13,075 thousand and inventory write-downs of $4,817 thousand, respectively. Previous write-downs were reversed as a result of increased selling prices in certain markets.

## 12. SUBSIDIARIES

Subsidiaries included in consolidated financial statements are shown below:

| | | | % of Ownership | |
|---|---|---|---|---|
| | | | December 31 | |
| **Investor** | **Investee** | **Nature of Activities** | **2016** | **2015** |
| Sonix Technology Company Limited | Sonix Semiconductor BVI | Investment | 100.00 | 100.00 |
| | Jian Mou Investment Company Limited | Investment | 100.00 | 100.00 |
| | Sonix Technology K.K. | Design, development, after-sales service, wholesale of semi-conductor products and parts and related software and commission agency services | 100.00 | 100.00 |
| Sonix Semiconductor BVI | Sonix Holding | Investment | 100.00 | 100.00 |
| Sonix Holding | Sonix Technology (Chengdu) Co., Ltd. | Computer system integration and technical consultation services | 100.00 | 100.00 |
| | Sonix Technology (Shenzhen) Co., Ltd. | Computer system integration and technical consultation services | 100.00 | 100.00 |
| Sonix Technology (Shenzhen) Co., Ltd. | Shenzhen Yudi Digital Media Co., Ltd. | Internet of things, multimedia technical development and technical consultation services | 100.00 | 100.00 |

## 13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Investments in associates | $ 12,051 | $ 9,648 |

Paradigm Venture Capital Corporation, an investee under the equity method, reduced capital in order to cover accumulated deficits by withdrawing shares on November 15, 2016 and October 15, 2015 of $1,945 thousand and $1,974 thousand, respectively. The shares withdrawn for the capital reduction were all received.

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 were based on the associates' financial statements audited by the auditors for the same years.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Freehold Land | Buildings | Office Equipment | Other Equipment | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| Balance at January 1, 2015 | $ 110,192 | $ 367,285 | $ 148,667 | $ 79,989 | $ 706,133 |
| Additions | - | 130 | 15,116 | 47,866 | 63,112 |
| Disposals | - | (1,391) | (11,496) | (350) | (13,237) |
| Effects of foreign currency exchange differences | - | (2,197) | (393) | (78) | (2,668) |
| Balance at December 31, 2015 | $ 110,192 | $ 363,827 | $ 151,894 | $ 127,427 | $ 753,340 |
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2015 | $ - | $ 73,930 | $ 118,406 | $ 60,768 | $ 253,104 |
| Depreciation expenses | - | 10,297 | 13,755 | 31,083 | 55,135 |
| Disposals | - | (1,391) | (9,788) | (350) | (11,529) |
| Effects of foreign currency exchange differences | - | (779) | (110) | (52) | (941) |
| Balance at December 31, 2015 | $ - | $ 82,057 | $ 122,263 | $ 91,449 | $ 295,769 |
| Carrying amounts at December 31, 2015 | $ 110,192 | $ 281,770 | $ 29,631 | $ 35,978 | $ 457,571 |
| Cost | | | | | |
| Balance at January 1, 2016 | $ 110,192 | $ 363,827 | $ 151,894 | $ 127,427 | $ 753,340 |
| Additions | - | 325 | 11,173 | 23,967 | 35,465 |
| Disposals | - | (8,014) | (5,327) | (2,465) | (15,806) |
| Retirements | - | - | (2,531) | - | (2,531) |
| Effects of foreign currency exchange differences | - | (7,295) | (1,286) | (217) | (8,798) |
| Balance at December 31, 2016 | $ 110,192 | $ 348,843 | $ 153,923 | $ 148,712 | $ 761,670 |

(Continued)

| | Freehold Land | Buildings | Office Equipment | Other Equipment | Total |
|---|---|---|---|---|---|
| Accumulated depreciation and impairment | | | | | |
| Balance at January 1, 2016 | $ - | $ 82,057 | $ 122,263 | $ 91,449 | $ 295,769 |
| Depreciation expenses | - | 9,434 | 15,895 | 40,013 | 65,342 |
| Disposals | - | (8,014) | (5,201) | (2,338) | (15,553) |
| Retirements | - | - | (2,531) | - | (2,531) |
| Effects of foreign currency exchange differences | - | (2,782) | (849) | (163) | (3,794) |
| Balance at December 31, 2016 | $ - | $ 80,695 | $ 129,577 | $ 128,961 | $ 339,233 |
| Carrying amounts at December 31, 2016 | $ 110,192 | $ 268,148 | $ 24,346 | $ 19,751 | $ 422,437 |

(Concluded)

The above items of property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | |
| Main buildings | 20-50 years |
| Renovation equipment | 2-5 years |
| Office equipment | 2-5 years |
| Other equipment | 2-8 years |

Property, plant and equipment pledged as collateral for bank borrowings were set out in Note 27.

## 15. INVESTMENT PROPERTIES

| | Amount |
|---|---|
| Cost | |
| Balance at January 1, 2015 | $ 233,113 |
| Effects of foreign currency exchange differences | (856) |
| Balance at December 31, 2015 | $ 232,257 |
| Accumulated depreciation and impairment | |
| Balance at January 1, 2015 | $ 35,827 |
| Depreciation expenses | 3,319 |
| Effects of foreign currency exchange differences | (349) |
| Balance at December 31, 2015 | $ 38,797 |
| Carrying amounts at December 31, 2015 | $ 193,460 |

(Continued)

| | Amount |
|---|---|
| Cost | |
| Balance at January 1, 2016 | $ 232,257 |
| Disposals | (14,522) |
| Effects of foreign currency exchange differences | (2,960) |
| Balance at December 31, 2016 | $ 214,775 |
| Accumulated depreciation and impairment | |
| Balance at January 1, 2016 | $ 38,797 |
| Depreciation expenses | 3,221 |
| Disposals | (1,470) |
| Effects of foreign currency exchange differences | (1,361) |
| Balance at December 31, 2016 | $ 39,187 |
| Carrying amounts at December 31, 2016 | $ 175,588 |

(Concluded)

The investment properties were depreciated using the straight-line method over 20 and 50 years. The determination of the fair value of investment properties was performed by independent qualified professional valuers, and the fair value was measured by using Level 3 inputs. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The significant unobservable inputs used included the discount rate and capitalization rate and fair value as appraised and were as follows:

| | December 31, 2016 |
|---|---|
| Fair value | $ 203,251 |
| Capitalization rate | 2.65% |

All of the Group's investment properties were held under freehold interests.

