

Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2018 and 2017 and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Introduction

We have reviewed the accompanying consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") as of September 30, 2018 and 2017, the consolidated statements of comprehensive income for the three months ended September 30, 2018 and 2017 and for the nine months ended September 30, 2018 and 2017, the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2018 and 2017, and the related notes to the consolidated financial statements, including a summary of significant accounting policies. Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the consolidated financial statements based on our reviews.

Scope of Review

Except as stated in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As disclosed in Note 15 to the consolidated financial statements, the financial statements of non-significant subsidiaries included in the consolidated financial statements were not reviewed. As of September 30, 2018 and 2017, the total assets of these non-significant subsidiaries were NT\$2,375,825 thousand and NT\$2,228,385 thousand, respectively, representing 7% and 6%, respectively, of the consolidated total assets, and the total liabilities of these non-significant subsidiaries were NT\$601,787 thousand and NT\$572,950 thousand, respectively, representing 6% and 5%, respectively, of the consolidated total liabilities. For the three months and the nine months ended September 30, 2018 and 2017, the non-significant subsidiaries' comprehensive income was NT\$(29,028) thousand, NT\$3,187 thousand, NT\$(8,989) thousand and NT\$1,995 thousand, respectively, representing (2%), 0%, 0% and 0%, respectively, of the consolidated total comprehensive income. Furthermore, as stated in Note 16 to the consolidated financial statements, the Group's investments accounted for using the equity method as of September 30, 2018 and 2017 amounted to NT\$1,876,226 thousand and NT\$1,588,905 thousand, respectively, and the comprehensive income of these associates accounted for using the equity method for the three months and the nine months ended September 30, 2018 and 2017 was NT\$(108,567) thousand, NT\$68,352 thousand, NT\$(24,261) thousand and NT\$332,286 thousand, respectively. As stated in Note 37 to the consolidated financial statements, these investment amounts and the related information of the

investees disclosed in the notes to the consolidated financial statements were based on unreviewed financial statements for the same reporting periods as those of the Corporation.

Qualified Conclusion

Based on our reviews, except for the adjustments, if any, as might have been determined to be necessary had the financial statements of the non-significant subsidiaries and associates accounted for using the equity method as described in the preceding paragraph been reviewed, nothing has come to our attention that caused us to believe that the accompanying consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of September 30, 2018 and 2017, its consolidated financial performance for the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, and its consolidated cash flows for the nine months ended September 30, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Accounting Standard 34 “Interim Financial Reporting” endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Matter of Emphasis

As stated in Note 36 to the accompanying consolidated financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutors Office and was concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutors Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code of the Republic of China, the prosecutor charged the chairman of the Corporation and others culminating in either deferred prosecution or dropping the claim for further prosecution. The Taiwan Hsinchu District Prosecutors Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Prosecutors Office against the chairman of the Corporation and others, the case is under re-investigation. Our review conclusion is not qualified in respect of this matter.

The engagement partners on the reviews resulting in this independent auditors’ review report are Hsin Wei Tai and Yu-Wei Fan.

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 13, 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 review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent auditors’ review 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 auditors’ review report and consolidated financial statements shall prevail.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2018 (Reviewed)		December 31, 2017 (Audited)		September 30, 2017 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 13,399,659	38	\$ 14,142,389	40	\$ 12,735,384	36
Financial assets at fair value through profit or loss (FVTPL) - current (Notes 7 and 30)	2,118,752	6	1,271,217	4	1,263,008	3
Financial assets at amortized cost - current (Note 9)	66,922	-	-	-	-	-
Debt investments with no active market - current (Notes 10 and 33)	-	-	80,534	-	79,713	-
Notes and accounts receivable						
Non-related parties (Note 11)	5,313,490	15	5,413,304	15	5,036,105	14
Related parties (Notes 11 and 31)	254,651	1	318,151	1	230,861	1
Other receivables (Note 11)	376,582	1	288,599	1	375,489	1
Current tax assets	20,970	-	9,237	-	918	-
Inventories (Note 12)	7,556,250	21	7,192,346	21	9,425,395	27
Prepayments	137,587	1	28,720	-	50,289	-
Other current assets	74,665	-	65,190	-	38,927	-
Total current assets	29,319,528	83	28,809,687	82	29,236,089	82
NON-CURRENT ASSETS						
Financial assets at fair value through profit or loss (FVTPL) - non-current (Note 7)	394,420	1	-	-	-	-
Financial assets at fair value through other comprehensive income (FVTOCI) - non-current (Note 8)	450,986	1	-	-	-	-
Available-for-sale financial assets - non-current (Note 13)	-	-	434,763	1	449,034	1
Financial assets measured at cost - non-current (Note 14)	-	-	817,627	2	854,915	2
Investments accounted for using the equity method (Note 16)	1,876,226	5	1,709,711	5	1,588,905	5
Property, plant and equipment (Note 17)	2,921,973	8	2,822,881	8	2,852,801	8
Intangible assets (Note 18)	147,823	1	218,130	1	200,022	1
Deferred tax assets	325,696	1	310,025	1	295,222	1
Guarantee deposits paid	4,767	-	3,780	-	4,550	-
Total non-current assets	6,121,891	17	6,316,917	18	6,245,449	18
TOTAL	\$ 35,441,419	100	\$ 35,126,604	100	\$ 35,481,538	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 19)	\$ -	-	\$ -	-	\$ 181,560	1
Contract liabilities - current	40,605	-	-	-	-	-
Notes and accounts payable						
Non-related parties	2,232,366	6	1,086,707	3	1,539,498	4
Related parties (Note 31)	2,418,032	7	2,560,538	7	3,310,622	9
Other payables (Note 20)	3,738,626	11	3,736,777	11	3,911,848	11
Tax payable	438,495	1	1,092,802	3	1,015,846	3
Provisions (Note 22)	-	-	292,081	1	399,253	1
Other current liabilities (Note 21)	353,413	1	194,503	1	267,526	1
Total current liabilities	9,221,537	26	8,963,408	26	10,626,153	30
NON-CURRENT LIABILITIES						
Deferred tax liabilities	-	-	-	-	382	-
Long-term deferred revenue	11,156	-	19,710	-	-	-
Net defined benefit liabilities - non-current	88,087	-	84,897	-	75,639	-
Guarantee deposits received	144	-	274	-	274	-
Total non-current liabilities	99,387	-	104,881	-	76,295	-
Total liabilities	9,320,924	26	9,068,289	26	10,702,448	30
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 24)						
Share capital						
Common shares	1,970,740	6	1,970,740	6	1,970,740	6
Capital surplus	6,674,831	19	6,660,502	19	6,649,763	19
Retained earnings						
Legal reserve	3,418,903	10	2,842,806	8	2,842,806	8
Special reserve	-	-	25,965	-	25,965	-
Unappropriated earnings	14,579,340	41	14,521,886	41	13,239,767	37
Total retained earnings	17,998,243	51	17,390,657	49	16,108,538	45
Other equity	(523,319)	(2)	36,416	-	50,049	-
Total equity attributable to owners of the Corporation	26,120,495	74	26,058,315	74	24,779,090	70
Total equity	26,120,495	74	26,058,315	74	24,779,090	70
TOTAL	\$ 35,441,419	100	\$ 35,126,604	100	\$ 35,481,538	100

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

(With Deloitte & Touche auditors' review report dated November 13, 2018)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE								
(Note 31)								
Gross sales	\$ 11,118,898	101	\$ 11,295,121	101	\$ 30,778,319	101	\$ 31,454,349	101
Less: Sales returns and allowances	<u>123,187</u>	<u>1</u>	<u>154,983</u>	<u>1</u>	<u>248,141</u>	<u>1</u>	<u>369,554</u>	<u>1</u>
Net sales	10,995,711	100	11,140,138	100	30,530,178	100	31,084,795	100
Other operating revenue	<u>41,122</u>	<u>-</u>	<u>33,489</u>	<u>-</u>	<u>135,354</u>	<u>-</u>	<u>137,192</u>	<u>-</u>
Total operating revenue	11,036,833	100	11,173,627	100	30,665,532	100	31,221,987	100
OPERATING COSTS (Notes 12, 26 and 31)	<u>8,192,756</u>	<u>74</u>	<u>8,204,608</u>	<u>73</u>	<u>23,679,571</u>	<u>77</u>	<u>22,191,945</u>	<u>71</u>
GROSS PROFIT	<u>2,844,077</u>	<u>26</u>	<u>2,969,019</u>	<u>27</u>	<u>6,985,961</u>	<u>23</u>	<u>9,030,042</u>	<u>29</u>
OPERATING EXPENSES								
(Note 26)								
Marketing	146,196	1	111,730	1	377,079	1	376,531	1
General and administrative	126,863	1	143,350	1	329,918	1	413,653	1
Research and development	1,033,083	10	936,509	9	2,470,310	8	2,864,886	9
Recognition (reversal) of expected credit loss	<u>113</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,399)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>1,306,255</u>	<u>12</u>	<u>1,191,589</u>	<u>11</u>	<u>3,136,908</u>	<u>10</u>	<u>3,655,070</u>	<u>11</u>
OPERATING INCOME	<u>1,537,822</u>	<u>14</u>	<u>1,777,430</u>	<u>16</u>	<u>3,849,053</u>	<u>13</u>	<u>5,374,972</u>	<u>18</u>
NONOPERATING INCOME AND EXPENSES								
Other gains and losses								
(Note 26)	(11,603)	-	(38,912)	-	155,368	1	(422,930)	(1)
Share of gains of associates	(108,567)	(1)	68,352	-	(24,261)	-	332,286	1
Other income (Note 26)	61,519	1	41,700	-	129,214	-	78,958	-
Financial costs	<u>(256)</u>	<u>-</u>	<u>(1,485)</u>	<u>-</u>	<u>(3,749)</u>	<u>-</u>	<u>(4,807)</u>	<u>-</u>
Total nonoperating income and expenses	<u>(58,907)</u>	<u>-</u>	<u>69,655</u>	<u>-</u>	<u>256,572</u>	<u>1</u>	<u>(16,493)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	1,478,915	14	1,847,085	16	4,105,625	14	5,358,479	18
INCOME TAX EXPENSE								
(Notes 4 and 25)	<u>75,837</u>	<u>1</u>	<u>247,343</u>	<u>2</u>	<u>584,048</u>	<u>2</u>	<u>886,188</u>	<u>3</u>
NET PROFIT FOR THE PERIOD	<u>1,403,078</u>	<u>13</u>	<u>1,599,742</u>	<u>14</u>	<u>3,521,577</u>	<u>12</u>	<u>4,472,291</u>	<u>15</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF INCOME TAX								
Items that will not be reclassified subsequently to profit or loss:								
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	(85,659)	(1)	-	-	(160,091)	(1)	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	-	1,431	-	-	-

