

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

**Consolidated Financial Statements for the  
Years Ended December 31, 2017 and 2016 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, 2017, 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

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CHEN XIAN CHE  
Chairman

March 21, 2018

## **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 subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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, 2017 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, there is a 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\$5,805 thousand and NT\$12,051 thousand, representing 0.16% and 0.33% of the Company's consolidated total assets, as of December 31, 2017 and 2016, respectively. The related share of the comprehensive income from the aforementioned investments accounted for under the equity method amounted to NT\$(686) thousand and NT\$4,348 thousand, representing (0.29%) and 1.71% of the Company's consolidated comprehensive income for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 on which we have issued an unmodified opinion for the year ended December 31, 2017 and a unmodified opinion for the year ended December 31, 2016.

## **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 Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs, IAS, IFRIC, and SIC endorsed and issued into effect by the 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 members of the Audit Committee) 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 disclosures, 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, 2017 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 21, 2018

Notice to Readers

*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, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 798,224	22	\$ 1,328,601	36
Available-for-sale financial assets - current (Note 4)	90,292	3	82,571	2
Debt investments with no active market - current (Notes 4, 7 and 25)	936,551	26	555,312	15
Notes receivable from unrelated parties (Notes 4, 5, 8 and 24)	410,422	12	470,353	13
Inventories (Notes 4, 5 and 9)	599,908	17	500,200	13
Other current assets (Note 24)	<u>53,315</u>	<u>1</u>	<u>57,902</u>	<u>2</u>
Total current assets	<u>2,888,712</u>	<u>81</u>	<u>2,994,939</u>	<u>81</u>
<b>NON-CURRENT ASSETS</b>				
Financial assets measured at cost - non-current (Note 4)	34	-	34	-
Investments accounted for using equity method (Notes 4 and 11)	5,805	-	12,051	-
Property, plant and equipment (Notes 4, 12 and 25)	421,906	12	422,437	12
Investment properties (Notes 4 and 13)	163,407	5	175,588	5
Intangible assets (Notes 4 and 14)	44,298	1	48,335	1
Deferred tax assets (Notes 4 and 19)	31,067	1	33,467	1
Refundable deposits	<u>6,868</u>	<u>-</u>	<u>6,847</u>	<u>-</u>
Total non-current assets	<u>673,385</u>	<u>19</u>	<u>698,759</u>	<u>19</u>
<b>TOTAL</b>	<u>\$ 3,562,097</u>	<u>100</u>	<u>\$ 3,693,698</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Notes payable to unrelated parties	\$ -	-	\$ 4,139	-
Trade payables to unrelated parties	263,555	7	272,552	7
Other payables (Notes 15 and 24)	221,492	6	217,792	6
Current tax liabilities (Notes 4 and 19)	28,859	1	56,055	2
Other current liabilities	<u>23,891</u>	<u>1</u>	<u>34,056</u>	<u>1</u>
Total current liabilities	<u>537,797</u>	<u>15</u>	<u>584,594</u>	<u>16</u>
<b>NON-CURRENT LIABILITIES</b>				
Provisions - non-current (Note 4)	6,468	-	8,473	-
Deferred tax liabilities (Notes 4 and 19)	6	-	1,779	-
Net defined benefit liabilities - non-current (Notes 4 and 16)	27,491	1	32,718	1
Deposits received (Note 21)	<u>57,740</u>	<u>2</u>	<u>68,371</u>	<u>2</u>
Total non-current liabilities	<u>91,705</u>	<u>3</u>	<u>111,341</u>	<u>3</u>
Total liabilities	<u>629,502</u>	<u>18</u>	<u>695,935</u>	<u>19</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>				
Share capital				
Ordinary shares	<u>1,678,770</u>	<u>47</u>	<u>1,678,770</u>	<u>45</u>
Capital surplus	<u>62,661</u>	<u>2</u>	<u>62,661</u>	<u>2</u>
Retained earnings				
Legal reserve	952,614	27	978,373	26
Special reserve	18,081	-	228	-
Unappropriated earnings	<u>242,135</u>	<u>7</u>	<u>295,584</u>	<u>8</u>
Total retained earnings	<u>1,212,830</u>	<u>34</u>	<u>1,274,185</u>	<u>34</u>
Other equity	<u>(21,666)</u>	<u>(1)</u>	<u>(17,853)</u>	<u>-</u>
Total equity attributable to owners of the Company	<u>2,932,595</u>	<u>82</u>	<u>2,997,763</u>	<u>81</u>
Total equity	<u>2,932,595</u>	<u>82</u>	<u>2,997,763</u>	<u>81</u>
<b>TOTAL</b>	<u>\$ 3,562,097</u>	<u>100</u>	<u>\$ 3,693,698</u>	<u>100</u>

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

(With Deloitte & Touche audits' report dated March 21, 2018)

## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 24)				
Sales	\$ 3,341,280	100	\$ 3,216,843	100
OPERATING COSTS (Notes 9 and 18)				
Cost of goods sold	<u>2,062,734</u>	<u>62</u>	<u>1,906,777</u>	<u>59</u>
GROSS PROFIT	<u>1,278,546</u>	<u>38</u>	<u>1,310,066</u>	<u>41</u>
OPERATING EXPENSES (Notes 16, 18 and 24)				
Sales and marketing expenses	71,005	2	77,416	3
General and administrative expenses	143,298	4	147,775	5
Research and development expenses	<u>771,180</u>	<u>23</u>	<u>780,993</u>	<u>24</u>
Total operating expenses	<u>985,483</u>	<u>29</u>	<u>1,006,184</u>	<u>32</u>
PROFIT FROM OPERATIONS	<u>293,063</u>	<u>9</u>	<u>303,882</u>	<u>9</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income (Note 4)	12,612	-	12,375	1
Rent revenue (Notes 4 and 18)	6,154	-	11,258	-
Other income (Note 24)	15,011	1	37,675	1
Share of profit or loss of associates and joint ventures (Notes 4 and 11)	(686)	-	4,348	-
Gains (losses) on disposal of investments	(98)	-	3,408	-
Net foreign exchange gains (Notes 4 and 18)	(24,030)	(1)	(12,285)	-
Other expenditures (Note 18)	<u>(2,638)</u>	<u>-</u>	<u>(3,428)</u>	<u>-</u>
Total non-operating income and expenses	<u>6,325</u>	<u>-</u>	<u>53,351</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	299,388	9	357,233	11
INCOME TAX EXPENSE (Notes 4 and 19)	<u>62,182</u>	<u>2</u>	<u>77,609</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>237,206</u>	<u>7</u>	<u>279,624</u>	<u>9</u>