## 16. INTANGIBLE ASSETS

| | Computer Software | Patents | Total |
|---|---|---|---|
| Cost | | | |
| Balance at January 1, 2015 | $ 272,682 | $ 28,514 | $ 301,196 |
| Additions | 12,937 | 1,987 | 14,924 |
| Retirements | (5,637) | - | (5,637) |
| Effects of foreign currency exchange differences | (26) | (1) | (27) |
| Balance at December 31, 2015 | $ 279,956 | $ 30,500 | $ 310,456 |

(Continued)

| | Computer Software | Patents | Total |
|---|---|---|---|
| Accumulated amortization | | | |
| Balance at January 1, 2015 | $ 229,449 | $ 12,502 | $ 241,951 |
| Amortization expenses | 18,299 | 5,629 | 23,928 |
| Retirements | (5,637) | - | (5,637) |
| Effects of foreign currency exchange differences | (25) | - | (25) |
| Balance at December 31, 2015 | $ 242,086 | $ 18,131 | $ 260,217 |
| Carrying amounts at December 31, 2015 | $ 37,870 | $ 12,369 | $ 50,239 |
| Cost | | | |
| Balance at January 1, 2016 | $ 279,956 | $ 30,500 | $ 310,456 |
| Additions | 11,829 | 6,453 | 18,282 |
| Retirements | (13,036) | - | (13,036) |
| Effects of foreign currency exchange differences | (179) | (6) | (185) |
| Balance at December 31, 2016 | $ 278,570 | $ 36,947 | $ 315,517 |
| Accumulated amortization | | | |
| Balance at January 1, 2016 | $ 242,086 | $ 18,131 | $ 260,217 |
| Amortization expenses | 14,723 | 5,376 | 20,099 |
| Retirements | (13,036) | - | (13,036) |
| Effects of foreign currency exchange differences | (97) | (1) | (98) |
| Balance at December 31, 2016 | $ 243,676 | $ 23,506 | $ 267,182 |
| Carrying amounts at December 31, 2016 | $ 34,894 | $ 13,441 | $ 48,335 |

(Concluded)

Intangible assets were depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Computer software | 1-10 years |
| Patents | 2-10 years |

## 17. OTHER PAYABLES

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Other payables | | |
| Payables for salaries or bonus | $ 135,253 | $ 151,058 |
| Payables for professional service fees | 13,340 | 24,250 |
| Payables for annual leave | 5,469 | 3,921 |
| Others | 63,370 | 30,307 |
| | $ 217,792 | $ 209,536 |

## 18. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Group adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The employees of the Group's subsidiaries in Japan and China are members of a state-managed retirement benefit plan operated by the governments of Japan and China. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

The defined benefit plan adopted by the Company in accordance with the Labor Standards Law is operated by the government of Taiwan. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Company has no right to influence the investment policy and strategy.

The amounts included in the consolidated balance sheets in respect of the Group's defined benefit plans were as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Present value of defined benefit obligation | $ 66,412 | $ 56,876 |
| Fair value of plan assets | (33,694) | (32,026) |
| Net defined benefit liability | $ 32,718 | $ 24,850 |

Movements in net defined benefit liability (asset) were as follows:

| | **Present Value of the Defined Benefit Obligation** | **Fair Value of the Plan Assets** | **Net Defined Benefit Liability (Asset)** |
|---|---|---|---|
| Balance at January 1, 2015 | $ 47,902 | $ (29,804) | $ 18,098 |
| Service costs | | | |
| Current service costs | 157 | - | 157 |
| Net interest expense (income) | 958 | (610) | 348 |
| Recognized in profit or loss | 1,115 | (610) | 505 |

(Continued)

| | Present Value of the Defined Benefit Obligation | Fair Value of the Plan Assets | Net Defined Benefit Liability (Asset) |
|---|---|---|---|
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | $ - | $ (181) | $ (181) |
| Actuarial (gain) loss - changes in demographic assumptions | 1,977 | - | 1,977 |
| Actuarial (gain) loss - changes in financial assumptions | 2,907 | - | 2,907 |
| Actuarial (gain) loss - experience adjustments | 2,975 | - | 2,975 |
| Recognized in other comprehensive income | 7,859 | (181) | 7,678 |
| Contributions from the Group | - | (1,431) | (1,431) |
| Balance at December 31, 2015 | $ 56,876 | $ 32,026 | $ 24,850 |
| Balance at January 1, 2016 | $ 56,876 | $ (32,026) | $ 24,850 |
| Service cost | | | |
| Current service cost | 173 | - | 173 |
| Net interest expense (income) | 924 | (532) | 392 |
| Recognized in profit or loss | 1,097 | (532) | 565 |
| Remeasurement | | | |
| Return on plan assets (excluding amounts included in net interest) | - | 300 | 300 |
| Actuarial (gain) loss - changes in demographic assumptions | 4,599 | - | 4,599 |
| Actuarial (gain) loss - changes in financial assumptions | 4,304 | - | 4,304 |
| Actuarial (gain) loss - experience adjustments | (464) | - | (464) |
| Recognized in other comprehensive income | 8,439 | 300 | 8,739 |
| Contributions from the Group | - | (1,436) | (1,436) |
| Balance at December 31, 2016 | $ 66,412 | $ (33,694) | $ 32,718 |

(Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Sales and marketing expenses | $ 24 | $ 22 |
| General and administrative expenses | 101 | 69 |
| Research and development expenses | 440 | 414 |
| | $ 565 | $ 505 |

Through the defined benefit plans under the Labor Standards Law, the Group is exposed to the following risks:

1) Investment risk: The plan assets are invested in both domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government or corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Discount rate(s) | 1.125% | 1.625% |
| Expected rate(s) of salary increase | 4.500% | 4.500% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Discount rate(s) | | |
| 0.25% increase | $ (2,314) | $ (1,998) |
| 0.25% decrease | $ 2,422 | $ 2,091 |
| Expected rate(s) of salary increase | | |
| 0.25% increase | $ 2,311 | $ 2,005 |
| 0.25% decrease | $ (2,222) | $ (1,927) |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| The expected contributions to the plan for the next year | $ 1,436 | $ 1,470 |
| The average duration of the defined benefit obligation | 15.4 years | 14.4 years |

## 19. EQUITY

a. Share capital

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Number of shares authorized (in thousands) | 250,000 | 250,000 |
| Shares authorized | $ 2,500,000 | $ 2,500,000 |
| Number of shares issued and fully paid (in thousands) | 167,877 | 167,877 |
| Shares issued | $ 1,678,770 | $ 1,678,770 |

A holder of issued ordinary shares with a par value of NT$10 per share is entitled to vote and to receive dividends.

b. Capital surplus

The capital surplus balance amount remained unchanged in the year of 2015 and 2016.

Any capital surplus may be used to offset a deficit; in addition, when the Company has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Company's capital surplus and once a year).

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 21, 2016 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to Note 20,c. employee benefits expense.

The Company is currently at the growing stage. The Company distributes stock dividends and cash dividends after taking into account its future business needs and long term financial plan and provided that the ratio for stock dividend shall not exceed 50% of the total distribution. The distribution of profits may also be made by way of stock or cash dividends. The appropriation for cash dividend should not be less than 10% of the annual dividends distributed.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Company.

Except for non-ROC resident shareholders, all shareholders receiving dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 21, 2016, and, June 24 2015, respectively, were as follows:

| | Appropriation of Earnings For the Year Ended December 31 | | Dividends Per Share (NT$) For the Year Ended December 31 | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Legal reserve | $ 38,899 | $ 52,488 | $ - | $ - |
| Special reserve | - | (7,388) | - | - |
| Cash dividends | 369,330 | 537,207 | 2.2 | 3.2 |

The appropriation of earnings for 2016 were proposed by the Company's board of directors on March 15, 2017. The appropriations and dividends per share were as follows:

| | Appropriation of Earnings | Dividends Per Share (NT$) |
|---|---|---|
| Legal reserve | $ 27,962 | $ - |
| Cash dividends | 248,458 | 1.48 |

The appropriation of earnings for 2016 are subject to resolution in the shareholders' meeting to be held on June 22, 2017.

## 20. NET PROFIT

a. Depreciation and amortization

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Property, plant and equipment | $ 65,342 | $ 55,135 |
| Investment properties | 3,221 | 3,319 |
| Intangible assets | 20,099 | 23,928 |
| | $ 88,662 | $ 82,382 |
| An analysis of depreciation by function | | |
| Operating costs | $ 30,231 | $ 17,396 |
| Operating expenses | 35,111 | 37,739 |
| | $ 65,342 | $ 55,135 |
| An analysis of amortization by function | | |
| Operating costs | $ 20,099 | $ 23,928 |

The depreciation expense above includes rent revenue and other expenditures in non-operating income and expenses.

b. Operating expenses directly related to investment properties

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Direct operating expenses from investment properties that generated rent revenue | $ 3,149 | $ 3,141 |
| Direct operating expenses from investment properties that did not generate rent revenue | 72 | 178 |
| | $ 3,221 | $ 3,319 |

c. Employee benefits expense

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Post-employment benefits (see Note 18) | | |
| Defined contribution plans | $ 33,576 | $ 35,078 |
| Defined benefit plans | 565 | 505 |
| | 34,141 | 35,583 |
| Other employee benefits | 669,595 | 637,113 |
| Total employee benefits expense | $ 703,736 | $ 672,696 |
| An analysis of employee benefits expense by function | | |
| Operating expenses | $ 703,736 | $ 672,696 |

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the shareholders in their meeting in June 2016, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates of no less than 10% and no higher than 5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 15, 2017 and March 25, 2016, respectively, were as follows:

Accrual rate

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Employees' compensation | 13.60% | 13.07% |
| Remuneration of directors and supervisors | 1.19% | 1.21% |

Amount

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | Cash | Share | Cash | Share |
| Employees' compensation | $ 57,300 | $ - | $ 69,190 | $ - |
| Remuneration of directors and supervisors | 5,00 | - | 6,400 | - |

If there is a change in the amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded as a change in the accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 24, 2015 were as follows:

| | For the Year Ended December 31, 2014 | |
|---|---|---|
| | **Cash** | **Share** |
| Bonus to employees | $ 109,630 | $ - |
| Remuneration of directors and supervisors | 8000 | - |

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meeting on June 24, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

d. Gains or losses on foreign currency exchange

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Foreign exchange gains | $ 34,806 | $ 64,875 |
| Foreign exchange losses | (47,091) | (37,360) |
| | $ (12,285) | $ 27,515 |

## 21. INCOME TAXES

a. Major components of tax expense recognized in profit or loss were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Current tax | | |
| In respect of the current year | $ 73,899 | $ 61,755 |
| Adjustments for prior periods | 4,251 | 1,556 |
| | 78,150 | 63,311 |
| Deferred tax | | |
| In respect of the current year | (541) | 1,652 |
| Income tax expense (benefit) recognized in profit or loss | $ 77,609 | $ 64,963 |