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	\$ (24,715)	-	\$ 7,916	-	\$ (13,152)	-	\$ 740	-
Unrealized gain on available-for-sale financial assets	-	-	904	-	-	-	76,983	-
Income tax (expense) benefit relating to items that may be reclassified subsequently to profit or loss	4,943	-	(1,345)	-	5,056	-	199	-
Other comprehensive (loss) income for the period, net of income tax	(105,431)	(1)	7,475	-	(166,756)	(1)	77,922	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 1,297,647</u>	<u>12</u>	<u>\$ 1,607,217</u>	<u>14</u>	<u>\$ 3,354,821</u>	<u>11</u>	<u>\$ 4,550,213</u>	<u>15</u>
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Corporation	\$ 1,403,078	13	\$ 1,599,742	14	\$ 3,521,577	11	\$ 4,471,973	15
Non-controlling interests	-	-	-	-	-	-	318	-
	<u>\$ 1,403,078</u>	<u>13</u>	<u>\$ 1,599,742</u>	<u>14</u>	<u>\$ 3,521,577</u>	<u>11</u>	<u>\$ 4,472,291</u>	<u>15</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Corporation	\$ 1,297,647	12	\$ 1,607,217	14	\$ 3,354,821	11	\$ 4,547,987	15
Non-controlling interests	-	-	-	-	-	-	2,226	-
	<u>\$ 1,297,647</u>	<u>12</u>	<u>\$ 1,607,217</u>	<u>14</u>	<u>\$ 3,354,821</u>	<u>11</u>	<u>\$ 4,550,213</u>	<u>15</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 27)								
Basic	<u>\$ 7.12</u>		<u>\$ 8.12</u>		<u>\$17.87</u>		<u>\$22.69</u>	
Diluted	<u>\$ 7.09</u>		<u>\$ 8.05</u>		<u>\$17.65</u>		<u>\$22.43</u>	

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

(With Deloitte & Touche auditors' review report dated November 13, 2018)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars, Except Dividends per Share)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Corporation					Other Equity			Total	Non-controlling Interests	Total Equity
	Ordinary Shares	Capital Surplus	Retained Earnings		Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income			
			Legal Reserve	Special Reserve							
BALANCE AT JANUARY 1, 2017	\$ 1,970,740	\$ 6,652,449	\$ 2,356,107	\$ 111,358	\$ 11,928,136	\$ (66,816)	\$ 40,851	\$ -	\$ 22,992,825	\$ 5,400	\$ 22,998,225
Appropriation of the 2016 earnings											
Legal reserve	-	-	486,699	-	(486,699)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(85,393)	85,393	-	-	-	-	-	-
Cash dividends - NT\$14 per share	-	-	-	-	(2,759,036)	-	-	-	(2,759,036)	-	(2,759,036)
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)	-	(2,686)
Non-controlling interests	-	-	-	-	-	-	-	-	-	(7,626)	(7,626)
Net profit for the nine months ended September 30, 2017	-	-	-	-	4,471,973	-	-	-	4,471,973	318	4,472,291
Other comprehensive income (loss) for the nine months ended September 30, 2017, net of income tax	-	-	-	-	-	(969)	76,983	-	76,014	1,908	77,922
BALANCE AT SEPTEMBER 30, 2017	\$ 1,970,740	\$ 6,649,763	\$ 2,842,806	\$ 25,965	\$ 13,239,767	\$ (67,785)	\$ 117,834	\$ -	\$ 24,779,090	\$ -	\$ 24,779,090
BALANCE AT JANUARY 1, 2018	\$ 1,970,740	\$ 6,660,502	\$ 2,842,806	\$ 25,965	\$ 14,521,886	\$ (67,147)	\$ 103,563	\$ -	\$ 26,058,315	\$ -	\$ 26,058,315
Effect of retrospective application	-	-	-	-	463,052	-	(103,563)	(316,201)	43,288	-	43,288
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	1,970,740	6,660,502	2,842,806	25,965	14,984,938	(67,147)	-	(316,201)	26,101,603	-	26,101,603
Appropriation of the 2017 earnings											
Legal reserve	-	-	576,097	-	(576,097)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(25,965)	25,965	-	-	-	-	-	-
Cash dividends - NT\$17 per share	-	-	-	-	(3,350,258)	-	-	-	(3,350,258)	-	(3,350,258)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	14,329	-	-	-	-	-	-	14,329	-	14,329
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(28,216)	-	-	28,216	-	-	-
Net profit for the nine months ended September 30, 2018	-	-	-	-	3,521,577	-	-	-	3,521,577	-	3,521,577
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of income tax	-	-	-	-	1,431	(8,096)	-	(160,091)	(166,756)	-	(166,756)
BALANCE AT SEPTEMBER 30, 2018	\$ 1,970,740	\$ 6,674,831	\$ 3,418,903	\$ -	\$ 14,579,340	\$ (75,243)	\$ -	\$ (448,076)	\$ 26,120,495	\$ -	\$ 26,120,495

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

(With Deloitte & Touche auditors' review report dated November 13, 2018)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 4,105,625	\$ 5,358,479
Adjustments for:		
Depreciation	160,322	123,327
Amortization	148,025	117,271
Recognition of refund liabilities	88,043	-
Net (gain) loss on foreign currency exchange	(87,400)	273,528
Expected credit loss reversed on trade receivables	(40,399)	-
Interest income	(37,277)	(28,913)
Dividend income	(32,470)	(29,149)
Write-down of inventories	29,076	56,605
Share of loss (profit) of associates	24,261	(332,286)
Financial costs	3,749	4,807
Gain on disposal of property, plant and equipment	(1,113)	-
Gain on disposal of associates	(389)	-
Recognition of provisions	-	247,843
Impairment loss recognized on financial assets	-	92,112
Reversal of bad debts	-	(9,486)
Other non-cash items	-	1,163
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	(22,460)	12,300
Notes and accounts receivable	173,365	(433,866)
Other receivables	(87,572)	14,312
Inventories	(392,944)	(4,259,703)
Prepayments	(110,452)	17,476
Other current assets	(9,475)	(10,705)
Contract liabilities	40,605	-
Notes and accounts payable	1,025,640	985,664
Other payables	3,768	766,046
Deferred revenue	(8,554)	-
Provisions	-	(192,666)
Other current liabilities	(240,750)	25,178
Net defined benefit liabilities	3,190	2,914
Cash generated from operations	4,734,414	2,802,251
Interest paid	(3,749)	(5,119)
Income tax paid	(1,265,759)	(678,559)
Net cash generated from operating activities	<u>3,464,906</u>	<u>2,118,573</u>

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	\$ (2,006,058)	\$ (49,675)
Proceeds from financial assets at fair value through profit or loss	1,501,274	2,024
Payment for property, plant and equipment	(239,250)	(545,706)
Acquisition of associates	(177,440)	-
Purchase of financial assets at fair value through other comprehensive income	(102,854)	-
Payment for intangible assets	(77,817)	(95,031)
Proceeds from capital reduction of financial assets at fair value through profit or loss	69,855	-
Interest received	37,623	28,138
Dividends received	32,470	29,149
Proceeds from sale of financial assets at amortized cost	13,612	-
Proceeds from sale of financial assets at fair value through other comprehensive income	3,004	-
Proceeds from disposal of property, plant and equipment	1,328	-
(Increase) decrease in refundable deposits	(987)	6,775
Net cash inflow on disposal of associates	396	-
Purchase of financial assets measured at cost	-	(234,659)
Increase in debt investments with no active market	-	(20,984)
Net cash used in investing activities	<u>(944,844)</u>	<u>(879,969)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits	(130)	(40)
Decrease in short-term borrowings	-	(399,099)
Decrease in non-controlling interests	-	(10,312)
Dividends paid	<u>(3,350,258)</u>	<u>(2,759,036)</u>
Net cash used in financing activities	<u>(3,350,388)</u>	<u>(3,168,487)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>87,596</u>	<u>(293,064)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(742,730)	(2,222,947)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>14,142,389</u>	<u>14,958,331</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 13,399,659</u>	<u>\$ 12,735,384</u>

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

(With Deloitte & Touche auditors' review report dated November 13, 2018)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

Phison Electronics Corp. (the “Corporation”) was incorporated on November 8, 2000 under the Company Act of the Republic of China (“ROC”). The Corporation mainly designs and sells flash memory controllers and peripheral system applications.

The Corporation’s shares have been traded on the Taipei Exchange (for over-the-counter trading in Taiwan) since December 6, 2004.

The consolidated financial statements of the Corporation and its subsidiaries, hereto forth collectively referred to as the “Group”, are presented in the Corporation’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on November 13, 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) IFRS 9 “Financial Instruments” and related amendments

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

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets retrospectively and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Group's financial assets as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 14,142,389	\$ 14,142,389	(a)
Equity securities	Available for sale	Mandatorily at FVTPL	778,478	784,451	(b)
	Available for sale	FVTOCI - equity instruments	473,912	511,227	(b)
	Held for trading	Mandatorily at FVTPL	67,095	67,095	-
Beneficiary certificates - open-end funds	Held for trading	Mandatorily at FVTPL	1,150,400	1,150,400	(c)
Convertible bonds	Designated as at FVTPL	Mandatorily at FVTPL	53,722	53,722	(d)
Financial assets pledged as collateral	Loans and receivables	Amortized cost	80,534	80,534	(a)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	6,020,054	6,020,054	(a)
Guarantee deposits paid	Loans and receivables	Amortized cost	3,780	3,780	(a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	\$ 1,271,217	\$ -	\$ -	\$ 1,271,217	\$ -	\$ -	
Add: Reclassification from available-for-sale (IAS 39)							
Required reclassification	-	778,478	5,973	784,451	109,536	(103,563)	(b)
	<u>1,271,217</u>	<u>778,478</u>	<u>5,973</u>	<u>2,055,668</u>	<u>109,536</u>	<u>(103,563)</u>	
FVTOCI	-	-	-	-	-	-	
Add: Reclassification from available-for-sale (IAS 39)		473,912	37,315	511,227	353,516	(316,201)	(b)
	-	<u>473,912</u>	<u>37,315</u>	<u>511,227</u>	<u>353,516</u>	<u>(316,201)</u>	
	<u>\$ 1,271,217</u>	<u>\$ 1,252,390</u>	<u>\$ 43,288</u>	<u>\$ 2,566,895</u>	<u>\$ 463,052</u>	<u>\$ (419,764)</u>	

- a) Cash and cash equivalents, financial assets pledged as collateral, notes receivable, accounts receivable, other receivables and guarantee deposits paid that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.
- b) The Group elected to classify all of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL under IFRS 9. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of \$103,563 thousand was reclassified to retained earnings.

Investments in unlisted shares previously measured at cost under IAS 39 have been classified at FVTPL and designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of \$5,973 thousand was recognized in both financial assets at FVTPL and retained earnings. An increase of \$37,315 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of \$353,516 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of \$353,516 thousand in retained earnings on January 1, 2018.

- c) Beneficiary certificates - open-end funds previously classified as held-for-trading under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.
- d) Convertible bonds previously classified as at FVTPL under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers and supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for related accounting policies.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete on January 1, 2018 and not restate prior reporting periods. The cumulative effect of the initial application of this standard was retrospectively recognized at the date of initial application.

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 as of January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017 (IAS 18 and Related Explanations)	Adjustments Arising from Initial Application	Carrying Amount as of January 1, 2018 (IFRS 15)
Provisions - current	\$ 292,081	\$ (292,081)	\$ -
Other current liabilities	194,503	<u>292,081</u>	486,584
Total effect on liabilities		<u>\$ -</u>	

Prior to the application of IFRS 15, estimated sales returns and allowances were recognized in provisions of sales returns and allowances. After the application of IFRS 15, it is recognized in refund liabilities (other current liabilities).

The impact of if the Corporation were to continue applying IAS 18 in 2018 instead of IFRS 15 is shown below.

Impact on assets, liabilities and equity for the current period

	September 30, 2018
Increase in provisions - current	\$ 209,108
Decrease in other current liabilities	<u>(209,108)</u>
Increase (decrease) in liabilities	<u>\$ -</u>

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

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

Note 3: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 “Leases”

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

Definition of a lease

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

The Group as lessee

Upon initial application of IFRS 16, the Group 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. 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 using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases under IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

- 1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- 2) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- 3) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- 4) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Group as lessor

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

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

Note 2: The Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These interim consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IAS 34 “Interim Financial Reporting” as endorsed and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments which are measured at fair values, and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. 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
- c. Level 3 inputs are unobservable inputs for an asset or liability.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries, including structured entities). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation. 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 Corporation 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 Group’s interests 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 Corporation.