(Continued)

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
<b>OTHER COMPREHENSIVE INCOME AND LOSS</b>				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 16)	\$ 4,359	-	\$ (8,739)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 19)	(741)	-	1,486	-
	<u>3,618</u>	-	<u>(7,253)</u>	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(6,535)	-	(16,972)	(1)
Unrealized gain (loss) on available-for-sale financial assets	2,722	-	(1,083)	-
	<u>(3,813)</u>	-	<u>(18,055)</u>	(1)
Other comprehensive loss for the year, net of income tax	<u>(195)</u>	-	<u>(25,308)</u>	(1)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 237,011</u>	<u>7</u>	<u>\$ 254,316</u>	<u>8</u>
<b>EARNINGS PER SHARE (Note 20)</b>				
From continuing and discontinued operations				
Basic	\$ 1.41		\$ 1.67	
Diluted	\$ 1.40		\$ 1.64	

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

(With Deloitte & Touche audits' report dated March 21, 2018)

(Concluded)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Company							Other Equity		Total	Total Equity
	Share (In Thousands)	Share Capital	Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for- sale Financial Assets			
				Legal Reserve	Special Reserve	Unappropriated Earnings			Total		
BALANCE AT JANUARY 1, 2016	<u>167,877</u>	<u>\$ 1,678,770</u>	<u>\$ 62,661</u>	<u>\$ 939,474</u>	<u>\$ 228</u>	<u>\$ 431,442</u>	<u>\$ 1,371,144</u>	<u>\$ 4,205</u>	<u>\$ (4,003)</u>	<u>\$ 202</u>	<u>\$ 3,112,777</u>
Appropriation of 2015 earnings											
Legal reserve	-	-	-	38,899	-	(38,899)	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(369,330)	(369,330)	-	-	-	(369,330)
Net profit for the year ended December 31, 2016	-	-	-	-	-	279,624	279,624	-	-	-	279,624
Other comprehensive 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	<u>167,877</u>	<u>1,678,770</u>	<u>62,661</u>	<u>978,373</u>	<u>228</u>	<u>295,584</u>	<u>1,274,185</u>	<u>(12,767)</u>	<u>(5,086)</u>	<u>(17,853)</u>	<u>2,997,763</u>
Appropriation of 2016 earnings											
Legal reserve	-	-	-	27,962	-	(27,962)	-	-	-	-	-
Special reserve	-	-	-	-	17,853	(17,853)	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	(248,458)	(248,458)	-	-	-	(248,458)
Issuance of share dividends from legal reserve	-	-	-	(53,721)	-	-	(53,721)	-	-	-	(53,721)
Net profit for the year ended December 31, 2017	-	-	-	-	-	237,206	237,206	-	-	-	237,206
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	3,618	3,618	(6,535)	2,722	(3,813)	(195)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	240,824	240,824	(6,535)	2,722	(3,813)	237,011
BALANCE AT DECEMBER 31, 2017	<u>167,877</u>	<u>\$ 1,678,770</u>	<u>\$ 62,661</u>	<u>\$ 952,614</u>	<u>\$ 18,081</u>	<u>\$ 242,135</u>	<u>\$ 1,212,830</u>	<u>\$ (19,302)</u>	<u>\$ (2,364)</u>	<u>\$ (21,666)</u>	<u>\$ 2,932,595</u>

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

(With Deloitte & Touche audits' report dated March 21, 2018)

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax from continuing operations	\$ 299,388	\$ 357,233
Adjustments for:		
Depreciation expenses	73,513	68,563
Amortization expenses	21,674	20,099
Bad debt expenses	993	-
Interest income	(12,612)	(12,375)
Compensation costs of employee share options	(868)	(871)
Share of (profit) loss of associates and joint ventures	686	(4,348)
Write-down of inventories	6,442	17,626
Gain on disposal of property, plant and equipment	(474)	(27)
Gain on disposal of investment properties	(439)	(2,815)
Net (gain) loss on fair value change of financial assets designated as at fair value through profit or loss	98	(3,408)
Net loss on foreign currency exchange	266	760
Changes in operating assets and liabilities		
Notes and trade receivables	55,497	(9,944)
Inventories	(106,019)	(194,475)
Other current assets	8,299	(6,651)
Notes payable	(4,139)	(28,129)
Trade payables	(7,768)	36,493
Other payables	4,658	7,745
Provisions	(2,005)	(957)
Other current liabilities	(10,153)	17,217
Cash generated from operations	327,037	261,736
Interest received	11,576	12,979
Income tax paid	(92,308)	(48,634)
Net cash generated from operating activities	<u>246,305</u>	<u>226,081</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of available-for-sale financial assets	(59,897)	(580,000)
Proceeds from sale of available-for-sale financial assets	54,800	613,408
Proceeds from (refunds on) sale of debt investments with no active market	(381,527)	430,951
Payments for property, plant and equipment	(70,303)	(35,465)
Payments for intangible assets	(17,660)	(18,282)
Proceeds from disposal of property, plant and equipment	653	280
Proceeds from disposal of investment properties	8,238	15,867
Decrease (increase) in refundable deposits	(320)	375
Dividends received	3,914	-
Return of capital reduction from investees under equity method	1,646	1,945
Net cash generated from (used in) investing activities	<u>(460,456)</u>	<u>429,079</u>

(Continued)

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

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	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from deposits received	\$ -	\$ 8,683
Refund of deposits received	(8,827)	-
Dividends paid to owners of the Company	<u>(302,179)</u>	<u>(369,330)</u>
Net cash used in financing activities	<u>(311,006)</u>	<u>(360,647)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(5,220)</u>	<u>(11,696)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(530,377)	282,817
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,328,601</u>	<u>1,045,784</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 798,224</u>	<u>\$ 1,328,601</u>

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

(With Deloitte & Touche audits' report dated March 21, 2018)

(Concluded)

# SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 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 21, 2018.

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

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

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

- 1) Amendments to IAS 36 “Recoverable Amount Disclosures for Non-financial Assets”

The amendments clarify that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is the 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.

- 2) Annual Improvements to IFRSs 2010-2012 Cycle

IFRS 3 “Business Combinations” was 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 should be applied prospectively to business combinations with acquisition dates on or after January 1, 2017.

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

IAS 24 “Related Party Disclosures” was amended to clarify that a management entity providing key management personnel services to the Group is a related party of the Group. Consequently, the Group is required to disclose as related party transactions the amounts incurred for the 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.

