

Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

KHEIN SENG PUA
Chairman

March 21, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

We have audited the consolidated financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter for the Group's consolidated financial statements for the year ended December 31, 2018 is stated as follows:

Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presumes there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Group's customers are numerous and diverse, and the operating revenue of the Group for the year ended December 31, 2018 amounted to NT\$40,788,105 thousand. Therefore, the possibility of sales from transactions with unusual customers, validity of the transactions and whether they fulfilled the criteria for revenue recognition may result in a significant impact on the financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

Our main audit procedures performed in response to this matter included the following:

1. We understood and tested the process of sales revenue recognition and the design and implementation of the relevant internal controls.
2. We sampled the original sales orders, shipping documents, export declarations and examined the process for the payment receipts to confirm that the sales revenue have met the conditions of revenue recognition.
3. We checked if there were any instances of simultaneous purchases from and sales to the same entity. If such situations exist, we further assessed the background of the entity and the goods purchased and sold in order to evaluate the reasonableness of the transactions and to confirm whether there were instances of repeated purchases and sales.

Emphasis of Matter

As stated in Note 35 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. As such, our opinion is not modified in respect of this matter.

Other Matter

We have also audited the parent company only financial statements of Phison Electronics Corp. as of and for the years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion with an emphasis of matter section.

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

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 Financial Reporting Standards (IFRS), International

Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the supervisors, are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 21, 2019

Notice to Readers

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 14,176,396	39	\$ 14,142,389	40
Financial assets at fair value through profit or loss (FVTPL) - current (Notes 4, 7 and 29)	3,077,540	8	1,271,217	4
Financial assets at amortized cost - current (Notes 4 and 9)	67,217	-	-	-
Debt investments with no active market - current (Notes 4, 10 and 32)	-	-	80,534	-
Notes and accounts receivable				
Non-related parties (Notes 4 and 11)	4,899,709	14	5,413,304	15
Related parties (Notes 4, 11 and 30)	344,249	1	318,151	1
Other receivables (Note 11)	273,062	1	288,599	1
Current tax assets (Notes 4 and 24)	23,448	-	9,237	-
Inventories (Notes 4 and 12)	7,576,721	21	7,192,346	21
Prepayments	63,194	-	28,720	-
Other current assets	104,271	-	65,190	-
Total current assets	30,605,807	84	28,809,687	82
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss (FVTPL) - non-current (Notes 4, 7 and 29)	427,789	1	-	-
Financial assets at fair value through other comprehensive income (FVTOCI) - non-current (Notes 4, 8 and 29)	450,397	1	-	-
Available-for-sale financial assets - non-current (Notes 4 and 13)	-	-	434,763	1
Financial assets measured at cost - non-current (Notes 4 and 14)	-	-	817,627	2
Investments accounted for using the equity method (Notes 4 and 16)	1,494,049	4	1,709,711	5
Property, plant and equipment (Notes 4 and 17)	2,990,231	8	2,822,881	8
Intangible assets (Notes 4 and 18)	152,550	1	218,130	1
Deferred tax assets (Notes 4 and 24)	310,563	1	310,025	1
Guarantee deposits paid	7,154	-	3,780	-
Total non-current assets	5,832,733	16	6,316,917	18
TOTAL	\$ 36,438,540	100	\$ 35,126,604	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Contract liabilities - current	\$ 34,270	-	\$ -	-
Notes and accounts payable				
Non-related parties	1,949,403	5	1,086,707	3
Related parties (Note 30)	2,856,144	8	2,560,538	7
Other payables (Note 19)	3,716,898	10	3,736,777	11
Tax payable (Notes 4 and 24)	523,854	2	1,092,802	3
Provisions (Notes 4 and 21)	-	-	292,081	1
Other current liabilities (Note 20)	339,062	1	194,503	1
Total current liabilities	9,419,631	26	8,963,408	26
NON-CURRENT LIABILITIES				
Long-Term Deferred Revenue	14,068	-	19,710	-
Net defined benefit liabilities - non-current (Notes 4 and 22)	92,827	-	84,897	-
Guarantee deposits received	144	-	274	-
Total non-current liabilities	107,039	-	104,881	-
Total liabilities	9,526,670	26	9,068,289	26
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 23)				
Share capital				
Common shares	1,970,740	6	1,970,740	6
Capital surplus	6,674,650	18	6,660,502	19
Retained earnings				
Legal reserve	3,418,903	9	2,842,806	8
Special reserve	-	-	25,965	-
Unappropriated earnings	15,228,504	42	14,521,886	41
Total retained earnings	18,647,407	51	17,390,657	49
Other equity	(380,927)	(1)	36,416	-
Total equity attributable to owners of the Corporation	26,911,870	74	26,058,315	74
Total equity	26,911,870	74	26,058,315	74
TOTAL	\$ 36,438,540	100	\$ 35,126,604	100