See Note 15 and Tables 5 and 6 following the Notes to Consolidated Financial Statements for detailed information on subsidiaries (including the percentages of ownership and main businesses).

Other Significant Accounting Policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2017. For the summary of other significant accounting policies, refer to the consolidated financial statements for the year ended December 31, 2017.

a. Financial instruments

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

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

1) Financial assets

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

a) Measurement category

2018

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

i. Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 30.

ii. Financial assets at amortized cost

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

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

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

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

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

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.

iii. Investments in equity instruments at FVTOCI

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

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

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

2017

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

i. Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when such financial assets are either held for trading or designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 30.

ii. 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.

iii. Loans and receivables

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

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

b) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) at the end of each reporting period.

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For other financial assets, when the credit risk has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events of the financial instruments within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events over the expected life of the financial instruments.

Expected credit losses are the weighted average credit losses with the probability of default as the weight. The portion of expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date are 12-month expected credit losses. Lifetime expected credit losses are the expected credit losses that arise if debtors default on their obligations at some time during the life of a financial instrument.

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

2017

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

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

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

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

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

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

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets, with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade 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 that are written off against the allowance account.

c) Derecognition of financial assets

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

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

2) Equity instruments

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

3) Financial liabilities

a) Recognition and measurement

On initial recognition, the transaction costs of financial assets that are neither held for trading nor designated as at FVTPL (including short-term borrowing, trade and notes payables, other payables and guarantee deposits received) are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities. Subsequent valuation is measured at amortized cost determined by the effective interest method.

b) Derecognition of financial liabilities

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

b. Revenue recognition

2018

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

Revenue from sale of goods

Revenue from the sale of goods comes from the sale of flash memory controllers, peripheral systems and other applications. Sales of the aforementioned goods are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

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 the materials' ownership.

2017

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.

Sale of goods

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

- 1) The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- 2) The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 3) The amount of revenue can be measured reliably;
- 4) It is probable that the economic benefits associated with the transaction will flow to the Group; and
- 5) 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 the materials' ownership.

Specifically, sales of goods are recognized when goods are delivered and titles have passed to the buyer.

c. Retirement benefits

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

d. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amount 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 financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about the risk of defaults and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, which are based on the Group's historical experience, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 11. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss on trade receivables, the Group takes into consideration the estimation of the future cash flows of such receivables. The amount of impairment loss is measured as the difference between such 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.

c. Inventory write-downs

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 is 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.

d. Estimated refund liabilities - under provisions for sales returns and allowances in 2017

Provisions for sales returns and allowances refer to the Group's best estimate of the future outflow of the economic resources that will be required for the settlement of the Group's obligations. Such estimate is made on the basis of historical experience, management's judgment and any known factors that would significantly affect sales returns and allowances. Changes in market conditions may have a material impact on the estimation of provisions.

6. CASH AND CASH EQUIVALENTS

	September 30, 2018	December 31, 2017	September 30, 2017
Cash on hand	\$ 112	\$ 102	\$ 99
Checking accounts and demand deposits	8,633,336	9,638,350	8,630,007
Cash equivalents			
Time deposits with original maturities of less than 3 months	<u>4,766,211</u>	<u>4,503,937</u>	<u>4,105,278</u>
	<u>\$ 13,399,659</u>	<u>\$ 14,142,389</u>	<u>\$ 12,735,384</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Non-derivative financial assets - current</u>			
Financial assets at FVTPL			
Convertible bonds	<u>\$ -</u>	<u>\$ 53,722</u>	<u>\$ 49,675</u>
Financial assets held for trading			
Beneficiary certificates - open-end funds	-	1,150,400	1,148,581
Domestic quoted shares	<u>-</u>	<u>67,095</u>	<u>64,752</u>
	<u>-</u>	<u>1,217,495</u>	<u>1,213,333</u>
Financial assets mandatorily at FVTPL			
Beneficiary certificates - open-end funds	1,676,945	-	-
Domestic quoted shares	<u>441,807</u>	<u>-</u>	<u>-</u>
	<u>2,118,752</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,118,752</u>	<u>\$ 1,271,217</u>	<u>\$ 1,263,008</u>
<u>Non-derivative financial assets - non-current</u>			
Financial assets mandatorily at FVTPL			
Private equity funds	\$ 47,347	\$ -	\$ -
Domestic unlisted shares	255,041	-	-
Overseas unlisted shares	<u>92,032</u>	<u>-</u>	<u>-</u>
	<u>\$ 394,420</u>	<u>\$ -</u>	<u>\$ -</u>

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT - 2018

Investments in Equity Instruments at FVTOCI

	September 30, 2018
Domestic investments - unlisted shares	\$ 161,628
Overseas investments - unlisted shares	<u>289,358</u>
	<u>\$ 450,986</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3 and 14 for information relating to their reclassification and comparative information for 2017.

In 2018, the Group paid \$102,854 thousand to acquire common shares of domestic and foreign unlisted entities for medium- to long-term strategic purposes; the management designated these investments as at FVTOCI.

In 2018, some of the Group's foreign unlisted investments completed liquidation processes. The related financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI of \$28,216 thousand were transferred to retained earnings.

9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT - 2018

	September 30, 2018
Certificates of deposit	\$ 56,922
Time deposits with original maturity of more than 3 months	<u>10,000</u>
	<u>\$ 66,922</u>

The interest rates for time deposits with original maturity of more than 3 months were from 0.13% as at the end of the reporting period.

See Note 33 for more information on certificates of financial assets at amortized cost.

10. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT - 2017

	December 31, 2017	September 30, 2017
Certificates of deposit	<u>\$ 80,534</u>	<u>\$ 79,713</u>

See Note 33 for more information on certificates of deposit.

11. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Notes receivable</u>			
Notes receivable - operating	\$ _____ -	\$ _____ 4	\$ _____ -
<u>Accounts receivable</u>			
At amortized cost			
Gross carrying amount - non-related parties	\$ 5,456,746	\$ 5,598,693	\$ 5,189,052
Gross carrying amount - related parties	<u>254,651</u>	<u>318,151</u>	<u>230,861</u>
	5,711,397	5,916,844	5,419,913
Less: Loss allowance	<u>(143,256)</u>	<u>(185,393)</u>	<u>(152,947)</u>
Notes and accounts receivable, net	<u>\$ 5,568,141</u>	<u>\$ 5,731,451</u>	<u>\$ 5,266,966</u>
<u>Other receivables</u>			
Income tax refund receivable	\$ 281,665	\$ 116,866	\$ 260,734
Factored accounts receivable	72,959	147,526	90,485
Others	<u>21,958</u>	<u>24,207</u>	<u>24,270</u>
Other receivables	<u>\$ 376,582</u>	<u>\$ 288,599</u>	<u>\$ 375,489</u>

Accounts Receivable - Trade

For the nine months ended September 30, 2018

The average credit period of sales of goods was 30 to 90 days. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Corporation has delegated staff 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 an adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk is significantly reduced.

The Group applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected credit losses allowance for all trade receivables. The expected credit losses on trade receivables are estimated using an allowance matrix by reference to past default experience with the respective debtors and an analysis of each debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Group's historical credit losses experience does not show significantly different loss patterns for different customer segments, the loss allowance, which is based on the past due status of receivables, is not further distinguished according to different segments of the Group's customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery, e.g. the earlier of either when the debtor has been placed under liquidation or when the trade receivables are over two years past due. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables - non-related parties based on the Group's allowance matrix.

September 30, 2018

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Expected credit losses rate	1.57%	13.64%	19.39%	26.79%	61.45%	100%	
Gross carrying amount	\$ 5,077,962	\$ 308,069	\$ 30,410	\$ 23,068	\$ 11,550	\$ 5,687	\$ 5,456,746
Loss allowance (lifetime expected credit losses)	<u>(81,285)</u>	<u>(37,645)</u>	<u>(5,916)</u>	<u>(6,068)</u>	<u>(6,785)</u>	<u>(5,557)</u>	<u>(143,256)</u>
Amortized cost	<u>\$ 4,996,677</u>	<u>\$ 270,424</u>	<u>\$ 24,494</u>	<u>\$ 17,000</u>	<u>\$ 4,765</u>	<u>\$ 130</u>	<u>\$ 5,313,490</u>

The movements of the loss allowance of trade receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	\$ 185,393
Adjustment on initial application of IFRS 9	<u>-</u>
Balance at January 1, 2018 per IFRS 9	185,393
Less: Provision (Reversal) of loss allowance	(40,399)
Less: Amounts written off	(1,647)
Foreign exchange gains and losses	<u>(91)</u>
Balance at September 30, 2018	<u>\$ 143,256</u>

The factored accounts receivable were as follows:

	(In Thousands)				
Factor	Factored Amount	Collected Amount	Prepayments	Discount Rate (%)	Factored Limit
For the nine months ended <u>September 30, 2018</u>					
HSBC Bank	US\$ 35,037	US\$ 31,957	\$ -	-	US\$ 12,200
For the nine months ended <u>September 30, 2017</u>					
HSBC Bank	US\$ 29,757	US\$ 26,320	-	-	US\$ 12,350

Note: Recorded under other receivables.

The limit above was used on a revolving basis.

The factor was HSBC Bank (Taiwan) Limited. This sale was without recourse.

September 30, 2017

The Group applied the same credit policy in 2018 and 2017. For some trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was no significant change in credit quality and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances.

The aging of receivables was as follows:

	December 31, 2017	September 30, 2017
Not past due	\$ 5,457,310	\$ 5,120,860
1-60 days	406,230	242,779
61-90 days	429	85
91-120 days	38,566	41,428
More than 120 days	<u>14,309</u>	<u>14,761</u>
	<u>\$ 5,916,844</u>	<u>\$ 5,419,913</u>

The above aging schedule was based on the number of days past the end of the credit term.

The Group had no receivables that were past due but not impaired.

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2017	\$ -	\$ 161,680	\$ 161,680
Add: Impairment losses reversed	-	(9,486)	(9,486)
Exchange differences	<u>-</u>	<u>753</u>	<u>753</u>
Balance at September 30, 2017	<u>\$ -</u>	<u>\$ 152,947</u>	<u>\$ 152,947</u>

The Group individually recognized impairment losses on trade receivables of \$0 as of both December 31, 2017 and September 30, 2017. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The Group had no collateral for these receivables.

12. INVENTORIES

	September 30, 2018	December 31, 2017	September 30, 2017
Raw materials	\$ 4,289,187	\$ 3,941,530	\$ 5,439,821
Work-in-process	2,417,901	1,295,526	2,172,004
Semifinished products	813,977	1,883,751	1,725,228
Finished goods	34,019	71,539	88,342
Merchandise	<u>1,166</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,556,250</u>	<u>\$ 7,192,346</u>	<u>\$ 9,425,395</u>

The costs of inventories recognized as cost of goods sold for the three months and nine months ended September 30, 2018 and 2017 were \$8,192,756 thousand, \$8,204,608 thousand, \$23,679,571 thousand and \$22,191,945 thousand, respectively.

The costs of goods sold for the three months and nine months ended September 30, 2018 and 2017 included write-down of inventories for \$53,272 thousand, \$2,864 thousand, \$29,076 thousand and \$56,605 thousand, respectively.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT - 2017

	December 31, 2017	September 30, 2017
<u>Private equity</u>		
Domestic listed, common shares	<u>\$ 434,763</u>	<u>\$ 449,034</u>

The Corporation obtained shares issued by Apacer Technology Inc. in a private placement. Under Article 43-8 of the Securities and Exchange Act, the transfer of these shares is restricted.

14. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT - 2017

	December 31, 2017	September 30, 2017
Domestic unlisted common shares	\$ 362,838	\$ 377,524
Overseas unlisted common shares	394,789	417,391
Domestic private equity funds	<u>60,000</u>	<u>60,000</u>
	<u>\$ 817,627</u>	<u>\$ 854,915</u>
Classified according to categories		
Available-for-sale	<u>\$ 817,627</u>	<u>\$ 854,915</u>

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

15. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The main structure of consolidated financial statements is as follows:

Investor	Investee	Main Businesses and Products	Investment Percentage			Note
			September 30, 2018	December 31, 2017	September 30, 2017	
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	100.00	Remark 1
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	100.00	Remark 1
	Emtops Electronics Corp.	Sales of flash memory controllers and peripheral system applications products	100.00	100.00	100.00	Remark 1

(Continued)

Investor	Investee	Main Businesses and Products	Investment Percentage			Note
			September 30, 2018	December 31, 2017	September 30, 2017	
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	100.00	100.00	100.00	Remark 1
	Global Flash Limited	Investment and trade	100.00	100.00	100.00	Remark 1
	Power Flash (Samoa) Limited	Investment and trade	100.00	100.00	100.00	Remark 1
	Everspeed Technology Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1
	Regis Investment (Samoa) Limited	Investment	100.00	-	-	Remarks 1 and 2
Global Flash Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	100.00	100.00	100.00	Remark 1
	Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	100.00	Remark 1
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.	100.00	100.00	100.00	Remark 1
Hefei Core Storage Electronic Limited	Hefei Yichao Electronics Technology Ltd.	Design, R&D and sale of electronic products and technical support service and rendering of related services.	100.00	-	-	Remarks 1 and 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	100.00	100.00	100.00	Remark 1
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100.00	100.00	100.00	Remark 1
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100.00	100.00	100.00	Remark 1
Everspeed Technology Limited	Memoryexchange Corporation	Production and sale of flash memory related products	100.00	100.00	100.00	Remark 1
	Cloud Solution Global Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1
	Fast Choice Global Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100.00	-	-	Remarks 1 and 2
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services.	100.00	-	-	Remarks 1 and 2

(Concluded)

Remark 1: The financial statements of the non-significant subsidiaries indicated above for the periods indicated above have not been reviewed.

Remark 2: For the nine months ended September 30, 2018, Regis Investment (Samoa) Limited was incorporated in Samoa for operational purposes, and its reinvestment entity, RealYou Investment Limited, was incorporated in Hong Kong; the reinvestment entity of RealYou Investment Limited, Hefei Ruhan Electronic Technology Limited, was incorporated in Hefei.

Remark 3: For the nine months ended September 30, 2018, the reinvestment entity of Hefei Core Storage Electronic Limited, Hefei Yichao Electronics Technology Ltd., was incorporated in Hefei for operational purposes.

- b. Subsidiaries excluded from the consolidated financial statements: None.
- c. During the preparation of the consolidated financial statements, the substantial transactions between the consolidated entities are entirely written off.

16. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments in Associates	September 30, 2018	December 31, 2017	September 30, 2017
<u>Unlisted shares</u>			
Material associates			
Kingston Solutions Inc.	\$ 1,636,226	\$ 1,623,790	\$ 1,492,758
Associates that are not individually material			
Epostar Electronics (BVI) Corporation	21,234	47,741	53,581
Microtops Design Corporation (“Microtops”)	23,210	21,563	26,132
PMS Technology Corporation	17,897	16,617	16,434
Hefei Xinpeng Technology Co., Ltd.	<u>177,659</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,876,226</u>	<u>\$ 1,709,711</u>	<u>\$ 1,588,905</u>

Material Joint Ventures

Name of Associate	September 30, 2018	December 31, 2017	September 30, 2017
Kingston Solutions Inc.	32.91%	32.91%	32.91%

Refer to Table 5 “Information on Investees” following the Notes to Consolidated Financial Statements for the nature of activities, principal places of business and countries of incorporation of the associates.

Flexmedia Electronics Corporation held a shareholders’ meeting on February 25, 2016, to approve liquidation, and completed liquidation processes on August 29, 2018.

The calculation of the investments accounted for using the equity method and the Group’s share of profit or loss and other comprehensive income of those investments for the nine months ended September 30, 2018 and 2017 were based on financial statements that have not been reviewed.

17. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>								
Balance at January 1, 2017	\$ 813,738	\$ 28,775	\$ 1,142,341	\$ 334,472	\$ 40,787	\$ 46,484	\$ 390,000	\$ 2,796,597
Additions	-	-	82,635	90,035	13,816	12,907	351,000	550,393
Disposals	-	-	-	(28,491)	(8,167)	(6,080)	-	(42,738)
Effects of foreign currency exchange differences	-	-	-	390	(78)	(672)	-	(360)
Reclassification	-	-	741,000	24,059	(370)	(23,980)	(741,000)	(291)
Balance at September 30, 2017	<u>\$ 813,738</u>	<u>\$ 28,775</u>	<u>\$ 1,965,976</u>	<u>\$ 420,465</u>	<u>\$ 45,988</u>	<u>\$ 28,659</u>	<u>\$ -</u>	<u>\$ 3,303,601</u>
<u>Accumulated depreciation</u>								
Balance at January 1, 2017	\$ -	\$ 17,242	\$ 187,260	\$ 133,845	\$ 19,078	\$ 12,721	\$ -	\$ 370,146
Disposals	-	-	-	(28,491)	(8,167)	(6,080)	-	(42,738)
Depreciation	-	2,763	32,062	76,125	9,426	2,951	-	123,327
Effects of foreign currency exchange differences	-	-	-	106	(17)	(24)	-	65
Balance at September 30, 2017	<u>\$ -</u>	<u>\$ 20,005</u>	<u>\$ 219,322</u>	<u>\$ 181,585</u>	<u>\$ 20,320</u>	<u>\$ 9,568</u>	<u>\$ -</u>	<u>\$ 450,800</u>
Balance at September 30, 2017, net	<u>\$ 813,738</u>	<u>\$ 8,770</u>	<u>\$ 1,746,654</u>	<u>\$ 238,880</u>	<u>\$ 25,668</u>	<u>\$ 19,091</u>	<u>\$ -</u>	<u>\$ 2,852,801</u>

(Continued)

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
Cost								
Balance at January 1, 2018	\$ 813,738	\$ 28,775	\$ 1,965,976	\$ 414,707	\$ 46,685	\$ 30,322	\$ -	\$ 3,300,203
Additions	-	-	27,409	205,787	12,499	13,086	-	258,781
Disposals	-	(5,095)	-	(27,313)	(10,143)	(95)	-	(42,646)
Effects of foreign currency exchange difference	-	-	-	(1,297)	(186)	(80)	-	(1,563)
Reclassification	-	-	-	1,585	-	-	-	1,585
Balance at September 30, 2018	<u>\$ 813,738</u>	<u>\$ 23,680</u>	<u>\$ 1,993,385</u>	<u>\$ 593,469</u>	<u>\$ 48,855</u>	<u>\$ 43,233</u>	<u>\$ -</u>	<u>\$ 3,516,360</u>
Accumulated depreciation								
Balance at January 1, 2018	\$ -	\$ 20,926	\$ 233,074	\$ 188,492	\$ 23,543	\$ 11,287	\$ -	\$ 477,322
Disposals	-	(5,095)	-	(27,134)	(10,106)	(96)	-	(42,431)
Depreciation	-	2,710	42,029	96,830	11,989	6,764	-	160,322
Effects of foreign currency exchange difference	-	-	-	(658)	(138)	(30)	-	(826)
Balance at September 30, 2018	<u>\$ -</u>	<u>\$ 18,541</u>	<u>\$ 275,103</u>	<u>\$ 257,530</u>	<u>\$ 25,288</u>	<u>\$ 17,925</u>	<u>\$ -</u>	<u>\$ 594,387</u>
Balance at September 30, 2018, net	<u>\$ 813,738</u>	<u>\$ 5,139</u>	<u>\$ 1,718,282</u>	<u>\$ 335,939</u>	<u>\$ 23,567</u>	<u>\$ 25,308</u>	<u>\$ -</u>	<u>\$ 2,921,973</u>

(Concluded)

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

Land improvements	7 years
Buildings	20-50 years
Buildings - electrical engineering	20 years
Testing equipment	3 years
Office equipment	3 years
Other equipment	3-5 years

18. INTANGIBLE ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
Computer software	\$ 111,463	\$ 153,511	\$ 133,556
Technology license fees	<u>36,360</u>	<u>64,619</u>	<u>66,466</u>
	<u>\$ 147,823</u>	<u>\$ 218,130</u>	<u>\$ 200,022</u>

Except for the above amortization recognized, the Group had no significant additions to, disposals of, and impairment of intangible assets for the three months ended and nine months ended September 30, 2018 and 2017.

The above items of intangible assets are amortized on a straight-line basis over the following estimated useful lives of the assets:

Computer software	1-5 years
Technology license fees	1-8 years

19. BORROWINGS

Short-term Borrowings

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Unsecured borrowings</u>			
Bank loans	\$ <u> -</u>	\$ <u> -</u>	\$ <u>181,560</u>
Interest rate (%)	-	-	1.58
Due date	-	-	2017.11.7

20. OTHER PAYABLES

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Other payables</u>			
Salaries and bonuses payable	\$ 2,399,109	\$ 2,598,177	\$ 2,750,188
Others	<u>1,339,517</u>	<u>1,138,600</u>	<u>1,161,660</u>
	<u>\$ 3,738,626</u>	<u>\$ 3,736,777</u>	<u>\$ 3,911,848</u>

21. OTHER LIABILITIES

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Current</u>			
Other payables			
Refund liabilities (Note 22)	\$ 209,108	\$ -	\$ -
Payables for purchases of equipment	30,952	11,416	15,011
Receipts under custody	36,364	88,771	82,907
Others	<u>76,989</u>	<u>94,316</u>	<u>169,608</u>
	<u>\$ 353,413</u>	<u>\$ 194,503</u>	<u>\$ 267,526</u>

22. PROVISIONS - CURRENT

	September 30, 2018	December 31, 2017	September 30, 2017
Sales returns and allowances	\$ <u> -</u>	\$ <u>292,081</u>	\$ <u>399,253</u>

	For the Nine Months Ended September 30, 2017
Balance at January 1	\$ 344,076
Additional provisions recognized	247,843
Usage	<u>(192,666)</u>
Balance at September 30	<u>\$ 399,253</u>

Prior to 2017, provisions for sales returns and allowances are estimated based on historical experience, management's judgment, and any known factors that would significantly affect returns and allowances and are recognized as a reduction of revenue in the same period of the related product sales.

The Corporation started the application of IFRS 15 in 2018, and the estimated sales returns and provisions are recognized as refund liabilities (other current liabilities).

23. RETIREMENT BENEFIT PLANS

Employee benefits expenses for the three months ended and nine months ended September 30, 2018 and 2017 in respect of the Group's defined benefit retirement plans were \$1,536 thousand, \$1,441 thousand, \$4,607 thousand and \$4,324 thousand, respectively, and were calculated using the actuarially determined pension cost discount rate from the end of the prior financial years ended December 31, 2017 and 2016.