A reconciliation of accounting profit and income tax expense is as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Income tax expense calculated at the statutory rate | $ 49,454 | $ 63,728 |
| Nondeductible expenses in determining taxable income | 5,118 | 4,680 |
| Tax-exempt income | (2,052) | (23,443) |
| Additional income tax under the Alternative Minimum Tax Act | 41 | - |
| Unrecognized deductible temporary differences | 16,239 | 9,018 |
| Unrecognized loss carryforwards | 3,588 | 8,905 |
| Adjustments for prior years' tax | 4,251 | (1,556) |
| Effects of different tax rates of group entities operating in other jurisdictions | 520 | 519 |
| Land value increment tax | 450 | - |
| Income tax expense recognized in profit or loss | $ 77,609 | $ 64,963 |

The applicable tax rate used above is the corporate tax rate of 17%, which is payable by the Group in the ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other Group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of the 2017 appropriation of earnings is uncertain, the potential income tax consequences of the 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Deferred tax | | |
| In respect of the current year: | | |
| Remeasurement on defined benefit plans | $ 1,486 | $ 1,306 |

c. Current tax liabilities

The current tax liabilities for December 31, 2016 and 2015 are income taxes payable.

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2016

| Deferred Tax Assets | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Differences | Closing Balance |
|---|---|---|---|---|---|
| Temporary differences | | | | | |
| Loss on inventories | $ 13,281 | $ 1,642 | $ - | ($ 65) | $ 14,858 |
| Provisions | 1,603 | (163) | - | - | 1,440 |
| Capitalized expenses | 2,374 | 469 | - | - | 2,843 |
| Unappropriated earnings of subsidiaries | 5,346 | 1,171 | - | 2 | 6,519 |
| Pension limits | 2,465 | (148) | - | - | 2,317 |
| Unrealized impaired losses | 4,607 | (4,607) | - | - | - |
| Others | 1,896 | 2,192 | 1,486 | (84) | 5,490 |
| | $ 31,572 | $ 556 | $ 1,486 | $ (147) | $ 33,467 |

| Deferred Tax Liabilities | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Differences | Closing Balance |
|---|---|---|---|---|---|
| Unrealized exchange gains and losses | $ 1,692 | $ 62 | $ - | $ - | $ 1,754 |
| Unrealized interest income | 76 | (47) | - | (4) | 25 |
| | $ 1,768 | $ 15 | $ - | $ (4) | $ 1,779 |

For the year ended December 31, 2015

| Deferred Tax Assets | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Differences | Closing Balance |
|---|---|---|---|---|---|
| Temporary differences | | | | | |
| Loss on inventories | $ 15,695 | $ (2,390) | $ - | $ (24) | $ 13,281 |
| Provisions | 1,452 | 151 | - | - | 1,603 |
| Capitalized expenses | 3,913 | (1,539) | - | - | 2,374 |
| Unappropriated earnings of subsidiaries | 3,886 | 1,460 | - | - | 5,346 |
| Pension limits | 2,622 | (157) | - | - | 2,465 |
| Unrealized impaired losses | 4,607 | - | - | - | 4,607 |
| Others | 531 | 135 | 1,230 | - | 1,896 |
| | $ 32,706 | $ (2,340) | $ 1,230 | $ (24) | $ 31,572 |

| Deferred Tax Liabilities | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Differences | Closing Balance |
|---|---|---|---|---|---|
| Unrealized exchange gains and losses | $ 2,134 | $ (442) | $ - | $ - | $ 1,692 |
| Unrealized interest income | 327 | (246) | - | (5) | 76 |
| Others | 76 | - | (76) | - | - |
| | $ 2,537 | $ (688) | $ (76) | $ (5) | $ 1,768 |

e. Deductible temporary differences and unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Loss carryforwards | | |
| Expiry in 2016 | $ - | $ 8,819 |
| Expiry in 2017 | 15,164 | 16,488 |
| Expiry in 2018 | 13,529 | 14,493 |
| Expiry in 2019 | 53,807 | 67,188 |
| Expiry in 2020 | 32,049 | 34,908 |
| Expiry in 2021 | 26,028 | 7,034 |
| Expiry in 2022 | 1,508 | 1,492 |
| Expiry in 2023 | 3,892 | 2,731 |
| Expiry in 2024 | 903 | 1,358 |
| Expiry in 2025 | 1,631 | 1,923 |
| | $ 148,511 | $ 156,434 |
| Deductible temporary differences | | |
| Others | $ 318,815 | $ 251,753 |

f. Information about unused loss carryforwards and tax-exemptions

As of December 31, 2016, loss carryforwards comprised of:

| Unused Amount | Expiry Year |
|---|---|
| $ 3,791 | 2017 |
| 3,227 | 2018 |
| 10,879 | 2019 |
| 8,009 | 2020 |
| 5,948 | 2021 |
| 271 | 2022 |
| 673 | 2023 |
| 154 | 2024 |
| 277 | 2025 |
| $ 33,229 | |

As of December 31, 2016, profits attributable to the following expansion projects were exempted from income tax for a 4- or 5-year period:

| Expansion of Construction Project | Tax-exemption Period |
|---|---|
| Construction and expansion of 2008 by Sonix | 2013-2017 |

The Company increased capital out of earnings in 2008 to expand the investment plan of high-end semi-conductor product designs. The plan was approved to be within an emerging and significantly strategic industry by the Industrial Development Bureau in February 2009 and granted income tax exemption from added income from October 2012 to December 2017 by the Ministry of Finance.

g. Integrated income tax

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Balance of the imputation credits account - Sonix | $ 31,888 | $ 43,978 |
| Balance of the imputation credits account - Jian Mou Investment | $ 1,122 | $ 1,122 |

Jian Mou Investment Company has no earnings to appropriate at the end of the years 2016 and 2015. Therefore, the imputation credits allocated to shareholders is accumulated within the appropriation of earnings and then calculated at a creditable ratio.

The estimated and actual creditable ratio for the distribution of the Company's earnings of 2016 and 2015 were 10.79% (estimated) and 14.72%.