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

	2018		2017	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 30)				
Gross sales	\$ 40,976,395	101	\$ 42,115,942	101
Less: Sales returns and allowances	<u>361,131</u>	<u>1</u>	<u>425,229</u>	<u>1</u>
Net sales	40,615,264	100	41,690,713	100
Other operating revenue	<u>172,841</u>	<u>-</u>	<u>174,046</u>	<u>-</u>
Total operating revenue	40,788,105	100	41,864,759	100
OPERATING COSTS (Notes 4, 12, 25 and 30)	<u>31,656,151</u>	<u>78</u>	<u>30,365,137</u>	<u>73</u>
GROSS PROFIT	<u>9,131,954</u>	<u>22</u>	<u>11,499,622</u>	<u>27</u>
OPERATING EXPENSES (Note 25)				
Marketing	513,837	1	531,728	1
General and administrative	441,225	1	522,373	1
Research and development	3,495,417	9	3,713,829	9
Reversal of expected credit losses	<u>(28,309)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>4,422,170</u>	<u>11</u>	<u>4,767,930</u>	<u>11</u>
OPERATING INCOME	<u>4,709,784</u>	<u>11</u>	<u>6,731,692</u>	<u>16</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 25)	175,624	-	(571,886)	(1)
Share of gains of associates (Note 16)	(174,654)	-	442,368	1
Other income (Note 25)	299,497	1	120,677	-
Financial costs	<u>(5,070)</u>	<u>-</u>	<u>(4,981)</u>	<u>-</u>
Total nonoperating income and expenses	<u>295,397</u>	<u>1</u>	<u>(13,822)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	5,005,181	12	6,717,870	16
INCOME TAX EXPENSE (Notes 4 and 24)	<u>687,062</u>	<u>1</u>	<u>956,580</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>4,318,119</u>	<u>11</u>	<u>5,761,290</u>	<u>14</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(3,701)	-	(8,288)	-

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	%	Amount	%
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	\$ (169,451)	(1)	\$ -	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 24)	2,171	-	1,408	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(3,975)	-	1,516	-
Unrealized gain on available-for-sale financial assets	-	-	62,712	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 24)	<u>3,214</u>	<u>-</u>	<u>61</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(171,742)</u>	<u>(1)</u>	<u>57,409</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,146,377</u>	<u>10</u>	<u>\$ 5,818,699</u>	<u>14</u>
NET PROFIT ATTRIBUTED TO:				
Owners of the Corporation	\$ 4,318,119	11	\$ 5,760,972	14
Non-controlling interests	<u>-</u>	<u>-</u>	<u>318</u>	<u>-</u>
	<u>\$ 4,318,119</u>	<u>11</u>	<u>\$ 5,761,290</u>	<u>14</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:				
Owners of the Corporation	\$ 4,146,377	10	\$ 5,816,473	14
Non-controlling interests	<u>-</u>	<u>-</u>	<u>2,226</u>	<u>-</u>
	<u>\$ 4,146,377</u>	<u>10</u>	<u>\$ 5,818,699</u>	<u>14</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 26)				
Basic	<u>\$ 21.91</u>		<u>\$ 29.23</u>	
Diluted	<u>\$ 21.60</u>		<u>\$ 28.83</u>	