### 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”

An entity should use the 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) The intangible asset is expressed as a measure of revenue (for example, when there is a contract that specifies the entity’s use of the intangible asset will expire upon the achievement of a revenue threshold); or
- b) It can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

### 5) Annual Improvements to IFRSs 2012-2014 Cycle

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

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

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. 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 transaction amount or balance with a specific related party is 10% or more of the Group's respective total transaction amount 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 conditions after a business combination and the expected benefits at the acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions is enhanced.

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments 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
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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 amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) Annual Improvements to IFRSs 2014-2016 Cycle

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

2) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment 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 collecting contractual cash flows and selling 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 gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

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

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments 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 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

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

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

The Group elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	<b>Carrying Amount as of December 31, 2017</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2018</b>
<u>Impact on assets</u>			
Financial assets measured at cost	\$ 34	\$ (34)	\$ -
Financial assets at fair value through other comprehensive income - noncurrent	<u>-</u>	<u>34</u>	<u>34</u>
Total effect on assets	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ 34</u>

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

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

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

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

The Group will reclassify property as necessary according to the amendments to reflect the conditions that exist at January 1, 2018. In addition, the Group will disclose the reclassified amounts in 2018 and the reclassified amounts of January 1, 2018 should be included in the reconciliation of the carrying amount of investment property.

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

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

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

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

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

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

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

#### 1) IFRS 16 “Leases”

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

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

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

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

#### 2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

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

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

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

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

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

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

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

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

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

c. 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 12 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 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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 dates of acquisitions up to the effective dates of disposals, as appropriate.

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

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

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

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 from 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, in which cases, 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 translated using the exchange rate at the date of the transaction.

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and the group entities (including subsidiaries in other countries that use currencies which are different from the currency of the Company) are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

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

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.

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

Under the equity method, investments in an associate is 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. The Group also recognizes the changes in the Group's share of the equity of associates.

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 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 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. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in capital surplus from investments in associates accounted for using the equity method. If the Group's ownership interest is reduced due to its additional subscription of the new shares of the associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate 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 using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate), 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.

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. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate 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, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent that interests in the associate 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 other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

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 corresponding 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 for 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 an acquisition or issuance of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at 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 amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

ii. Loans and receivables

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

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

b) Impairment of financial assets

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

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

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

For financial assets carried at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment does not exceed what the amortized cost would have been had the impairment not been recognized.

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

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

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

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

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

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

c) Derecognition of financial assets

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

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

2) Equity instruments

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

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

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

### 3) Financial liabilities

#### a) Subsequent measurement

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. Allowances for sales returns and liabilities for 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 materials ownership.

#### 2) Dividend and interest income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Group and that 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 applicable effective interest rate.

n. Leasing

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

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 rentals are recognized as income in the period in which they are incurred.

2) The Group as lessee

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

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

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 services.

2) Retirement benefits

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

Defined benefit costs (including service cost, net interest and remeasurement) under defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, and net interest on the net defined benefit liabilities (assets)) are recognized as employee benefits expense in the period in which 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 liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plans. 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 defined benefit plans except that remeasurement is recognized in profit or loss

4) Termination benefits

A liability for a termination benefit 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 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.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and 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 the liabilities are settled or the assets are 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 and deferred taxes 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 and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect 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 impairment loss is measured as the difference between an asset's carrying amount and the present value of its 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

The net realizable value of inventories is the estimated selling price in the ordinary course of business less the estimated costs of completion and disposal. The estimation of net realizable value was based on current market conditions and historical experience with product sales of a similar nature. Changes in market conditions may have a material impact on the estimation of the net realizable value.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash on hand	\$ 324	\$ 195
Checking accounts and demand deposits	427,173	536,857
Cash equivalents (investments with original maturities of less than three months)		
Time deposits	213,500	622,500
Repurchase agreements collateralized by bonds	<u>157,227</u>	<u>169,049</u>
	<u>\$ 798,224</u>	<u>\$ 1,328,601</u>

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Bank balance	0.01%-0.25%	0.01%-0.13%
Time deposits with original maturities of less than three months	0.63%-0.70%	0.40%-0.65%
Repurchase agreements collateralized by bonds	1.60%	1.50%-1.60%

## 7. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Current</u>		
Time deposits with original maturities of more than 3 months (a)	<u>\$ 936,551</u>	<u>\$ 555,312</u>

- a. The market interest rates of the time deposits with original maturities of more than 3 months were 0.77%-1.75% per annum, as of December 31, 2017 and 2016.
- c. Refer to Note 25 for information relating to bond investments with no active market pledged as security.

## 8. NOTES RECEIVABLE AND TRADE RECEIVABLES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Notes receivable from related parties	<u>\$ 4,340</u>	<u>\$ 11</u>
Trade receivables	\$ 410,428	\$ 473,695
Trade receivables from related parties	<u>(4,346)</u>	<u>(3,353)</u>
	<u>\$ 406,082</u>	<u>\$ 470,342</u>

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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Up to 60 days	\$ 388,815	\$ 456,701
61-90 days	16,990	13,994
91-180 days	5	-
Over 180 days	<u>4,618</u>	<u>3,000</u>
	<u>\$ 410,428</u>	<u>\$ 473,695</u>

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:

	<b>Individually Assessed for Impairment</b>	<b>Collectively Assessed for Impairment</b>	<b>Total</b>
Balance at January 1, 2016	<u>\$ 3,000</u>	<u>\$ 353</u>	<u>\$ 3,353</u>
Balance at December 31, 2016	<u>\$ 3,000</u>	<u>\$ 353</u>	<u>\$ 3,353</u>
Balance at January 1, 2017	\$ 3,000	\$ 353	\$ 3,353
Add: Impairment losses recognized on receivables	<u>993</u>	<u>-</u>	<u>993</u>
Balance at December 31, 2017	<u>\$ 3,993</u>	<u>\$ 353</u>	<u>\$ 4,346</u>

The Group recognized an impairment loss on trade receivables amounting to \$3,993 thousand and \$3,000 thousand as of December 31, 2017 and 2016, respectively. The Group did not hold any collateral over these balances.

## 9. INVENTORIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Inventory in transit	\$ 1,519	\$ 728
Finished goods	164,529	155,160
Work in progress	309,430	288,059
Raw materials	<u>124,430</u>	<u>56,253</u>
	<u>\$ 599,908</u>	<u>\$ 500,200</u>

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was \$2,062,734 thousand and \$1,906,777 thousand, respectively.

The cost of goods sold for the years ended December 31, 2017 included inventory loss due to a market decline on net realizable value of \$2,508 thousand and obsolescence loss of \$3,934 thousand.