According to the Income Tax Law, when the Company and its domestic subsidiaries allocate their earnings after (and including) the year 1998, domestic shareholders can obtain imputation credits based on a creditable ratio on the distribution date. The imputation credits allocated to shareholders is based on the balance as of the date of the dividend distribution. The estimated creditable ratio may change when the actual distribution of the imputation credits is made. According to Decree No. 10204562810 announced by the ROC Ministry of Finance on October 17, 2013, the amount of accumulated unappropriated earnings must include the net gains or losses due to changes of the first-time adoption of IFRS in the calculation of the creditable ratio.

All of Company's earnings generated prior to December 31, 1997 have been appropriated.

h. Income tax examination

The Company and its subsidiaries had their income taxes examined by the tax authorities at the following years:

| | Year of Examination |
|---|---|
| The Company | 2014 |
| Jian Mou Investment Corporation | 2014 |
| Sonix Technology (Chengdu) Co., Ltd. | 2014 |
| Sonix Technology (Shenzhen) Co., Ltd. | 2014 |
| Shenzhen Yudi Digital Media Co., Ltd. | Unexamined |

## 22. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

**Net Profit for the Year**

| | For the Year Ended December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Profit for the year attributable to owners of the Company | $ 279,624 | $ 388,985 |

**Weighted Average Number of Ordinary Shares Outstanding (In Thousands)**

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Weighted average number of ordinary shares in computation of basic earnings per share | 167,877 | 167,877 |
| Effect of potentially dilutive ordinary shares: | | |
| Employees' compensation or bonus issue to employees | 2,439 | 3,819 |
| Weighted average number of ordinary shares used in the computation of diluted earnings per share | 170,316 | 171,696 |

If the Group offered to settle compensation or bonuses paid to employees in cash or shares, the Group assumed the entire amount of the compensation or bonus will be settled in shares, and the resulting potential shares were included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the number of shares to be distributed to employees is resolved in the following year.

## 23. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

Operating leases relate to leases of buildings with lease terms from 2016 to 2017. All operating lease contracts contain clauses for market rental reviews. The Group does not have a bargain purchase option to acquire the leased buildings at the expiration of the lease periods.

The future minimum lease payments were as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Not later than 1 year | $ 8,061 | $ 5,710 |
| Later than 1 year and not later than 3 years | 4,835 | 2,832 |
| | $ 12,896 | $ 8,542 |

b. The Group as lessor

Operating leases relate to leasing of investment properties with lease terms ranging from 3 months to 3 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

The future minimum lease payments of non-cancellable operating lease were as follows:

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Not later than 1 year | $ 13,441 | $ 12,523 |
| Later than 1 year and not later than 3 years | 7,860 | 13,575 |
| | $ 21,301 | $ 26,098 |

## 24. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance.

The Group monitors the funds by regularly examining the ratio of assets to debt. The capital in the Group is the total equity listed in the balance sheet also known as the amount of total assets deducted from the total debt.

## 25. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments that are not measured at fair value

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with income approaches based on a discounted cash flow analysis, with the most significant unobservable inputs being the discount rate that reflects the credit risk of counterparties.

Except the unlisted securities held by the Company, which are not measured reliably due to the absence of market quotations in active markets as of December 31, 2016 and 2015, unlisted securities are measured by deducting the impaired losses from the cost. The carrying amounts of financial assets and financial liabilities not measured at fair value approximate their fair values.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

December 31, 2016

| | Level 1 |
|---|---|
| Available-for-sale financial assets | |
| Beneficiary certificates | $ 82,571 |

December 31, 2015

| | Level 1 |
|---|---|
| Available-for-sale financial assets | |
| Beneficiary certificates | $ 113,654 |

There were no transfers between Levels 1 and 2 in the current and prior periods.

c. Categories of financial instruments

| | December 31 | |
|---|---|---|
| | **2016** | **2015** |
| <u>Financial assets</u> | | |
| Loans and receivables (1) | $ 2,354,266 | $ 2,489,150 |
| Available-for-sale financial assets (2) | 82,605 | 113,688 |
| <u>Financial liabilities</u> | | |
| Amortized cost (3) | 353,761 | 319,473 |

1) The balance includes loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, and trade and other receivables.

2) The balance includes the carrying amount of available-for-sale financial assets measured at cost and non-current financial assets measured at cost.

3) The balance includes financial liabilities measured at amortized cost, which comprise short-term bills payable and trade and other payables (excluding employment benefits).

d. Financial risk management objectives and policies

The Group's major financial instruments include trade receivables and trade payables. The Group's Corporate Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

1) Market risk

The Group's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (a) below), interest rates (see (b) below), and market price risk (see (c) below).

There were no changes to the Group's exposure to market risk or the manner in which the risk was managed and measured.

a) Foreign currency risk

The Company and Sonix Technology (Shenzhen) Co., Ltd. had foreign currency sales and purchases, which exposed the Group to foreign currency risk. Approximately 76% of the Group's sales were denominated in currencies other than the functional currency of the Group entity making the sale, whilst almost 71% of costs were denominated in the Group entity's functional currency.

It is the Group's policy to negotiate the terms of hedge derivatives to match the terms of hedged items to maximize the hedging effectiveness. Exchange rate exposures were managed within approved policy parameters utilizing forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 28.

Sensitivity analysis

The Group was mainly exposed to the USD.