24. EQUITY

a. Share capital

Common shares

	September 30, 2018	December 31, 2017	September 30, 2017
Number of shares authorized (in thousands)	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>
Amount of shares authorized	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>
Number of shares issued and fully paid (in thousands)	<u>197,074</u>	<u>197,074</u>	<u>197,074</u>
Amount of shares issued	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>

On November 10, 2016, an employee share option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in the FSC's issued document No. 1050049740 and will take effect starting from December 6, 2016. In accordance with Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2016, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities. The employee share options were not issued because a very high cost of issuance would be incurred. The employee share options cannot be issued after December 5, 2017.

On November 13, 2017, an employee share option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in the FSC's issued document No. 1060047052 and will take effect starting from December 5, 2017. In accordance with Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2017, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities.

Fully paid common shares, which have a par value of NT\$10, carry one vote per share and carry a right to dividends.

Of the Corporation's authorized capital shares, 16,000 thousand shares were reserved for the issuance of employee share options.

b. Capital surplus

	September 30, 2018	December 31, 2017	September 30, 2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*			
Issuance of common shares	\$ 6,237,434	\$ 6,237,434	\$ 6,237,434
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758	148,758
<u>May only be used to offset a deficit only</u>			
Expired share options	227	227	227
<u>May not be used for any purpose</u>			
Share of changes in capital surplus of associates or joint ventures	<u>288,412</u>	<u>274,083</u>	<u>263,344</u>
	<u>\$ 6,674,831</u>	<u>\$ 6,660,502</u>	<u>\$ 6,649,763</u>

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

c. Retained earnings and dividend policy

Under the dividends policy as set forth in the amended Articles, where the Corporation 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 Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, refer to Note 26 (e) "employees' compensation and remuneration of directors and supervisors".

The Corporation's dividend distribution policy takes into consideration the current and future investment environment, capital requirements, domestic and international competition, capital budget plans, shareholders' interests, the balance between retained earnings and dividends, and the Corporation's long-term financial plans. In accordance with the laws and regulations, the board of directors propose a distribution plan on an annual basis, which should be resolved in the shareholder's meeting. Profit may be distributed as cash or share dividends; however, cash dividends should be at least 10% of the total distribution.

The Corporation appropriates or reverses a special reserve in accordance with Rule No. 1010012865 issued by the Financial Supervisory Commission. Distributions can be made out of any subsequent reversal of the debit to other equity items.

A legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2017 and 2016 were approved in the shareholders' meeting on June 8, 2018 and June 13, 2017, respectively, and were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2017	For Year 2016	For Year 2017	For Year 2016
Legal reserve	\$ 576,097	\$ 486,699		
Reversal from special reserve	(25,965)	(85,393)		
Cash dividends	3,350,258	2,759,036	\$17	\$14

d. Other equity items

1) Exchange differences on translating the financial statements of foreign operations

	For the Nine Months Ended September 30	
	2018	2017
Balance at January 1	\$ (67,147)	\$ (66,816)
Effect of change in tax rate	2,426	-
Exchange differences on translating foreign operations	(13,152)	(1,168)
Related income tax	<u>2,630</u>	<u>199</u>
Balance at September 30	<u>\$ (75,243)</u>	<u>\$ (67,785)</u>

2) Unrealized gain (loss) on available-for-sale financial assets

Balance at January 1, 2017	\$ 40,851
Unrealized gain arising on revaluation of available-for-sale financial assets	<u>76,983</u>
Balance at September 30, 2017	<u>\$ 117,834</u>
Balance at January 1, 2018 per IAS 39	\$ 103,563
Adjustment on initial application of IFRS 9	<u>(103,563)</u>
Balance at January 1, 2018 per IFRS 9	<u>\$ -</u>

3) Unrealized gain (loss) on financial assets at FVTOCI

	For the Nine Months Ended September 30, 2018
Balance at January 1 per IAS 39	\$ -
Adjustment on initial application of IFRS 9	<u>(316,201)</u>
Balance at January 1 per IFRS 9	(316,201)
Recognized during the period	
Unrealized gain (loss) - equity instruments	(160,091)
Cumulative unrealized gain (loss) on equity instruments transferred to retained earnings due to disposals	<u>28,216</u>
Balance at September 30	<u>\$ (448,076)</u>

e. Non-controlling interests

	For the Nine Months Ended September 30	
	2018	2017
Balance at January 1	\$ -	\$ 5,400
Acquisition of non-controlling interests in subsidiaries of Phisontech Electronics (Malaysia) Sdn. Bhd. (Note 28)	-	(7,626)
Attributable to non-controlling interests:		
Share of gains for the period	-	318
Exchange difference on translating foreign operations	<u>-</u>	<u>1,908</u>
Balance at September 30	<u>\$ -</u>	<u>\$ -</u>

25. INCOME TAXES

a. Income tax recognized in profit or loss:

The major components of tax expense (benefit) were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Current tax				
In respect of the current period	\$ 281,340	\$ 256,274	\$ 571,651	\$ 789,449
Adjustments for prior periods	(163,846)	4,069	(163,721)	2,514
Income tax expense of unappropriated earnings	<u>-</u>	<u>-</u>	<u>185,370</u>	<u>170,460</u>
	117,494	260,343	593,300	962,423
Deferred tax				
In respect of the current period	(41,657)	(13,000)	40,685	(76,235)
Effect of change in tax rate	<u>-</u>	<u>-</u>	<u>(49,937)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 75,837</u>	<u>\$ 247,343</u>	<u>\$ 584,048</u>	<u>\$ 886,188</u>

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax benefit (expense) recognized in other comprehensive income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
<u>Deferred income tax</u>				
Effect of change in tax rate	\$ -	\$ -	\$ 3,857	\$ -
Recognized in other comprehensive income				
Translation of foreign operations	<u>4,943</u>	<u>(1,345)</u>	<u>2,630</u>	<u>199</u>
Total income tax expense (benefit) recognized in other comprehensive income	<u>\$ 4,943</u>	<u>\$ (1,345)</u>	<u>\$ 6,487</u>	<u>\$ 199</u>

c. Income tax assessments

Associate	For the Year Ended
Phison Electronics Corp.	2016
Lian Xu Dong Investment Corporation	2016
Emtops Electronics Corp.	2016
Ostek Corporation	2016
Phisontech Electronics Taiwan Corp.	2016
Memoryexchange Corporation	2016

26. NET PROFIT AND OTHER COMPREHENSIVE INCOME

The following items were included in the net profit:

a. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Fair value changes of financial assets and financial liabilities				
Financial assets mandatorily at FVTPL	\$ (37,480)	\$ -	\$ 22,460	\$ -
Net foreign exchange gains (losses)	24,689	1,067	131,335	(318,021)
Impairment losses recognized on financial assets	-	(48,248)	-	(92,112)

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Gains (losses) on financial assets held for trading	\$ -	\$ 8,231	\$ -	\$ (12,300)
Others	<u>1,188</u>	<u>38</u>	<u>1,573</u>	<u>(497)</u>
	<u>\$ (11,603)</u>	<u>\$ (38,912)</u>	<u>\$ 155,368</u>	<u>\$ (422,930)</u>

(Concluded)

b. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Interest income				
Bank deposits	\$ 9,503	\$ 8,884	\$ 34,155	\$ 28,913
Convertible bonds	3,122	-	3,122	-
Dividend income	29,062	27,350	32,470	29,149
Rental income	348	627	1,228	1,902
Others	<u>19,484</u>	<u>4,839</u>	<u>58,239</u>	<u>18,994</u>
	<u>\$ 61,519</u>	<u>\$ 41,700</u>	<u>\$ 129,214</u>	<u>\$ 78,958</u>

c. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Property, plant and equipment	\$ 58,124	\$ 45,780	\$ 160,322	\$ 123,327
Intangible assets	<u>45,965</u>	<u>43,192</u>	<u>148,025</u>	<u>117,271</u>
	<u>\$ 104,089</u>	<u>\$ 88,972</u>	<u>\$ 308,347</u>	<u>\$ 240,598</u>
Depreciation				
Recognized in				
Operating costs	\$ 11,293	\$ 11,958	\$ 34,466	\$ 25,739
Operating expenses	<u>46,831</u>	<u>33,822</u>	<u>125,856</u>	<u>97,588</u>
	<u>\$ 58,124</u>	<u>\$ 45,780</u>	<u>\$ 160,322</u>	<u>\$ 123,327</u>
Amortization				
Recognized in				
General and administrative	\$ 2,131	\$ 2,241	\$ 5,912	\$ 6,292
Research and development	<u>43,834</u>	<u>40,951</u>	<u>142,113</u>	<u>110,979</u>
	<u>\$ 45,965</u>	<u>\$ 43,192</u>	<u>\$ 148,025</u>	<u>\$ 117,271</u>

d. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 852,063	\$ 902,855	\$ 2,139,201	\$ 2,725,828
Post-employment benefits				
Defined contribution plan	20,810	17,368	59,058	50,805
Defined benefit plan	1,536	1,441	4,607	4,324
	<u>22,346</u>	<u>18,809</u>	<u>63,665</u>	<u>55,129</u>
Other employee benefits				
Employee welfare	14,761	14,452	41,624	40,656
Food stipend	10,448	9,228	30,296	27,188
	<u>25,209</u>	<u>23,680</u>	<u>71,920</u>	<u>67,844</u>
Termination benefits	<u>55</u>	<u>-</u>	<u>55</u>	<u>-</u>
	<u>\$ 899,673</u>	<u>\$ 945,344</u>	<u>\$ 2,274,841</u>	<u>\$ 2,848,801</u>
Employee benefits				
Recognized in operating costs	\$ 52,031	\$ 49,856	\$ 154,779	\$ 143,710
Recognized in operating expenses	<u>847,642</u>	<u>895,488</u>	<u>2,120,062</u>	<u>2,705,091</u>
	<u>\$ 899,673</u>	<u>\$ 945,344</u>	<u>\$ 2,274,841</u>	<u>\$ 2,848,801</u>

e. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates of 8%-19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. For the three months and nine months September 30, 2018 and 2017, the employees' compensation and the remuneration of directors and supervisors were as follows:

Expected rate

	For the Nine Months Ended September 30	
	2018	2017
Employees' compensation	9.56%	10.18%
Remuneration of directors and supervisors	0.96%	1.02%

Amount

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Employees' compensation	<u>\$ 167,887</u>	<u>\$ 211,815</u>	<u>\$ 436,701</u>	<u>\$ 613,111</u>
Remuneration of directors and supervisors	<u>\$ 16,789</u>	<u>\$ 21,181</u>	<u>\$ 43,670</u>	<u>\$ 61,311</u>

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

The employees' compensation and the remuneration to directors and supervisors for 2017 and 2016 were approved in the Corporation's board of directors on March 16, 2018 and March 20, 2017, respectively and were as follows:

	For the Year Ended			
	2017		2016	
	Cash Dividends	Stock Dividends	Cash Dividends	Stock Dividends
Employees' compensation	\$ 670,000	\$ -	\$ 550,000	\$ -
Remuneration of directors and supervisors	60,000	-	55,000	-

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2017 and 2016.