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	Equity Attributable to the Corporation										
						Other Equity			Total	Non-controlling Interests	Total Equity
						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			
	Common Shares	Capital Surplus	Retained Earnings								
			Legal Reserve	Special Reserve	Unappropriated Earnings						
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)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	10,739	-	-	-	-	-	-	10,739	-	10,739
Non-controlling interests	-	-	-	-	-	-	-	-	-	(7,626)	(7,626)
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)	-	(2,686)
Net profit for the year ended December 31, 2017	-	-	-	-	5,760,972	-	-	-	5,760,972	318	5,761,290
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,880)	(331)	62,712	-	55,501	1,908	57,409
BALANCE AT DECEMBER 31, 2017	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	-	14,148	-	-	-	-	-	-	14,148	-	14,148
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(172,633)	-	-	172,633	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	4,318,119	-	-	-	4,318,119	-	4,318,119
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(1,530)	(761)	-	(169,451)	(171,742)	-	(171,742)
BALANCE AT DECEMBER 31, 2018	\$ 1,970,740	\$ 6,674,650	\$ 3,418,903	\$ -	\$ 15,228,504	\$ (67,908)	\$ -	\$ (313,019)	\$ 26,911,870	\$ -	\$ 26,911,870

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 5,005,181	\$ 6,717,870
Adjustments for:		
Depreciation	223,830	169,364
Amortization	201,357	166,091
Share of loss (profit) of associates	174,654	(442,368)
Recognition of refund liabilities	166,648	-
Write-down of inventories	94,910	19,361
Net (gain) loss on foreign currency exchange	(91,066)	369,978
Interest income	(54,189)	(42,511)
Dividend income	(41,698)	(29,947)
Expected credit loss reversed on trade receivables	(28,309)	-
Gains on disposal of property, plant and equipment	(1,413)	-
Financial costs	5,070	4,981
Gain on disposal of associates	(392)	-
Recognition of provisions	-	238,449
Impairment loss recognized on financial assets	-	169,512
Allowance for bad debts	-	22,958
Gain on disposal of financial assets measured at cost	-	(7,545)
Other non-cash items	-	1,163
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	12,148	4,585
Notes and accounts receivable	501,434	(1,005,072)
Other receivables	16,046	98,188
Inventories	(479,247)	(1,989,417)
Prepayments	(36,059)	38,239
Other current assets	(39,081)	(36,968)
Contract liabilities	34,270	-
Notes and accounts payable	1,172,875	(185,891)
Other payables	(16,658)	594,250
Provisions	-	(290,444)
Unearned revenue	(5,642)	19,710
Other current liabilities	(333,586)	(44,250)
Net defined benefit liabilities	7,930	12,172
Cash generated from operations	6,489,013	4,572,458
Interest paid	(5,070)	(5,385)
Income tax paid	(1,270,759)	(694,831)
Net cash generated from operating activities	5,213,184	3,872,242
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(3,032,790)	(47,635)
Proceeds from financial assets at fair value through profit or loss	1,501,263	-
Payments for property, plant and equipment	(370,970)	(565,320)
Dividends received from others	41,698	29,947

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
Dividends received from associates	\$ 233,310	\$ -
Acquisition of associates	(178,880)	-
Payments for intangible assets	(135,845)	(161,956)
Purchase of financial assets at fair value through other comprehensive income	(134,207)	-
Proceeds from capital reduction of financial assets at fair value through profit or loss	69,855	-
Interest received	53,967	41,876
Proceeds from sale of financial assets at fair value through other comprehensive income	25,586	-
Proceeds from sale of financial assets at amortized cost	13,317	-
(Increase) decrease in refundable deposits	(3,374)	7,545
Proceeds from disposal of property, plant and equipment	1,628	-
Net cash inflow on disposal of associates	398	-
Purchase of financial assets measured at cost	-	(281,538)
Increase in debt investments with no active market	-	(21,805)
Proceeds from sale of financial assets measured at cost	-	14,315
Net cash used in investing activities	<u>(1,915,044)</u>	<u>(984,571)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(3,350,258)	(2,759,036)
Decrease in guarantee deposits	(130)	(40)
Decrease in short-term borrowings	-	(580,500)
Decrease in non-controlling interests	-	(10,312)
Net cash used in financing activities	<u>(3,350,388)</u>	<u>(3,349,888)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>86,255</u>	<u>(353,725)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,007	(815,942)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>14,142,389</u>	<u>14,958,331</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 14,176,396</u>	<u>\$ 14,142,389</u>

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 trading on the Taipei Exchange (over-the-counter exchange 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 CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on March 21, 2019.