The following table details the Group's sensitivity to a 1% increase and decrease in the New Taiwan dollar and RMB (the functional currencies) against the relevant foreign currencies. The sensitivity rate used when reporting foreign currency risk internally to key management personnel and representing management's assessment of the reasonably possible change in foreign exchange rates is 1%. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in pre-tax profit and other equity associated when the New Taiwan dollar strengthens 1% against the relevant currency. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity and the balances below would be negative.

| | **USD Impact** | | **EUR Impact** | |
|---|---|---|---|---|
| | **For the Year Ended December 31** | | **For the Year Ended December 31** | |
| | **2016** | **2015** | **2016** | **2015** |
| Profit or loss | $ 4,079 (i) | $ 5,723 (i) | $ - | $ - |
| Equity | - | - (ii) | 227 (ii) | 250 (ii) |

i. This was mainly attributable to the exposure outstanding on USD receivables and payables, which were not hedged at the end of the reporting period.

ii. This was as a result of the changes in fair value of available-for-sale financial assets.

b) Interest rate risk

The carrying amounts of the Group's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

| | **December 31** | |
|---|---|---|
| | **2016** | **2015** |
| Fair value interest rate risk | | |
| Financial assets | $ 941,769 | $ 364,561 |
| Cash flow interest rate risk | | |
| Financial assets | 941,499 | 1,667,829 |

Sensitivity analysis

The sensitivity analysis below was determined based on the Group's exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 1% increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would decrease/increase by $9,415 thousand and $16,678 thousand, respectively, which was mainly attributable to the Group's exposure to interest rates on its variable-rate bank savings and debt investments with no active market.

c) Other price risk

The Group was exposed to price risk through its investments in beneficiary certificates. The investments are not held for trading purposes. The Group manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below was determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, other comprehensive profit or loss for years ended December 31, 2016 and 2015 would have increased/decreased by $826 thousand and $1,137 thousand, respectively, as a result of the changes in fair value of available-for-sale financial assets.

2) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group only deals with creditworthy counterparties of financial institutions and entities that are rated the equivalent of investment grade and above. Therefore, there is no expected great credit risk.

In order to minimize credit risk, management of the Group has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, management believes the Group's credit risk was significantly reduced.

The Group's concentration of credit risk of 48% and 52% in total trade receivables as of December 31, 2016 and 2015, respectively, was related to the Group's largest customer and the five largest customers within the business segment. The rest of the credit risk concentration of trade receivables are not comparatively significant.

3) Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The working capital of the Group is sufficient for its liabilities, and hence there's no liquidity risk for not fulfilling contractual obligations due to a failure to raise funds.

## 26. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Besides information disclosed elsewhere in the other notes, details of transactions between the Group and other related parties are disclosed below.

a. Operating revenues

| Line Items | Related Party Categories | For the Year Ended December 31 2016 | 2015 |
|---|---|---|---|
| Sales | Others | $ 333 | $ 426 |
| Operating expenses | Associates | $ - | $ 121 |
| Operating expenses | Others | $ 33 | $ 20 |

Amounts of receivables from related parties on the balance sheet date:

| Line Items | Related Party Categories | For the Year Ended December 31 2016 | 2015 |
|---|---|---|---|
| Notes receivable from related parties | Others | $ 11 | $ - |
| Receivables from related parties | Others | $ 12 | $ 20 |

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2016 and 2015, no impairment loss was recognized for trade receivables from related parties.

The sales prices and payment terms for related parties are similar with those of sales to third parties.

b. Compensation of key management personnel

| | For the Year Ended December 31 2016 | 2015 |
|---|---|---|
| Short-term employee benefits | $ 20,365 | $ 21,856 |
| Post-employment benefits | 260 | 242 |
| | $ 20,625 | $ 22,098 |

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

## 27. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for short-term bank borrowings, purchases and tariffs of imported goods:

| | December 31 2016 | 2015 |
|---|---|---|
| Property, plant and equipment | $ 227,772 | $ 231,314 |
| Pledge deposits (including debt investments with non-active market) | 51,093 | 51,080 |
| | $ 278,865 | $ 282,394 |

## 28. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' significant financial assets and liabilities denominated in foreign currencies aggregated by foreign currencies other than functional currencies and the related exchange rates between foreign currencies and respective functional currencies were as follows:

December 31, 2016

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 21,777 | 32.200 (USD:NTD) | $ 701,219 |
| USD | 2,628 | 6.9370 (USD:RMB) | 84,622 |
| EUR | 674 | 33.700 (EUR:NTD) | 22,714 |
| | | | $ 808,555 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 7,235 | 32.200 (USD:NTD) | $ 233,691 |
| USD | 4,467 | 6.9370 (USD:RMB) | 144,284 |
| | | | $ 377,975 |

December 31, 2015

| | Foreign Currencies | Exchange Rate | Carrying Amount |
|---|---|---|---|
| Financial assets | | | |
| Monetary items | | | |
| USD | $ 21,728 | 32.775 (USD:NTD) | $ 712,135 |
| USD | 4,711 | 6.4936 (USD:RMB) | 154,403 |
| EUR | 697 | 35.680 (EUR:NTD) | 24,869 |
| | | | $ 891,407 |
| Financial liabilities | | | |
| Monetary items | | | |
| USD | 6,346 | 32.875 (USD:NTD) | $ 208,625 |
| USD | 2,604 | 6.4936 (USD:RMB) | 85,607 |
| | | | $ 294,232 |

The Group is mainly exposed to the USD. The following information was aggregated by the functional currencies of the Group entities, and the exchange rates between respective functional currencies and the presentation currency were disclosed. The significant (realized and unrealized) foreign exchange gains (losses) were as follows:

| | For the Year Ended December 31 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| Foreign Currencies | Exchange Rate | Net Foreign Exchange Gain (Loss) | Exchange Rate | Net Foreign Exchange Gain (Loss) |
| NTD | 1 (NTD:NTD) | $ (6,544) | 1 (NTD:NTD) | $ 30,474 |
| RMB | 4.859 (RMB:NTD) | (5,741) | 5.097 (RMB:NTD) | (2,959) |
| | | $ (12,285) | | $ 27,515 |

## 29. SEPARATELY DISCLOSED ITEMS

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsements/guarantees provided. (None)

3) Marketable securities held (excluding investment in subsidiaries, associates and joint ventures). (Table 1)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 2)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 3)

9) Trading in derivative instruments. (None)

10) Intercompany relationships and significant intercompany transactions. (Table 4)