The cost of goods sold for the years ended December 31, 2016 included inventory loss due to a market decline on net realizable value of \$11,574 thousand and obsolescence loss of \$6,052 thousand.

## 10. SUBSIDIARIES

Subsidiaries included in consolidated financial statements are shown below:

Investor	Investee	Nature of Activities	% of Ownership	
			2017	2016
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

## 11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2017	2016
Investments in associates	<u>\$ 5,805</u>	<u>\$ 12,051</u>

Paradigm Venture Capital Corporation, an investee under the equity method, reduced capital in order to cover accumulated deficits by withdrawing shares on August 28, 2017 and November 15, 2016 of \$1,646 thousand and \$1,945 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, 2017 and 2016 were based on the associates' financial statements audited by the auditors for the same years.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Buildings	Office Equipment	Other Equipment	Total
<u>Cost</u>					
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	<u>\$ 110,192</u>	<u>\$ 348,843</u>	<u>\$ 153,923</u>	<u>\$ 148,712</u>	<u>\$ 761,670</u>

(Continued)

	<b>Freehold Land</b>	<b>Buildings</b>	<b>Office Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Accumulated depreciation and impairment</u>					
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	<u>\$ -</u>	<u>\$ 80,695</u>	<u>\$ 129,577</u>	<u>\$ 128,961</u>	<u>\$ 339,233</u>
Carrying amounts at December 31, 2016	<u>\$ 110,192</u>	<u>\$ 268,148</u>	<u>\$ 24,346</u>	<u>\$ 19,751</u>	<u>\$ 422,437</u>
<u>Cost</u>					
Balance at January 1, 2017	\$ 110,192	\$ 348,843	\$ 153,923	\$ 148,712	\$ 761,670
Additions	-	-	7,093	63,210	70,303
Disposals	-	(281)	(1,777)	(1,679)	(3,737)
Retirements	-	-	(14,536)	-	(14,536)
Transfers from investment properties	792	356	-	-	1,148
Effects of foreign currency exchange differences	-	(1,633)	(304)	(35)	(1,972)
Balance at December 31, 2017	<u>\$ 110,984</u>	<u>\$ 347,285</u>	<u>\$ 144,399</u>	<u>\$ 210,208</u>	<u>\$ 812,876</u>
<u>Accumulated depreciation and impairment</u>					
Balance at January 1, 2017	\$ -	\$ 80,695	\$ 129,577	\$ 128,961	\$ 339,233
Depreciation expenses	-	9,002	12,915	48,639	70,556
Disposals	-	(281)	(1,755)	(1,522)	(3,558)
Retirements	-	-	(14,536)	-	(14,536)
Transfers from investment properties	-	97	-	-	97
Effects of foreign currency exchange differences	-	(581)	(197)	(44)	(822)
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 88,932</u>	<u>\$ 126,004</u>	<u>\$ 176,034</u>	<u>\$ 390,970</u>
Carrying amounts at December 31, 2017	<u>\$ 110,984</u>	<u>\$ 258,353</u>	<u>\$ 18,395</u>	<u>\$ 34,174</u>	<u>\$ 421,906</u>

(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 25.

### 13. INVESTMENT PROPERTIES

	<b>Amount</b>
<u>Cost</u>	
Balance at January 1, 2016	\$ 232,257
Disposals	(14,522)
Effects of foreign currency exchange differences	<u>(2,960)</u>
Balance at December 31, 2016	<u>\$ 214,775</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2016	\$ 38,797
Depreciation expenses	3,221
Disposals	(1,470)
Effects of foreign currency exchange differences	<u>(1,361)</u>
Balance at December 31, 2016	<u>\$ 39,187</u>
Carrying amounts at December 31, 2016	<u>\$ 175,588</u>
<u>Cost</u>	
Balance at January 1, 2017	\$ 214,775
Disposals	(8,504)
Transferred to property, plant and equipment	(1,148)
Effects of foreign currency exchange differences	<u>(690)</u>
Balance at December 31, 2017	<u>\$ 204,433</u>
<u>Accumulated depreciation and impairment</u>	
Balance at January 1, 2017	\$ 39,187
Depreciation expenses	2,957
Disposals	(705)
Transferred to property, plant and equipment	(97)
Effects of foreign currency exchange differences	<u>(316)</u>
Balance at December 31, 2017	<u>\$ 41,026</u>
Carrying amounts at December 31, 2017	<u>\$ 163,407</u>

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.

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

## 14. INTANGIBLE ASSETS

	<b>Computer Software</b>	<b>Patents</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2016	\$ 239,234	\$ 71,222	\$ 310,456
Additions	7,431	10,851	18,282
Retirements	(13,036)	-	(13,036)
Effects of foreign currency exchange differences	<u>(178)</u>	<u>(7)</u>	<u>(185)</u>
Balance at December 31, 2016	<u>\$ 233,451</u>	<u>\$ 82,066</u>	<u>\$ 315,517</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2016	\$ 218,731	\$ 41,486	\$ 260,217
Amortization expenses	13,795	6,304	20,099
Retirements	(13,036)	-	(13,036)
Effects of foreign currency exchange differences	<u>(97)</u>	<u>(1)</u>	<u>(98)</u>
Balance at December 31, 2016	<u>\$ 219,393</u>	<u>\$ 47,789</u>	<u>\$ 267,182</u>
Carrying amounts at December 31, 2016	<u>\$ 14,058</u>	<u>\$ 34,277</u>	<u>\$ 48,335</u>
<u>Cost</u>			
Balance at January 1, 2017	\$ 233,451	\$ 82,066	\$ 315,517
Additions	9,554	8,106	17,660
Retirements	-	(12,900)	(12,900)
Effects of foreign currency exchange differences	<u>(52)</u>	<u>12</u>	<u>(40)</u>
Balance at December 31, 2017	<u>\$ 242,953</u>	<u>\$ 77,284</u>	<u>\$ 320,237</u>
<u>Accumulated amortization</u>			
Balance at January 1, 2017	\$ 219,393	\$ 47,789	\$ 267,182
Amortization expenses	5,930	15,744	21,674
Retirements	-	(12,900)	(12,900)
Effects of foreign currency exchange differences	<u>(18)</u>	<u>1</u>	<u>(17)</u>
Balance at December 31, 2017	<u>\$ 225,305</u>	<u>\$ 50,634</u>	<u>\$ 275,939</u>
Carrying amounts at December 31, 2017	<u>\$ 17,648</u>	<u>\$ 26,650</u>	<u>\$ 44,298</u>