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

f. Gains or losses on foreign currency exchange

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Foreign exchange gains	\$ 105,159	\$ 62,749	\$ 517,681	\$ 349,727
Foreign exchange losses	(80,470)	(61,682)	(386,346)	(667,748)
Net gain (loss)	<u>\$ 24,689</u>	<u>\$ 1,067</u>	<u>\$ 131,335</u>	<u>\$ (318,021)</u>

27. EARNINGS PER SHARE

(New Taiwan Dollars)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Basic earnings per share	<u>\$ 7.12</u>	<u>\$ 8.12</u>	<u>\$ 17.87</u>	<u>\$ 22.69</u>
Diluted earnings per share	<u>\$ 7.09</u>	<u>\$ 8.05</u>	<u>\$ 17.65</u>	<u>\$ 22.43</u>

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

Net Profit

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Earnings used in the computation of basic earnings per share				
Profit for the period attributable to owners of the Corporation	<u>\$ 1,403,078</u>	<u>\$ 1,599,742</u>	<u>\$ 3,521,577</u>	<u>\$ 4,471,973</u>
Earnings used in the computation of diluted earnings per share				
Profit for the period attributable to owners of the Corporation	<u>\$ 1,403,078</u>	<u>\$ 1,599,742</u>	<u>\$ 3,521,577</u>	<u>\$ 4,471,973</u>

Shares

	(In Thousands of Shares)			
	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Weighted-average number of common shares in the computation of basic earnings per share	197,074	197,074	197,074	197,074
Effect of potential dilutive common shares:				
Employees' compensation	<u>691</u>	<u>1,703</u>	<u>2,406</u>	<u>2,333</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>197,765</u>	<u>198,777</u>	<u>199,480</u>	<u>199,407</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.

28. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In order to integrate the equity of Phisontech Electronics (Malaysia) Sdn. Bhd. for future operational planning, the Corporation's board of directors held a meeting on May 11, 2017 and, in that meeting, resolved to acquire 13% minority shares at NT\$7.4235 per share on June 20, 2017. The acquisition of these minority shares increased the Corporation's shareholding to 100%.

29. 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 capital structure of the Group is consisted in net debts (borrowings offset by cash and cash equivalents) and equity (comprising share capital issued, capital surplus, retained earnings and other equity).

The Group is not subject to any externally imposed capital requirements.

Key management personnel of the Group review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Group may adjust the amount of dividends paid to shareholders, or the amount of new debt issued or existing debt redeemed.

30. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments not carried at fair value

The Group's management considers the carrying amounts recognized in the consolidated financial statements for financial assets and financial liabilities not carried at fair value to approximate their fair values or their fair values cannot be reliably measured.

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

1) Fair value hierarchy

September 30, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	\$ 441,807	\$ -	\$ -	\$ 441,807
Domestic unlisted shares	-	-	255,041	255,041
Overseas unlisted shares	-	-	92,032	92,032
Domestic private equity funds	-	-	47,347	47,347
Beneficiary certificates - open-end funds	<u>1,676,945</u>	<u>-</u>	<u>-</u>	<u>1,676,945</u>
	<u>\$ 2,118,752</u>	<u>\$ -</u>	<u>\$ 394,420</u>	<u>\$ 2,513,172</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 161,628	\$ 161,628
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>289,358</u>	<u>289,358</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450,986</u>	<u>\$ 450,986</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	\$ 67,095	\$ -	\$ -	\$ 67,095
Beneficiary certificates - open-end funds	1,150,400	-	-	1,150,400
Convertible bonds	<u>-</u>	<u>-</u>	<u>53,722</u>	<u>53,722</u>
	<u>\$ 1,217,495</u>	<u>\$ -</u>	<u>\$ 53,722</u>	<u>\$ 1,271,217</u>
Available-for-sale financial assets				
Investments in equity instruments				
Unlisted debt securities - ROC	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 434,763</u>	<u>\$ 434,763</u>

September 30, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	\$ 64,752	\$ -	\$ -	\$ 64,752
Beneficiary certificates - open-end funds	1,148,581	-	-	1,148,581
Convertible bonds	<u>49,675</u>	<u>-</u>	<u>-</u>	<u>49,675</u>
	<u>\$ 1,263,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,263,008</u>
Available-for-sale financial assets				
Investments in equity instruments				
Unlisted debt securities - ROC	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 449,034</u>	<u>\$ 449,034</u>

There were no transfers between Levels 1 and 2 for the nine months ended September 30, 2018 and 2017.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the nine months ended September 30, 2018

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2018 (IAS 39)	\$ -	\$ 53,722	\$ 434,763	\$ -	\$ 488,485
Transfers into Level 3 (Application IFRS 9)	47,032	-	302,656	511,227	860,915
Recognized in profit or loss					
Other gains and losses	315	(4,047)	101,071	-	97,339
Recognized in other comprehensive income					
Unrealized loss on financial assets at FVTOCI	-	-	-	(160,091)	(160,091)
Purchases	-	-	13,201	102,854	116,055
Sales	-	(49,675)	-	(3,004)	(52,679)
Capital reduction and refund of shares	-	-	(69,855)	-	(69,855)
Transfers out of Level 3	-	-	(434,763)	-	(434,763)
Balance at September 30, 2018	<u>\$ 47,347</u>	<u>\$ -</u>	<u>\$ 347,073</u>	<u>\$ 450,986</u>	<u>\$ 845,406</u>

For the nine months ended September 30, 2017

Financial Assets	Financial Assets at FVTPL	Available-for-sale Financial Assets	Total
	Convertible Bonds	Equity Instruments	
Balance at January 1, 2017	\$ -	\$ 372,051	\$ 372,051
Recognized in other comprehensive income			
Unrealized gain on available-for-sale financial assets	-	76,983	76,983
Balance at September 30, 2017	<u>\$ -</u>	<u>\$ 449,034</u>	<u>\$ 449,034</u>

3) Valuation techniques and inputs applied for Level 3 fair value measurement

- a) The fair values of convertible bonds are determined using Binary Tree Evaluation Model and option pricing models where the significant unobservable inputs are historical volatility. As of December 31, 2017, the historical volatility used was 46.75%.

- b) The fair values of unlisted debt securities - ROC are as follows:

December 31, 2017

Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Quantitative Information	Relevance between Inputs and Fair Values	Sensitivity Analysis of Relation between Inputs and Fair Values
Available-for-sale shares	Market approach (price-earnings ratio and price-to-book ratio)	Lack of liquidity discount	8.92%	The higher the level of liquidity, the lower the estimation of fair value.	When the lack of liquidity percentage increases/decreases by 10%, equity of the Corporation will increase/decrease by \$43,476 thousand.

September 30, 2017

Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Quantitative Information	Relevance between Inputs and Fair Value	Sensitivity Analysis of Relation between Inputs and Fair Values
Available-for-sale shares	Market approach (price-earnings ratio and price-to-book ratio)	Lack of liquidity discount	8.06%	The higher the level of liquidity, the lower the estimation of fair value.	When the lack of liquidity percentage increases/decreases by 10%, equity of the Corporation will decrease/increase by \$44,903 thousand.

- c) The fair values of unlisted equity securities - domestic and foreign were determined using the market approach. In accordance with the trading prices of analogous subjects, taking the difference of the unlisted equity securities and analogous subjects into consideration, the value of the unlisted equity securities are estimated using the appropriate multiplier. The significant unobservable inputs used are listed in the table below. A decrease of the discount for the lack of marketability used in isolation would result in an increase in fair value.

	September 30	
	2018	2017
Discount for lack of marketability	15%	Note

Note: The fair values were determined using the market approach starting from January 1, 2018, after the application of IFRS 9.

- d) The fair values of unlisted equity securities - foreign were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests, the discount for lack of marketability and the weighted-average cost of capital (WACC) would result in increases in fair value. A decrease of sustainable revenue growth rates would result in a decrease in fair value.

	September 30	
	2018	2017
Discount for non-controlling interest	15%	Note
Discount for lack of marketability	15%	Note
Sustainable revenue growth rates	2%	Note
WACC	14.3%	Note

Note: The fair values were determined using the income approach starting from January 1, 2018, after the application of IFRS 9.

- e) The fair values of unlisted equity securities - domestic and foreign and private equity funds were determined using the asset-based approach. In order to reflect the overall value of the Corporation or business, the total market value of the individual assets and individual liabilities of the evaluation target are evaluated. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests and the discount for a lack of marketability would result in increases in fair value.

	<u>September 30</u>	
	2018	2017
Discount for non-controlling interests	10%	Note
Discount for lack of marketability	10%	Note

Note: The fair values were determined using the asset-based approach starting from January 1, 2018, after the application of IFRS 9.

c. Categories of financial instruments

	September 30, 2018	December 31, 2017	September 30, 2017
<u>Financial assets</u>			
Financial assets at FVTPL			
Held for trading	\$ -	\$ 1,271,217	\$ 1,263,008
Mandatorily at FVTPL	2,513,172	-	-
Loans and receivables (Note 1)	-	20,242,977	18,457,552
Available-for-sale financial assets (Note 2)	-	1,252,390	1,303,949
Financial assets at amortized cost (Note 3)	19,411,304	-	-
Financial assets at FVTOCI			
Equity instruments	450,986	-	-
<u>Financial liabilities</u>			
Financial liabilities at amortized cost (Note 4)	8,389,024	7,384,022	8,943,528

Note 1: The balance includes loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, accounts receivable and other receivables.

Note 2: The balance includes the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balance includes financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable and other receivables.

Note 4: The balances include financial liabilities measured at amortized cost, which comprise short-term and long-term loans, short-term bills payable, and trade and other payables.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivables, trade payables and borrowings. The Group's financial management department provides services to the business unit and coordinates access the operation in domestic and international financial markets. The 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 expose it primarily to the financial risks of changes in foreign currency rates and interest rates.

a) Foreign currency risk

The Group had foreign currency sales and purchases, which exposed the Group to foreign currency risk. To avoid the decrease in foreign currency assets and adverse fluctuations of future cash flows resulting from changes in foreign currency exchange rates, the Group used foreign currency borrowings to hedge risks of foreign currency exchange rates. The gain or loss caused by changes in foreign currency exchange rates will be offset by profit or loss from the hedge. As a result, the market risk is immaterial.

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 referred to Note 35.

Sensitivity analysis

The Group was mainly exposed to the U.S. dollar.

The following table details the Group's sensitivity to a 6% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. The sensitivity rate of 6% used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change. The sensitivity analysis included only outstanding foreign currency denominated monetary items and adjusts its translation at the end of the reporting period for a 6% change in foreign currency rates. A positive number below indicates a decrease in pre-tax profit and other equity associated with the New Taiwan dollar strengthens 6% against the relevant currency. For a 6% 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.

	Impact of USD	
	For the Nine Months Ended	
	September 30	
	2018	2017
Profit or loss	\$ 351,536	\$ 264,871

b) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates.

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

	September 30, 2018	December 31, 2017	September 30, 2017
Fair value interest rate risk			
Financial assets	\$ 4,833,133	\$ 4,584,471	\$ 4,184,991
Cash flow interest rate risk			
Financial assets	8,633,336	9,638,332	8,630,007
Financial liabilities	-	-	181,560

Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2018 and 2017 would have increase by \$648 thousand and \$634 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risks through its investments in international and domestic quoted and unlisted stocks, convertible bonds, private equity funds and beneficial certificates.

Sensitivity analysis

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

If equity prices had been 1% higher/lower, pre-tax profit for the nine months ended September 30, 2018 would have increased/decreased by \$25,132 thousand, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the nine months ended September 30, 2018 would have increased/decreased by \$4,510 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

If equity prices had been 1% higher/lower, pre-tax profit for the nine months ended September 30, 2017 would have increased/decreased by \$12,630 thousand, as a result of the changes in fair value of held-for-trading investments, and the pre-tax other comprehensive income for the nine months ended September 30, 2017 would increase/decrease by \$4,490 thousand, as a result of the changes in fair value of available-for-sale shares.

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. As at the end of the reporting period, the Group's maximum exposure to credit risk, which would cause a financial loss to the Group due to a failure of counterparties to discharge an obligation and financial guarantees provided by the Group, comes from the carrying amounts of the respective recognized financial assets as stated in the consolidated balance sheets.