11) Information on investees. (Table 5)

b. Information on investments in mainland China

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 6)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses: (Tables 2, 3, 4 and 6)

   a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.

   b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

   c) The amount of property transactions and the amount of the resultant gains or losses.

   d) The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.

   e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.

   f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

## 30. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the segment information of each project. The Company manufactured and sold semi-conductor products in the years ended December 31, 2016 and 2015, respectively. Specifically, the Group's reportable segments under IFRS 8 "Operating Segments" were within the semi-conductor segment.

a. Segment revenues and results

The following was an analysis of the Group's revenue and results from continuing operations by reportable segments.

| | **Segment Revenue for the Year Ended December 31** | | **Segment Profit for the Year Ended December 31** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Semi-conductor sector | $ 3,216,843 | $ 3,306,229 | $ 303,882 | $ 391,964 |
| Share of profits of associates accounted for using the equity method | | | 4,348 | (1,434) |
| Interest revenue | | | 12,375 | 19,910 |
| Rent revenue | | | 11,258 | 11,143 |
| Gains and losses on disposal of investments | | | 3,408 | (383) |
| Profits and losses on net exchange | | | (12,285) | 27,515 |
| Other income | | | 37,675 | 7,402 |
| Other expenditures | | | (3,428) | (2,169) |
| Profit before tax | | | $ 357,233 | $ 453,948 |

Segment revenue reported above represent revenue generated from external customers.

Segment profit represented the profit before tax earned by each segment without a share of profits of associates under the equity method, interest income, rent revenue, gains or losses on disposal of financial instruments, exchange gains or losses, other income, other expenditures and income tax expense. This was the measure reported to the chief operating decision-maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

The Group's measure of assets and liabilities was not provided to the chief operating decision-maker. Therefore, no assets and liabilities were presented under operating segments.

c. Other segment information

| | Depreciation and Amortization | |
|---|---|---|
| | **2016** | **2015** |
| Semi-conductor segment | $ 85,441 | $ 79,063 |

d. Revenue from major products and services

The following is an analysis of the Group's revenue from continuing operations from its major products and services.

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Revenue from semi-conductors | $ 3,216,843 | $ 3,306,229 |

e. Geographical information

The Group operates in two principal geographical areas - Taiwan and China.

The Group's revenue from continuing operations from external customers by location of operations and information about its non-current assets by location of assets are detailed below.

| | Revenue from External Customers | |
|---|---|---|
| | For the Year Ended December 31 | |
| | **2016** | **2015** |
| Taiwan | $ 2,468,683 | $ 2,549,246 |
| China | 747,177 | 756,562 |
| Others | 983 | 421 |
| | $ 3,216,843 | $ 3,306,229 |

f. Information about major customers

Included in revenue arising from the semi-conductor sector of $3,216,843 thousand and $3,306,229 thousand in 2016 and 2015 respectively, is revenue of approximately $496,599 thousand and $548,317 thousand, which arose from sales to the Group's largest customer.

Single customers that contributed 10% or more to the Group’s revenue were as follows:

| | For the Year Ended December 31 | |
|---|---|---|
| | **2016** | **2015** |
| Customer A | $ 496,599 | $ 548,317 |
| Customer B | 349,056 | 403,845 |
| | $ 845,655 | $ 952,162 |

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)**
**DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Holding Company Name | Type and Name of Marketable Securities | Relationship with the Holding Company | Financial Statement Account | December 31, 2016 | | | | Note |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of Shares | Carrying Amount | Percentage of Ownership (%) | Fair Value | |
| Sonix Technology Co., Ltd. | Stock | | | | | | | |
| | Ours Technology Inc. | - | Financial assets measured at cost - non-current | 54 | $ 7 | - | $ - | 1 |
| | Muchip Corporation | - | Financial assets measured at cost - non-current | 14,180 | - | - | - | 1 |
| | Raylios Technology Inc. | - | Financial assets measured at cost - non-current | 339,623 | - | 11.79 | - | 1 |
| | Beneficiary certificates | | | | | | | |
| | Templeton Global Total Ret A Acc USD | - | Available-for-sale financial assets | 29,952 | 28,210 | - | 28,210 | 2 |
| | RBS Prepeptual Bond | - | Available-for-sale financial assets | 6,000 | 19,209 | - | 19,209 | 2 |
| | JPMorgan (Taiwan) TEMIS TWD Acc | - | Available-for-sale financial assets | 2,000,000 | 18,326 | - | 18,326 | 2 |
| Jian Mou Investment Corporation | Beneficiary certificates | | | | | | | |
| | Jih Sun Asian High Yield Bond (TWD B) | - | Available-for-sale financial assets | 1,307,168 | 16,826 | - | 16,826 | 2 |
| | Stock | | | | | | | |
| | Ours Technology Inc. | - | Financial assets measured at cost - non-current | 115 | 27 | - | - | 1 |

Note 1: There was no active market price, and the fair value could not be reliably measured; therefore, items are measured at cost less impairment losses.

Note 2: Beneficiary certificates are measured at the fair value of net assets on December 31, 2016.

TABLE 2

## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Buyer/Seller | Related Party | Relationship | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Receivable (Payable) | | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Purchase/Sale | Amount | % of Total | Payment Terms | Unit Price | Payment Terms | Ending Balance | % of Total | |
| Sonix Technology Co., Ltd. | Sonix Technology (Shenzhen) Co., Ltd. | Subsidiary of second-tier subsidiary | Sale | $ (453,458) | (15) | 110 days | $ - | - | $ 142,181 | 29 | 1 |
| Sonix Technology (Shenzhen) Co., Ltd. | Sonix Technology Co., Ltd. | Parent company | Purchase | 453,458 | 72 | 110 days | - | - | (142,181) | 73 | 1 |

Note 1: Amount was eliminated based on the audited financial statements.