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

## 15. OTHER PAYABLES

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Other payables		
Payables for salaries or bonus	\$ 136,064	\$ 135,253
Payables for professional service fees	52,962	40,980
Payables for annual leave	-	5,469
Others	<u>32,466</u>	<u>36,090</u>
	<u>\$ 221,492</u>	<u>\$ 217,792</u>

## 16. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Company of 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 plans adopted by the Company of the Group in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the 6 months before retirement. The Company contribute 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 Group 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 Group 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 Group 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:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Present value of defined benefit obligation	\$ 62,945	\$ 66,412
Fair value of plan assets	<u>(35,454)</u>	<u>(33,694)</u>
Net defined benefit liability	<u>\$ 27,491</u>	<u>\$ 32,718</u>

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

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2016	<u>\$ 56,876</u>	<u>\$ (32,026)</u>	<u>\$ 24,850</u>
Service cost			
Current service cost	173	-	173
Net interest expense (income)	<u>924</u>	<u>(532)</u>	<u>392</u>
Recognized in profit or loss	<u>1,097</u>	<u>(532)</u>	<u>565</u>
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	<u>(464)</u>	<u>-</u>	<u>(464)</u>
Recognized in other comprehensive income	<u>8,439</u>	<u>300</u>	<u>8,739</u>
Contributions from the Group	<u>-</u>	<u>(1,436)</u>	<u>(1,436)</u>
Balance at December 31, 2016	<u>\$ 66,412</u>	<u>\$ (33,694)</u>	<u>\$ 32,718</u>
Balance at January 1, 2017	<u>\$ 66,412</u>	<u>\$ (33,694)</u>	<u>\$ 32,718</u>
Service cost			
Current service cost	200	-	200
Net interest expense (income)	<u>747</u>	<u>(387)</u>	<u>360</u>
Recognized in profit or loss	<u>947</u>	<u>(387)</u>	<u>560</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	55	55
Actuarial (gain) loss - changes in demographic assumptions	4,128	-	4,128
Actuarial (gain) loss - changes in financial assumptions	(4,132)	-	(4,132)
Actuarial (gain) loss - experience adjustments	<u>(4,410)</u>	<u>-</u>	<u>(4,410)</u>
Recognized in other comprehensive income	<u>(4,414)</u>	<u>55</u>	<u>(4,359)</u>
Contributions from the Group	<u>-</u>	<u>(1,428)</u>	<u>(1,428)</u>
Balance at December 31, 2017	<u>\$ 62,945</u>	<u>\$ (35,454)</u>	<u>\$ 27,491</u>

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Sales and marketing expenses	\$ 22	\$ 24
General and administrative expenses	101	101
Research and development expenses	<u>437</u>	<u>440</u>
	<u>\$ 560</u>	<u>\$ 565</u>

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 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 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 plans' 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:

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Discount rate(s)	1.375%	1.125%
Expected rate(s) of salary increase	4.250%	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:

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Discount rate(s)		
0.25% increase	<u>\$ (2,053)</u>	<u>\$ (2,314)</u>
0.25% decrease	<u>\$ 2,145</u>	<u>\$ 2,422</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 2,055</u>	<u>\$ 2,311</u>
0.25% decrease	<u>\$ (1,979)</u>	<u>\$ (2,222)</u>

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

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
The expected contributions to the plan for the next year	<u>\$ 1,428</u>	<u>\$ 1,436</u>
The average duration of the defined benefit obligation	16.5 years	15.4 years

## 17. EQUITY

### a. Share capital

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Number of shares authorized (in thousands)	<u>250,000</u>	<u>250,000</u>
Shares authorized	<u>\$ 2,500,000</u>	<u>\$ 2,500,000</u>
Number of shares issued and fully paid (in thousands)	<u>167,877</u>	<u>167,877</u>
Shares issued	<u>\$ 1,678,770</u>	<u>\$ 1,678,770</u>

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 2017 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 18,d. employee benefits expense.

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 the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Company.

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on June 22, 2017, and, June 21, 2016, respectively, were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For the Year Ended</b>		<b>For the Year Ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Legal reserve	\$ 27,962	\$ 38,899		
Special reserve	17,853	-		
Cash dividends	248,458	369,330	\$ 1.48	\$ 2.2

The Company's shareholders also resolved to issue cash dividends from legal reserve of \$53,721 thousand in the shareholders' meeting on June 22, 2017.

The appropriation of earnings for 2017 was proposed by the Company's board of directors on March 21, 2018. The appropriation and dividends per share were as follows:

	<b>Appropriation of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 23,720	
Special reserve	3,813	
Cash dividends	211,525	\$ 1.26

The Company's board of directors also proposed to issue cash dividends from legal reserve of \$40,290 thousand in the board meeting on March 21, 2018.

The appropriation of earnings for 2017 are subject to resolution in the shareholders' meeting to be held on June 15, 2018.

## 18. NET PROFIT

### a. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 70,556	\$ 65,342
Investment properties	2,957	3,221
Intangible assets	<u>21,674</u>	<u>20,099</u>
	<u>\$ 95,187</u>	<u>\$ 88,662</u>
An analysis of depreciation by function		
Operating costs	\$ 32,824	\$ 30,231
Operating expenses	<u>37,732</u>	<u>35,111</u>
	<u>\$ 70,556</u>	<u>\$ 65,342</u>
An analysis of amortization by function		
Operating costs	<u>\$ 21,674</u>	<u>\$ 20,099</u>

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

b. Depreciation expenses directly related to investment properties

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Direct depreciation expenses from investment properties that generated rent revenue	\$ 1,652	\$ 3,149
Direct depreciation expenses from investment properties that did not generate rent revenue	<u>1,305</u>	<u>72</u>
	<u>\$ 2,957</u>	<u>\$ 3,221</u>

c. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Post-employment benefits (see Note 18)		
Defined contribution plans	\$ 32,759	\$ 33,576
Defined benefit plans	<u>560</u>	<u>565</u>
	33,319	34,141
Other employee benefits	<u>634,943</u>	<u>669,595</u>
Total employee benefits expense	<u>\$ 668,262</u>	<u>\$ 703,736</u>
An analysis of employee benefits expense by function		
Operating expenses	<u>\$ 668,262</u>	<u>\$ 703,736</u>

d. Employee s' compensation and remuneration of directors and supervisors

The Company accrued employees' compensation and remuneration of directors and supervisors at 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, 2017 and 2016, which have been approved by the Company's board of directors on March 21, 2018 and March 15, 2017, respectively, were as follows:

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Employees' compensation	13.82%	13.6%
Remuneration of directors and supervisors	1.28%	1.19%

Amount

	<b>For the Year Ended December 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Cash</b>	<b>Shares</b>	<b>Cash</b>	<b>Shares</b>
Employees' compensation	\$ 48,500	\$ -	\$ 57,300	\$ -
Remuneration of directors and supervisors	4,500	-	5,000	-

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 is 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 years ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Company's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

- e. Gains or losses on foreign currency exchange

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Foreign exchange gains	\$ 8,304	\$ 34,806
Foreign exchange losses	<u>(32,334)</u>	<u>(47,091)</u>
	<u>\$ (24,030)</u>	<u>\$ (12,285)</u>

## 19. INCOME TAXES

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Current tax</u>		
In respect of the current year	\$ 53,854	\$ 73,900
Adjustments for prior periods	8,518	4,251
<u>Deferred tax</u>		
In respect of the current year	<u>(190)</u>	<u>(542)</u>
Income tax expense recognized in profit or loss	<u>\$ 62,182</u>	<u>\$ 77,609</u>

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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Income tax expense calculated at the statutory rate	\$ 47,177	\$ 49,454
Nondeductible expenses in determining taxable income	6,773	5,118
Tax-exempt income	(1,147)	(2,052)
Additional income tax under the Alternative Minimum Tax Act	-	41
Unrecognized deductible temporary differences	1,424	16,239
Deduction of research and development expenses from China	(4,837)	-
Unrecognized loss carryforwards	3,623	3,588
Adjustments for prior years' tax	8,518	4,251
Effects of different tax rates of group entities operating in other jurisdictions	336	520
Land value increment tax	<u>315</u>	<u>450</u>
Income tax expense recognized in profit or loss	<u>\$ 62,182</u>	<u>\$ 77,609</u>

The applicable corporate income tax rate used by the group entities in the ROC is 17%, 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.

In February 2018, it was announced that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets as at December 31, 2017 are expected to be adjusted and increase by \$5,377 thousand in 2018.

As the status of the 2018 appropriation of earnings is uncertain, the potential income tax consequences of the 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
<u>Deferred tax</u>		
In respect of the current year:		
Remeasurement on defined benefit plans	<u>\$ (741)</u>	<u>\$ 1,486</u>

c. Current tax liabilities

The current tax liabilities for December 31, 2017 and 2016 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, 2017

<b>Deferred Tax Assets</b>	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
Temporary differences					
Loss on inventories	\$ 14,859	\$ 456	\$ -	\$ (20)	\$ 15,295
Provisions	1,440	(341)	-	-	1,099
Capitalized expenses	2,843	(454)	-	-	2,389
Unappropriated earnings of subsidiaries	6,518	719	-	-	7,237
Pension limits	2,317	(147)	-	-	2,170
Unrealized impaired losses	-	903	-	-	903
Others	<u>5,490</u>	<u>(2,718)</u>	<u>(741)</u>	<u>(57)</u>	<u>1,974</u>
	<u>\$ 33,467</u>	<u>\$ (1,582)</u>	<u>\$ (741)</u>	<u>\$ (77)</u>	<u>\$ 31,067</u>

<b>Deferred Tax Liabilities</b>	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
Unrealized exchange gains and losses	\$ 1,754	\$ (1,754)	\$ -	\$ -	\$ -
Unrealized interest income	<u>25</u>	<u>(18)</u>	<u>-</u>	<u>(1)</u>	<u>6</u>
	<u>\$ 1,779</u>	<u>\$ (1,772)</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 6</u>

For the year ended December 31, 2016

<b>Deferred Tax Assets</b>	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
Temporary differences					
Loss on inventories	\$ 13,281	\$ 1,642	\$ -	\$ (64)	\$ 14,859
Provisions	1,603	(163)	-	-	1,440
Capitalized expenses	2,374	469	-	-	2,843
Unappropriated earnings of subsidiaries	5,346	1,172	-	-	6,518
Pension limits	2,465	(148)	-	-	2,317
Unrealized impaired losses	4,607	(4,607)	-	-	-
Others	<u>1,896</u>	<u>2,192</u>	<u>1,486</u>	<u>(84)</u>	<u>5,490</u>
	<u>\$ 31,572</u>	<u>\$ 556</u>	<u>\$ 1,486</u>	<u>\$ (148)</u>	<u>\$ 33,467</u>

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

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

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Loss carryforwards		
Expiry in 2017	\$ -	\$ 15,164
Expiry in 2018	13,207	13,529
Expiry in 2019	52,951	53,807
Expiry in 2020	31,397	32,049
Expiry in 2021	27,463	26,028
Expiry in 2022	1,445	1,508
Expiry in 2023	3,844	3,892
Expiry in 2024	997	903
Expiry in 2025	<u>1,631</u>	<u>1,631</u>
	<u>\$ 132,935</u>	<u>\$ 148,511</u>
Deductible temporary differences		
Others	<u>\$ 327,190</u>	<u>\$ 318,815</u>

- f. Information about unused loss carryforwards and tax-exemptions

As of December 31, 2017, loss carryforwards comprised:

<b>Unused Amount</b>	<b>Expiry Year</b>
\$ 3,153	2018
10,698	2019
7,846	2020
6,308	2021
260	2022
665	2023
170	2024
<u>277</u>	2025
<u>\$ 29,377</u>	

As of December 31, 2017, profits attributable to the following expansion projects were exempted from income tax for a 5-year period:

<u>Expansion of Construction Project</u>	<u>Tax-exemption Period</u>
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

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Balance of the imputation credits account - Sonix	<u>\$ 53,893</u>	<u>\$ 31,888</u>
Balance of the imputation credits account - Jian Mou Investment Corporation	<u>\$ 1,567</u>	<u>\$ 1,202</u>
	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Creditable ratio for distribution of earnings - Sonix	Note 1	22.65%
Creditable ratio for distribution of earnings - Jian Mou Investment Corporation	Note 1	Note 2

Note 1: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

Note 2: Jian Mou Investment Corporation has no earnings to appropriate for the year ended December 31, 2016. Therefore, the imputation credits allocated to shareholders is accumulated within the appropriation of earnings and then calculated at a 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:

	<b>Year of Examination</b>
The Company	2014
Jian Mou Investment Corporation	2015
Sonix Technology (Chengdu) Co., Ltd.	2015
Sonix Technology (Shenzhen) Co., Ltd.	2015
Shenzhen Yudi Digital Media Co., Ltd.	2015

## 20. 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**

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Profit for the year attributable to owners of the Company	<u>\$ 237,206</u>	<u>\$ 279,624</u>

Weighted average number of ordinary shares outstanding (in thousand shares):

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
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	<u>1,830</u>	<u>2,439</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>169,707</u>	<u>170,316</u>

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 bonuses 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.