The targets of the aforementioned evaluation are financial assets that could potentially be influenced by the Group's counterparties defaulting on their contractual obligations and contracts with positive fair values as of the balance sheet date. The customers of the Group are financial institutions or manufacturers with good credit ratings; and thus, there is no expected material credit risk.

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. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Group relies on bank borrowings as a significant source of liquidity. As of September 30, 2018, December 31, 2017 and September 30, 2017, the Group had available unutilized overdraft and short-term bank loan facilities of approximately \$7,677,000 thousand, \$6,820,500 thousand and \$6,629,940 thousand, respectively.

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed upon repayment periods. The table was drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Group can be required to pay.

	September 30, 2018				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	<u>\$ 3,561,784</u>	<u>\$ 2,977,040</u>	<u>\$ 2,268,695</u>	<u>\$ -</u>	<u>\$ -</u>
	December 31, 2017				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	<u>\$ 2,641,026</u>	<u>\$ 2,875,361</u>	<u>\$ 2,960,437</u>	<u>\$ -</u>	<u>\$ -</u>
	September 30, 2017				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing liabilities	\$ 3,394,930	\$ 3,169,503	\$ 3,213,381	\$ -	\$ -
Variable interest rate instruments	<u>151,300</u>	<u>30,260</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,546,230</u>	<u>\$ 3,199,763</u>	<u>\$ 3,213,381</u>	<u>\$ -</u>	<u>\$ -</u>

e. Information on transfers of financial assets

Refer to Note 11 for more information relating to the Group's factored trade receivables.

31. RELATED PARTY TRANSACTIONS

Balances and transactions between the Corporation and its subsidiaries 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 party and its relationship

<u>Related Party</u>	<u>Relationship</u>
Toshiba International Procurement Hong Kong, Ltd.	Other related parties
Toshiba Memory America, Inc.	Other related parties
Toshiba Singapore Pte. Ltd.	Other related parties
Toshiba Corporation, Japan	Other related parties
Toshiba Client Solutions ANZ Pty Limited	Other related parties
Toshiba Memory Corporation	Other related parties
Toshiba Electronics Asia (Singapore) Pte., Ltd.	Other related parties
Toshiba America Electronic Components, Inc.	Other related parties
Toshiba Memory Taiwan Corporation	Other related parties
Toshiba Electronic Components Taiwan Corporation	Other related parties
Orient Semiconductor Electronics Ltd.	Other related parties
Dawning Leading Technology Inc.	Other related parties
Apacer Technology Inc.	Other related parties
Kingston Solutions Inc.	Associates
PMS Technology Corporation	Associates
Microtops Design Corporation	Associates
Epostar Electronics Corporation	Associates

b. Operating revenue

Related Party Category	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Associates	\$ 13,399	\$ 1,332	\$ 22,357	\$ 12,174
Other related parties	<u>514,450</u>	<u>359,290</u>	<u>1,358,508</u>	<u>1,401,349</u>
	<u>\$ 527,849</u>	<u>\$ 360,622</u>	<u>\$ 1,380,865</u>	<u>\$ 1,413,523</u>

The terms of sales to related parties were similar to those for third parties.

c. Operating costs

1) Purchase of goods

Related Party Category	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Associates	\$ 59,632	\$ 95,002	\$ 542,189	\$ 268,592
Other related parties				
Toshiba Memory Taiwan Corporation	3,153,968	-	10,393,436	-
Toshiba Memory America, Inc.	1,007,761	-	3,549,561	-
Toshiba America Electronic Components, Inc.	-	1,276,345	-	2,795,015
Toshiba Electronic Components Taiwan Corporation	-	4,028,574	168	12,335,626
Others	<u>3,466</u>	<u>8,758</u>	<u>8,248</u>	<u>18,921</u>
	<u>\$ 4,224,827</u>	<u>\$ 5,408,679</u>	<u>\$ 14,493,602</u>	<u>\$ 15,418,154</u>

2) Processing costs

Related Party Category	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Associates	\$ -	\$ 71	\$ 154	\$ 649
Other related parties	<u>528,225</u>	<u>377,201</u>	<u>1,231,341</u>	<u>1,092,242</u>
	<u>\$ 528,225</u>	<u>\$ 377,272</u>	<u>\$ 1,231,495</u>	<u>\$ 1,092,891</u>

The terms of operating costs from related parties were similar to those for third parties.

d. Receivables from related parties

Related Party Category	September 30, 2018	December 31, 2017	September 30, 2017
Associates	\$ 13,644	\$ 465	\$ 830
Other related parties	<u>241,007</u>	<u>317,686</u>	<u>230,031</u>
	<u>\$ 254,651</u>	<u>\$ 318,151</u>	<u>\$ 230,861</u>

The outstanding trade receivables from related parties are unsecured. No bad debt expense was recognized for the allowance for impaired trade receivables with respect to the amounts owed by related parties.

e. Payables to related parties

Related-party Categories	September 30, 2018	December 31, 2017	September 30, 2017
Associates	\$ 41,414	\$ 24,959	\$ 52,743
Other related parties			
Toshiba Memory Taiwan Corporation	1,653,508	2,105,363	-
Toshiba Electronic Components Taiwan Corporation	-	17	2,511,797
Toshiba America Electronic Components, Inc.	-	-	592,391
Others	<u>723,110</u>	<u>430,199</u>	<u>153,691</u>
	<u>\$ 2,418,032</u>	<u>\$ 2,560,538</u>	<u>\$ 3,310,622</u>

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 67,308	\$ 126,171	\$ 167,126	\$ 247,348
Post-employment benefits	447	376	1,267	1,085
Other employee benefits	<u>1,262</u>	<u>2,030</u>	<u>3,599</u>	<u>4,011</u>
	<u>\$ 69,017</u>	<u>\$ 128,577</u>	<u>\$ 171,992</u>	<u>\$ 252,444</u>

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

32. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

The Group's lease contracts for a factory and an office expire on December 31, 2022.

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

	September 30, 2018	December 31, 2017	September 30, 2017
Not later than 1 year	\$ 20,877	\$ 17,644	\$ 17,558
Later than 1 year and not later than 5 years	<u>26,517</u>	<u>34,538</u>	<u>38,068</u>
	<u>\$ 47,394</u>	<u>\$ 52,182</u>	<u>\$ 55,626</u>

b. The Group as lessor

Operating leases all relate to the property owned by the Group, and such leases will expire on March 15, 2019.

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

	September 30, 2018	December 31, 2017	September 30, 2017
Not later than 1 year	<u>\$ 361</u>	<u>\$ 2,087</u>	<u>\$ 905</u>

33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The following assets were provided as collateral for the tariff of imported raw materials:

	September 30, 2018	December 31, 2017	September 30, 2017
Refundable deposits for the Customs Duty Bureau - certificates of deposit (financial assets at amortized cost)	\$ 56,922	\$ -	\$ -
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	<u>-</u>	<u>80,534</u>	<u>79,713</u>
	<u>\$ 56,922</u>	<u>\$ 80,534</u>	<u>\$ 79,713</u>

34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of September 30, 2018, December 31, 2017 and September 30, 2017 were as follows:

Significant Commitments

	September 30, 2018	December 31, 2017	September 30, 2017
Unused letters of credit	<u>\$ 1,500,000</u>	<u>\$ 2,046,500</u>	<u>\$ 2,093,000</u>

35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Group entities' monetary 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:

(New Taiwan Dollars and Foreign Currencies in Thousands)

	September 30, 2018		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 288,616	30.5250	\$ 8,810,000
USD (USD:CNY)	7,280	6.8792	222,215
CNY (CNY:NTD)	33,007	4.4360	146,419
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	103,957	30.5250	3,173,282
	December 31, 2017		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 290,208	29.7600	\$ 8,636,591
USD (USD:CNY)	14,854	6.5342	442,054
CNY (CNY:NTD)	32,782	4.5650	149,648
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	95,955	29.7600	2,855,622
	September 30, 2017		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 265,665	30.2600	\$ 8,039,032
USD (USD:CNY)	16,181	6.6369	489,625
CNY (CNY:NTD)	32,548	4.5510	148,125
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	135,960	30.260	4,114,142

For the three months ended and nine months ended September 30, 2018 and 2017, (realized and unrealized) net foreign exchange gains were \$24,689 thousand, \$1,067 thousand, \$131,335 thousand and loss \$318,021 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group's entities.

36. OTHER SIGNIFICANT EVENT

In April 2018, Macronix International Co., Ltd. accused the Corporation of infringement of one of its patent rights. In October 2018, Macronix International Co., Ltd. withdrew the lawsuit. Therefore, the Taiwan Intellectual Property Court has terminated the case.

The Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutorial Office and concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutorial Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code, the prosecutor charged the chairman of the Corporation and others culminating in either deferred prosecution or the dropping of the claim for further prosecution. The Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Court Prosecutorial Office against the chairman of the Corporation and others, the case is under re-investigation, and the financial position and operations of the Corporation are not affected in respect of this matter.

37. ADDITIONAL DISCLOSURES

a. Information about significant transactions and b. investees:

- 1) Financing provided to others. (None)
- 2) Endorsements/guarantees provided. (None)
- 3) Marketable securities held (excluding investments 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) Acquisitions of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
- 6) Disposals 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) Other: Intercompany relationships and significant intercompany transactions. (Table 4)

11) Information of investees. (Table 5)

c. 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. (Table 7)
 - 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, guarantees or pledges of collateral at the end of the period and their purposes.
 - e) The highest period 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 receipt of services.

38. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. Specifically, the Group's reportable segments include departments that design and sell flash memory controllers and make investments.

a. Segment revenue and results

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

	<u>Segment Revenue</u>		<u>Segment Profits</u>	
	<u>For the Three Months Ended</u>		<u>For the Three Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Department that designs and sells flash memory controllers	\$ 11,036,833	\$ 11,173,627	\$ 1,538,009	\$ 1,777,462
Investment department	<u>-</u>	<u>-</u>	<u>(187)</u>	<u>(32)</u>
Total operating segments	<u>\$ 11,036,833</u>	<u>\$ 11,173,627</u>	1,537,822	1,777,430
Other gains and losses			(11,603)	(38,912)
Share of gains of associates			(108,567)	68,352
Other income			61,519	41,700
Financial costs			<u>(256)</u>	<u>(1,485)</u>
Income before income tax			<u>\$ 1,478,915</u>	<u>\$ 1,847,085</u>

	<u>Segment Revenue</u>		<u>Segment Profits</u>	
	<u>For the Nine Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Department that designs and sells flash memory controllers	\$ 30,665,532	\$ 31,221,987	\$ 3,849,394	\$ 5,375,728
Investment department	<u>-</u>	<u>-</u>	<u>(341)</u>	<u>(756)</u>
Total operating segments	<u>\$ 30,665,532</u>	<u>\$ 31,221,987</u>	3,849,053	5,374,972
Other gains and losses			155,368	(422,930)
Share of gains of associates			(24,261)	332,286
Other income			129,214	78,958
Financial costs			<u>(3,749)</u>	<u>(4,807)</u>
Income before income tax			<u>\$ 4,105,625</u>	<u>\$ 5,358,479</u>

Segment revenue reported above was generated from external customers. There were no intersegment sales for the nine months ended September 30, 2018 and 2017.