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL**
**DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Company Name | Related Party | Relationship | Ending Balance (Note 1) | Turnover Rate | Overdue | | Amounts Received in Subsequent Period | Allowance for Impairment Loss |
|---|---|---|---|---|---|---|---|---|
| | | | | | Amount | Actions Taken | | |
| Sonix Technology Co., Ltd. | Sonix Technology (Shenzhen) Co., Ltd. | Subsidiary of second-tier subsidiary | $ 142,181 | 4.40 | $ - | - | $ 142,181 | $ - |

Note 1: The period is as of March 15, 2017.

Note 2: Amounts of trade receivables all were eliminated based on audited financial statements.

TABLE 4

**SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES**

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(Amounts in Thousands of New Taiwan Dollars)**

| No. | Investee Company | Counterparty | Relationship | Transactions Details | | | |
|---|---|---|---|---|---|---|---|
| | | | | Financial Statement Accounts | Amount | Payment Terms | % of Total Sales or Assets |
| 0 | Sonix Technology Co., Ltd. | Sonix Technology (Shenzhen) Co., Ltd. | 1 | Trade receivables | $ 142,181 | The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. | 4 |
| | | Sonix Technology (Shenzhen) Co., Ltd. | 1 | Sales | 453,458 | The sales prices and payment terms to related parties were not significantly different from those of sales to third parties. | 14 |

Note 1: The following numerals represent the corresponding directional relationship:

- Parent company to subsidiary: 1;
- Subsidiary to parent company: 2; and
- Between subsidiaries: 3.

Note 2: Amount was eliminated based on audited financial statements.

## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**INFORMATION ON INVESTEES**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Original Investment Amount | | | Net Income (Loss) of the Investee (Note 1) | Share of Profits (Loss) (Note 1) | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | December 31, 2016 | December 31, 2015 | Number of Shares | % | Carrying Amount | | | |
| Sonix Technology Co., Ltd. | Sonix Technology Ltd. | PO Box 3321, Road Town, Tortola, the British Virgin Islands | Investment activities | $ 537,646 | $ 473,491 | 16,510,000 | 100.00 | $ 235,552 | $ (65,758) | $ (65,758) | Subsidiary |
| | Jian Mou Investment Corporation | Hsin Chu | Investment activities | 155,000 | 155,000 | 15,500,000 | 100.00 | 103,362 | 6,205 | 6,205 | Subsidiary |
| | Sonix Technology K.K. | Tokyo | Design, development, after-sales service, wholesale of semi-conductor products and parts and related software and commission agency services | 31,792 | 31,792 | 8,000 | 100.00 | 16,275 | (1,305) | (1,305) | Subsidiary |
| Jian Mou Investment Corporation | Paradigm Venture Capital Corporation | Taipei | Investment activities | 47,008 | 48,562 | 765,929 | 20.98 | 12,051 | 20,729 | 4,348 | |
| Sonix Technology Ltd. | Sonix Holding Consolidated Company Co., Ltd. | PO Box 438, Road Town, Tortola, the British Virgin Islands | Investment activities | 502,746 | 438,591 | 15,510,000 | 100.00 | 199,532 | (66,118) | (66,118) | Second-tier subsidiary |

Note 1: Based on audited financial statements of the investee and calculated at the investor's holding proportion.

Note 2: Except profit and loss of Paradigm Venture Capital Corporation, the listed amounts above were all eliminated upon consolidation.

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA**
**FOR THE YEAR ENDED DECEMBER 31, 2016**
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

| Investee Company | Main Businesses and Products | Paid-in Capital | Method of Investment | Accumulated Outward Remittance for Investment from Taiwan as of January 1, 2016 | Remittance of Funds | | Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2016 | Net Income (Loss) of the Investee | % Ownership of Direct or Indirect Investment | Investment Loss (Note 1) | Carrying Amount as of December 31, 2016 (Note 1) | Accumulated Repatriation of Investment Income as of December 31, 2016 | Note |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Outward | Inward | | | | | | | |
| Sonix Technology (Chengdu) Co., Ltd. | Computer system integration and technical consultation services | $ 274,125 (US$ 8,500 thousand) | Reinvest in China via setting up company in third area | $ 241,875 (US$ 7,500 thousand) | $ 32,250 (US$ 1,000 thousand) | $ - | $ 274,125 (US$ 8,500 thousand) | $ 22,250 (US$ 690 thousand) | 100 | $ 22,250 (US$ 690 Thousand) | $ 66,204 (US$ 2,053 thousand) | $ - | |
| Sonix Technology (Shenzhen) Co., Ltd. | Computer system integration and technical consultation services | 225,750 (US$ 7,000 thousand) | Reinvest in China via setting up company in third area | 193,500 (US$ 6,000 thousand) | 32,250 (US$ 1,000 thousand) | - | 225,750 (US$ 7,000 thousand) | 43,867 (US$ 1,360 thousand) | 100 | 43,867 (US$ 1,360 thousand) | 133,319 (US$ 4,134 thousand) | - | |
| Shenzhen Yudi Digital Media Co., Ltd. | Internet of things, multimedia technical development and technical consultation services | 55,091 (RMB 11,850 thousand) | Other method of investment | - | - | - | - | 43,457 (RMB 8,944 thousand) | 100 | 43,457 (RMB 8,944 thousand) | (1,275) (RMB (274) thousand) | - | |

| Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2016 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA |
|---|---|---|
| $499,875 (US$15,500 thousand) | $532,125 (US$16,500 thousand) | $1,798,657 |

Note 1: Based on audited financial statements of the investee and calculated at the investor’s holding proportion.

Note 2: The investment profit and loss was recognized based on the average exchange rate from January 1, 2016 to December 31, 2016; the other accounts were all based on prevailing exchange rate as of December 31, 2016.

Note 3: An amount of RMB11,850 thousand from Sonix Technology (Shenzhen) Co., Ltd. is not included in the accumulated outward remittance and investment from Taiwan as of December 31, 2016.

Note 4: The listed amounts above were all eliminated upon consolidation.