## 21. OPERATING LEASE ARRANGEMENTS

### a. The Group as lessee

Operating leases relate to leases of buildings with lease terms from 2016 to 2019. 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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Not later than 1 year	\$ 7,698	\$ 8,061
Later than 1 year and not later than 3 years	<u>904</u>	<u>4,835</u>
	<u>\$ 8,602</u>	<u>\$ 12,896</u>

### 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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Not later than 1 year	\$ 2,780	\$ 13,441
Later than 1 year and not later than 3 years	<u>2,574</u>	<u>7,860</u>
	<u>\$ 5,354</u>	<u>\$ 21,301</u>

## 22. 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.

## 23. FINANCIAL INSTRUMENTS

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

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, 2017 and 2016, 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

- Fair value hierarchy

December 31, 2017

	<b>Level 1</b>
Available-for-sale financial assets	
Beneficiary certificates	<u>\$ 90,292</u>

December 31, 2016

	<b>Level 1</b>
Available-for-sale financial assets	
Beneficiary certificates	<u>\$ 82,571</u>

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

### c. Categories of financial instruments

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets</u>		
Loans and receivables (1)	\$ 2,145,197	\$ 2,354,266
Available-for-sale financial assets (2)	90,326	82,605
<u>Financial liabilities</u>		
Financial liabilities measured at amortized cost (3)	348,983	353,761

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 foreign 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 71% of the Group's sales were denominated in currencies other than the functional currency of the Group entity making the sale, whilst almost 67% 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 26.

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.

	<b>USD Impact</b>		<b>EUR Impact</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Profit or loss	\$ 3,807 (i)	\$ 4,079 (i)	\$ -	\$ -
Equity	-	-	261 (ii)	227 (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.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Fair value interest rate risk		
Financial assets	\$ 998,227	\$ 941,769
Cash flow interest rate risk		
Financial assets	733,164	941,499

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, 2017 and 2016 would decrease/increase by \$7,332 thousand and \$9,415 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, 2017 and 2016 would have increased/decreased by \$903 thousand and \$826 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% in total trade receivables as of December 31, 2017 and 2016, 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.

## 24. 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. Related parties and relationships

<u>Related Parties</u>	<u>Relationship with the Company</u>
Senno Technology Inc.	Have the same chairman (physical relationship)
Rayson Technology Co., Ltd.	Have the same chairman (physical relationship)
Digit Mobile Inc.	Have the same chairman (physical relationship)
Chip Integration Technology Co., Ltd.	Have the same chairman (physical relationship)
New Pocket Device Corp.	Have the same chairman and general manager (physical relationship)

### b. Operating transactions

<u>Line Item</u>	<u>Related Party Category</u>	<u>For the Year Ended December 31</u>	
		<u>2017</u>	<u>2016</u>
Sales	Physical relationship		
	Others	\$ <u>9,454</u>	\$ <u>333</u>
Operating expenses	Physical relationship		
	Others	\$ 3	\$ -
Miscellaneous expenses	Physical relationship		
	Others	<u>33</u>	<u>33</u>
		<u>\$ 36</u>	<u>\$ 33</u>
Non-operating revenue	Physical relationship		
	Others	\$ <u>5</u>	\$ <u>-</u>

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

### c. Receivables from related parties

<u>Line Item</u>	<u>Related Party Category</u>	<u>For the Year Ended December 31</u>	
		<u>2017</u>	<u>2016</u>
Notes receivable	Physical relationship		
	Others	\$ <u>-</u>	\$ <u>11</u>
Accounts receivable	Physical relationship		
	Others	\$ <u>424</u>	\$ <u>12</u>

The outstanding trade receivables from related parties are unsecured. For the years ended December 31, 2017 and 2016, no impairment loss was recognized for trade receivables from related parties.

d. Other transactions with related parties

<b>Line Item</b>	<b>Related Party Category</b>	<b>For the Year Ended December 31</b>	
		<b>2017</b>	<b>2016</b>
Other receivables (including in other current assets)	Physical relationship Others	\$ <u>2</u>	\$ <u>-</u>
Other payables	Physical relationship Others	\$ <u>3</u>	\$ <u>-</u>

e. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term employee benefits	\$ 19,909	\$ 20,365
Post-employment benefits	<u>258</u>	<u>260</u>
	<u>\$ 20,167</u>	<u>\$ 20,625</u>

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

## 25. 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:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 224,230	\$ 227,772
Pledge deposits (including debt investments with non-active market)	<u>51,104</u>	<u>51,093</u>
	<u>\$ 275,334</u>	<u>\$ 278,865</u>

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

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

December 31, 2017

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 22,102	29.71 (USD:NTD)	\$ 656,650
USD	2,180	6.5342 (USD:RMB)	64,768
EUR	733	35.37 (EUR:NTD)	<u>25,926</u>
			<u>\$ 747,344</u>
<u>Financial liabilities</u>			
Monetary items			
USD	8,236	29.81 (USD:NTD)	\$ 245,515
USD	3,254	6.5342 (USD:RMB)	<u>97,002</u>
			<u>\$ 342,517</u>

December 31, 2016

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount</b>
<u>Financial assets</u>			
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)	<u>22,714</u>
			<u>\$ 808,555</u>
<u>Financial liabilities</u>			
Monetary items			
USD	7,235	32.300 (USD:NTD)	\$ 233,691
USD	4,467	6.9370 (USD:RMB)	<u>144,284</u>
			<u>\$ 377,975</u>

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:

Foreign Currencies	For the Year Ended December 31			
	2017	Net Foreign Exchange Gains (Losses)	2016	Net Foreign Exchange Gains (Losses)
	Exchange Rate		Exchange Rate	
NTD	1 (NTD:NTD)	\$ (27,041)	1 (NTD:NTD)	\$ (6,544)
RMB	4.505 (RMB:NTD)	<u>3,011</u>	4.859 (RMB:NTD)	<u>(5,741)</u>
		<u>\$ (24,030)</u>		<u>\$ (12,285)</u>

## 27. 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.

## 28. 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, 2017 and 2016, 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	
	2017	2016	2017	2016
Semi-conductor sector	\$ <u>3,341,280</u>	\$ <u>3,216,843</u>	\$ 293,063	\$ 303,882
Share of profits of associates accounted for using the equity method			(686)	4,348
Interest revenue			12,612	12,375
Rent revenue			6,154	11,258
Gains and losses on disposal of investments			(98)	3,408
Profits and losses on net exchange			(24,030)	(12,285)
Other income			15,011	37,675
Other expenditures			<u>(2,638)</u>	<u>(3,428)</u>
Profit before tax			<u>\$ 299,388</u>	<u>\$ 357,233</u>

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

	<b>Depreciation and Amortization</b>	
	<b>2017</b>	<b>2016</b>
Semi-conductor segment	<u>\$ 92,230</u>	<u>\$ 85,441</u>

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.