Segment profit represented the profit before tax earned by each segment without the share of gains or losses of associates, rental income, interest income, gains or losses on disposal of property, plant and equipment, gains or losses on sales of investments, exchange gains or losses, valuation gains or losses on financial instruments, financial costs and income tax expense.

b. Segment assets and liabilities

The Group does not report segment assets and liabilities or other segment information to the chief operating decision maker. Therefore, no information is disclosed here.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

SEPTEMBER 30, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2018				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	<u>Beneficiary certificates</u>							
	Mega Diamond Money Market Fund	-	Financial assets at FVTPL - current	16,326	\$ 204,197	-	\$ 204,197	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	13,369	203,986	-	203,986	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	20,685	213,225	-	213,225	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at FVTPL - current	9,298	151,190	-	151,190	Note 3
	Jih Sun Money Market Fund	-	Financial assets at FVTPL - current	13,767	203,409	-	203,409	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	8,119	101,459	-	101,459	Note 3
	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL - current	18,239	200,460	-	200,460	Note 3
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	9,537	150,443	-	150,443	Note 3
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at FVTPL - current	11,087	150,431	-	150,431	Note 3
	<u>Common shares</u>							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	9,656	108,147	1.20	108,147	Note 4
	Apacer Technology Inc.	-	Financial assets at FVTPL - current	10,050	333,660	9.96	333,660	Note 4
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets at FVTPL - non-current	1,000	4,142	0.50	4,142	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets at FVTPL - non-current	2,165	31,711	18.75	31,711	Note 5
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	1,059	-	1.86	-	-
	Viva Baseball Co., Ltd.	-	Financial assets at FVTOCI - non-current	Note 6	-	8.33	-	-
	Adam Elements International Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,710	18,761	19.00	18,761	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	950	40,372	0.67	40,372	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets at FVTPL - non-current	8,850	177,417	11.11	177,417	Note 5
	Innorich Venture Capital Corp.	-	Financial assets at FVTPL - non-current	3,000	20,913	5.61	20,913	Note 5
	THLight Co., Ltd.	-	Financial assets at FVTOCI - non-current	6,388	-	17.94	-	-
	UD INFO Corp.	-	Financial assets at FVTOCI - non-current	570	35,305	18.15	35,305	Note 5
	GeoThings, Inc.	-	Financial assets at FVTOCI - non-current	150	-	6.70	-	-
	Ironyun Incorporated (preference shares)	-	Financial assets at FVTOCI - non-current	5,000	-	5.92	-	-
	Gospal Ltd.	-	Financial assets at FVTOCI - non-current	811,857	3,004	3.40	3,004	Note 7
	Dawning Leading Technology Inc.	-	Financial assets at FVTOCI - non-current	7,478	22,433	3.26	22,433	Note 8
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at FVTOCI - non-current	11,966	52,239	17.16	52,239	Note 5
	Gomore Inc.	-	Financial assets at FVTOCI - non-current	16,925	6,773	6.15	6,773	Note 7
	Patriot Memory Asia Headquarter	-	Financial assets at FVTOCI - non-current	580	7,540	4.33	7,540	Note 7
	Taishan Buffalo Investment Co., Ltd.	-	Financial assets at FVTPL - non-current	25,000	25,000	1.08	25,000	Note 7

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2018				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment Corporation	<u>Private equity fund</u> Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	\$ 47,347	3.81	\$ 47,347	Note 5
	<u>Beneficiary certificates</u> FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	30,304	-	30,304	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	2,424	30,292	-	30,292	Note 3
	<u>Common shares</u> United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	5,616	45,892	16.12	45,892	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,250	-	2.23	-	-
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,440	38,493	1.18	38,493	Note 5
	Translink Capital Partners IV L.P.	-	Financial assets at FVTPL - non-current	300	9,025	0.92	9,025	Note 7
	Liqid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	107,273	10.92	107,273	Note 5
	Weltronics Corp., Ltd.	-	Financial assets at FVTOCI - non-current	350	-	14.10	-	-
	UMBO CV Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,626	24,921	3.58	24,921	Note 5
Omni Media International Incorporation	-	Financial assets at FVTOCI - non-current	1,714	31,697	13.84	31,697	Note 5	
RENIAC, INC. (preference shares)	-	Financial assets at FVTOCI - non-current	302	15,300	3.46	15,300	Note 7	
Emtops Electronics Corporation	<u>Beneficiary certificates - open-end funds</u> Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	815	10,182	-	10,182	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	988	10,189	-	10,189	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	<u>Beneficiary certificates</u> United Cash Fund	-	Financial assets at FVTPL - current	2,394	17,178	-	17,178	Note 3
Cloud Solution Global Limited	<u>Common shares</u> My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	-	19.00	-	-
Hefei Core Storage Electronic Limited	<u>Common shares</u> Hangzhou Hualan Microelectronique Co., Ltd.	-	Financial assets at FVTOCI - non-current	3,000	79,848	4.74	79,848	Note 7

Note 1: The marketable securities listed refer to the types of financial instruments within the scope of International Financial Reporting Standard 9 “Financial Instruments Recognition and Measurement”.

Note 2: The carrying amount is either the fair value or the original cost net of allowance loss.

Note 3: The calculation of the market value was based on the net asset value as of September 30, 2018.

Note 4: The calculation of the market value was based on the closing price as of September 30, 2018.

Note 5: Refer to Note 30 (b)-3 for market value information.

Note 6: The issuing company is not limited by shares.

(Continued)

Note 7: The calculation of the market value was based on the most recent buying price.

Note 8: On August 29, 2018, Dawning Leading Technology Inc.'s interim board of shareholders have adopted the resolution to approve the merger with King Yuan Electronics Corp., at NT\$3 per common share, hence the current market value is measured at \$3 per share.

Note 9: The Group held marketable securities that had not been guaranteed, pledged or mortgaged as collateral or restricted by other commitments.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	\$ 526,329	3	Net 30 days after monthly closing	None	None	\$ (41,414)	(1)	-
	Toshiba Memory America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	3,549,561	17	Net 30 days after receipt date	None	None	(321,179)	(7)	-
	Toshiba Memory Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	10,393,436	50	Net 30 days after monthly closing	None	None	(1,653,508)	(36)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	956,065	4	Net 15 days after monthly closing	None	None	(306,973)	(7)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	275,276	1	Net 45 days after monthly closing	None	None	(91,407)	(2)	-
	Toshiba Singapore Pte. Ltd.	The associates of a subsidiary, which is a legal entity on the Corporation's board of directors	Sale	(169,716)	(1)	Net 60 days after monthly closing	None	None	49,233	1	-
	Toshiba Memory Corporation	The Corporation's legal entity board of directors	Sale	(654,368)	(2)	Net 60 days after monthly closing	None	None	88,161	2	-
	Apacer Technology Inc.	The Corporation is its director	Sale	(407,670)	(1)	Net 45 days after monthly closing	None	None	103,435	2	-
	Hefei Core Storage Electronic Limited	Sub-subsiary	Sale	(249,141)	(1)	Net 30 days after monthly closing	None	None	16,368	0	-

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

SEPTEMBER 30, 2018

(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Action Taken		
Phison Electronics Corp.	Apacer Technology Inc.	The Corporation is its director	\$ 103,435	7.95	\$ -	-	\$ 103,435	\$ -

Note: As of November 1, 2018.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Number	Company Name	Counterparty	Flow of Transaction	Transaction Details			Percentage of Transaction Amount to Consolidated Operating Revenue or Total Assets (%)
				Account	Amount	Transaction Terms	
0	Phison Electronics Corp.	Hefei Core Storage Electronic Limited	1	Sales revenue	\$ 249,141	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Accounts receivable	16,368	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Other payables	32,024	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Research expense	112,323	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Sales revenue	4,973	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Accounts receivable	1,709	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	23,971	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	4,793	Based on regular terms	-
		Ostek Corporation	1	Other payables	1,928	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expenses	12,426	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other payables	5,210	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Sales revenue	7,720	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	1	Sales revenue	34,727	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	1	Accounts receivable	34,500	Based on regular terms	-
		1	Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	2	Inventory	36,093
Hefei Ruhan Electronic Technology Limited	2			Accounts payable	32,843	Based on regular terms	-

Note: The following numerals represent the corresponding directional flow of transactions.

- a. Parent company to subsidiary: 1.
- b. Between subsidiaries: 2.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEEES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2018			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 2018	December 31, 2017	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phison Electronics Corp.	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	\$ 106,050	\$ 106,050	10,605,000	32.91	\$ 1,636,226	\$ 37,789	\$ 12,436	Equity-method investee
	Emtops Electronics Corporation	Taiwan	Sale of flash memory controllers and peripheral system applications	95,000	95,000	9,500,000	100.00	70,821	713	713	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	505,192	2,138	2,138	Subsidiary
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	23,210	3,362	1,647	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	28,982	2,000	100.00	35,184	1,548	1,548	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	665,823	665,823	21,000,000	100.00	648,954	40,753	40,753	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	91,422	91,422	10,000,000	100.00	62,643	(102)	(102)	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	21,234	(105,373)	(39,852)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	100,381	168	168	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	143,017	2,669	2,669	Subsidiary
Regis Investment (Samoa) Limited	Samoa	Investment	199,332	-	6,700,000	100.00	203,394	171	171	Subsidiary	
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	52,223	(1,323)	-	Sub-subsubsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	17,897	3,840	-	Equity-method investee
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Taiwan	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	10,000	10,000	1,000,000	100.00	39,814	1,058	-	Sub-subsubsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	598,448	52,982	-	Sub-subsubsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2018			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 2018	December 31, 2017	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	\$ 98,754	\$ 98,754	3,000,000	100.00	\$ 94,379	\$ 69	\$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Design and sale of flash memory related products	391,986	391,986	40,950,000	100.00	7,309	(55)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,663	(41)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	11,905	332	-	Sub-subsidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	197,760	-	6,650,000	100.00	201,882	231	-	Sub-subsidiary

(Concluded)

TABLE 6

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

**INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(In Thousands)**

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2018	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of September 30, 2018	Accumulated Inward Remittance of Earnings as of September 30, 2018
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 53,096	b	\$ 53,096	\$ -	\$ -	\$ 53,096	100.00	\$ (11,974)	\$ 11,570	\$ -
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services	576,780	b	576,780	-	-	576,780	100.00	52,953	597,351	-
Hefei Ruhan Electronic Technology Limited	Design, R&D, production and sale of electronics hardware and software and rendering of related services	182,825	a	-	182,825	-	182,825	100.00	224	181,175	-
Hefei Yichao Electronics Technology Ltd.	Design, R&D, production and sale of electronics hardware and software and rendering of related services	185,369	b	-	-	-	-	100.00	266	179,915	-
Hefei Xinpeng Technology Co., Ltd.	Design, R&D, production and sale of integrated circuits and electronics hardware and software and rendering of related services	493,570	b	-	-	-	-	36.36	227	177,659	-

Accumulated Investments in Mainland China as of September 30, 2018	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investments (Note 3)
\$ 812,701 (US\$ 25,762)	\$ 825,269 (US\$ 26,390)	\$ 15,672,297

(Continued)

Note 1: Method of investment:

- a. Indirectly invested in a China-based company through a third-region company, Regis Investment Limited, and its subsidiaries.
- b. Indirectly invested in a China-based company through a third-region company, Global Flash Limited, and its subsidiaries.

Note 2: The amounts were recognized based on unreviewed financial statements.

Note 3: The limit of investments in mainland China, which is based on Regulations Governing the Approval of Investments on Technical Corporation in Mainland China, is 60% of the Group's net asset value, which is $\$26,120,495 \times 60\% = \$15,672,297$.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(In Thousands of New Taiwan Dollars)

Buyer	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	
Phison Electronics Corp.	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	\$ 249,141	1	Net 30 days after monthly closing	None	None	\$ 16,368	0	-
	Hefei Ruhan Electronic Technology Limited	Sub-subsidiary	Sale	34,727	0	Net 30 days after monthly closing	None	None	34,500	1	-
Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	Sister company	Purchase	36,093	13	Net 30 days after monthly closing	None	None	32,843	63	-