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Revenue from semi-conductors	<u>\$ 3,341,280</u>	<u>\$ 3,216,843</u>

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.

	<b>Revenue from External Customers</b>	
	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Taiwan	\$ 2,510,914	\$ 2,468,683
China	829,261	747,177
Others	<u>1,105</u>	<u>983</u>
	<u>\$ 3,341,280</u>	<u>\$ 3,216,843</u>

f. Information about major customers

Included in revenue arising from the semi-conductor sector of \$3,341,280 thousand and \$3,216,843 thousand in 2017 and 2016 respectively, is revenue of approximately \$495,153 thousand and \$496,599 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:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Customer A	\$ 495,153	\$ 496,599
Customer B	<u>384,713</u>	<u>349,056</u>
	<u>\$ 879,866</u>	<u>\$ 845,655</u>

## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENT IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES)

DECEMBER 31, 2017

(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, 2017				Note
				Number of Shares	Carrying Amount	Percentage of Ownership (%)	Fair Value	
Sonix Technology Co., Ltd.	<u>Shares</u> 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	-	10.05	-	1
	<u>Beneficiary certificates</u> Templeton Global Total Ret A Acc USD	-	Available-for-sale financial assets	29,952	26,963	-	26,963	2
	RBS Bond Perpetual	-	Available-for-sale financial assets	6,000	21,523	-	21,523	2
Jian Mou Investment Corporation	<u>Beneficiary certificates</u> Jih Sun Asian High Yield Bond (TWD B)	-	Available-for-sale financial assets	1,307,168	16,864	-	16,864	2
	Jih Sun Target Income Fund of Funds TWD	-	Available-for-sale financial assets	1,500,000	14,940	-	14,940	2
	Nomura Global Short Duration Bond Fund TWD	-	Available-for-sale financial assets	946,781	10,002	-	10,002	2
	<u>Shares</u> 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, 2017.

**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, 2017  
(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	\$ (487,740)	(16)	110 days	\$ -	-	\$ 100,624	24	1
Sonix Technology (Shenzhen) Co., Ltd.	Sonix Technology Co., Ltd.	Parent company	Purchase	487,740	96	110 days	-	-	(100,624)	(97)	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, 2017**

**(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.	Third-tier subsidiary	\$ 100,624	4.02 times	\$ -	-	\$ 99,812	\$ -

Note 1: The period is as of March 21, 2018.

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

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

**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(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	\$ 100,624	The sales prices and payment terms to related parties were not significantly different from those of sales to third parties.	3
		Sonix Technology (Shenzhen) Co., Ltd.	1	Sales	487,740	The sales prices and payment terms to related parties were not significantly different from those of sales to third parties.	15

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

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

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

## SONIX TECHNOLOGY CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEEES  
 FOR THE YEAR ENDED DECEMBER 31, 2017  
 (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, 2017	December 31, 2016	Number of Shares	%	Carrying Amount			
Sonix Technology Co., Ltd.	Sonix Technology Ltd.	PO Box 3321, Road Town, Tortola, the British Virgin Islands	Investment activities	\$ 613,259	\$ 537,646	19,010,000	100.00	\$ 297,100	\$ (8,199)	\$ (8,199)	Subsidiary
	Jian Mou Investment Corporation	Hsin Chu	Investment activities	155,000	155,000	15,500,000	100.00	102,747	(596)	(596)	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	15,430	(176)	(176)	Subsidiary
Jian Mou Investment Corporation	Paradigm Venture Capital Corporation	Taipei	Investment activities	45,361	47,008	601,254	20.98	5,805	(3,268)	(686)	
Sonix Technology Ltd.	Sonix Holding Consolidated Company Co., Ltd.	PO Box 438, Road Town, Tortola, the British Virgin Islands	Investment activities	578,359	502,746	18,010,000	100.00	248,465	(8,726)	(8,726)	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, 2017  
(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, 2017	Remittance of Funds		Accumulated Outward Remittance for Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee	% Ownership of Direct or Indirect Investment	Investment Loss (Note 1)	Carrying Amount as of December 31, 2017 (Note 1)	Accumulated Repatriation of Investment Income as of December 31, 2017	Note
					Outward	Inward							
Sonix Technology (Chengdu) Co., Ltd.	Computer system integration and technical consultation services	\$ 297,600 (US\$ 10,000 thousand)	Reinvest in China via setting up company in third area	\$ 252,960 (US\$ 8,500 thousand)	\$ 44,640 (US\$ 1,500 thousand)	\$ -	\$ 297,600 (US\$ 10,000 thousand)	\$ (22,479) (US\$ 739 thousand)	100	\$ (22,479) (US\$ 739 thousand)	\$ 87,418 (US\$ 2,937 thousand)	\$ -	
Sonix Technology (Shenzhen) Co., Ltd.	Computer system integration and technical consultation services	238,080 (US\$ 8,000 thousand)	Reinvest in China via setting up company in third area	208,320 (US\$ 7,000 thousand)	29,760 (US\$ 1,000 thousand)	-	238,080 (US\$ 8,000 thousand)	13,753 (US\$ 452 thousand)	100	13,753 (US\$ 452 thousand)	175,919 (US\$ 5,911 thousand)	-	
Shenzhen Yudi Digital Media Co., Ltd.	Internet of things, multimedia technical development and technical consultation services	81,298 (RMB 17,850 thousand)	Other method of investment	-	-	-	-	(39,282) (RMB 8,719 thousand)	100	(39,282) (RMB 8,719 thousand)	(13,633) (RMB 2,933 thousand)	-	

Accumulated Outward Remittance for Investment in Mainland China as of December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA
\$535,680 (US\$18,000 thousand)	\$580,320 (US\$19,500 thousand)	\$1,759,557

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, 2017 to December 31, 2017; the other accounts were all based on prevailing exchange rate as of December 31, 2017.

Note 3: An amount of RMB17,850 thousand from Sonix Technology (Shenzhen) Co., Ltd. is not included in the accumulated outward remittance and investment from Taiwan as of December 31, 2017.

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