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

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the 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 amounts under IAS 39 and the new measurement categories and carrying amounts 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	Reclassifi- cations	Remeasure- ments	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>-</u>	<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-ended 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 the 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 differences if the Group was to continue applying IAS 18 in 2018 instead of IFRS 15 is shown below.

Impact on assets, liabilities and equity for the current year

	December 31, 2018
Increase in provisions - current	\$ 185,919
Decrease in other current liabilities	<u>(185,919)</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.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Right-of-use assets	\$ -	\$ 26,831	\$ 26,831
Guarantee deposits paid	<u>7,154</u>	<u>(164)</u>	<u>6,990</u>
Total effect on assets	<u>\$ 7,154</u>	<u>\$ 26,667</u>	<u>\$ 33,821</u>
Lease liabilities - current	\$ -	\$ 8,277	\$ 8,277
Lease liabilities - non-current	<u>-</u>	<u>18,390</u>	<u>18,390</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 26,667</u>	<u>\$ 26,667</u>

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group assessed that the application of other standards and interpretations will not have a material impact on the Group's financial position and financial performance.

- c. The 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

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

Basis of Preparation

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

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

- 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 the 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 the asset or liability.

Classification of Current and Non-current Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within 12 months after the reporting period; and
- c. Cash and equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within 12 months after the reporting period; and
- c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

All other assets and liabilities are classified as non-current.

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). 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.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (2) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Group directly disposed of the related assets or liabilities.

Before 2018, the fair value of any investment retained in a former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate. Starting from 2018, the fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate.

See Note 15 and Tables 6 and 7 following the Notes to Consolidated Financial Statements for detailed information on subsidiaries (including the percentage of ownership and main businesses).

Foreign Currencies

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

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

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

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

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

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Inventories

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

Investment in Associates

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor an interest in a joint venture.

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

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

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

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

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

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

Property, Plant and Equipment

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

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended uses.

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

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

Intangible Assets

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

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

Impairment of tangible and intangible assets other than goodwill and assets related to contract costs

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

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

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

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

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.

a. Financial assets

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

1) 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.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are 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 29.

b) 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 the 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.

c) 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 as 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.

a) 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 Group'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 29.

b) 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.

c) 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.

2) 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 reflect the weighted average of credit losses with the respective risks of default occurring as the weights. 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 impairment 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.

3) 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.

b. Equity instruments

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

c. Financial liabilities

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

1) 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) which 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.

2) 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.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle the obligation; and a reliable estimate can be made for the amount of the obligation.

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 the 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:

- a. The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- b. The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- c. The amount of revenue can be measured reliably;
- d. It is probable that the economic benefits associated with the transaction will flow to the Group; and
- e. The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

Leasing

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

- a. The Group as lessor

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

- b. The Group as lessee

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

Employee Benefits

- a. Short-term employee benefits

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

- b. Retirement benefits

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

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

The net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Group's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Termination benefits

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

Share-based Payment Arrangements - Employee Share Options

The fair value at the grant date of employee share options is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Group revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflects the revised estimate, with a corresponding adjustment to the capital surplus - employee share options.

Taxation

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

a. Current tax

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

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

c. Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying 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 risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of 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 of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. 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 inventory is its estimated selling price in the ordinary course of business less its 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.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	\$ 109	\$ 102
Checking accounts and demand deposits	9,299,883	9,638,350
Cash equivalents		
Time deposits with original maturities of less than 3 months	<u>4,876,404</u>	<u>4,503,937</u>
	<u>\$ 14,176,396</u>	<u>\$ 14,142,389</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
<u>Non-derivative financial assets - current</u>		
Financial assets at FVTPL		
Convertible bonds	\$ -	\$ 53,722
Financial assets held for trading		
Beneficiary certificates - open-ended funds	-	1,150,400
Domestic listed shares	<u>-</u>	<u>67,095</u>
	<u>-</u>	<u>1,217,495</u>
Financial assets mandatorily at FVTPL		
Beneficiary certificates - open-ended funds	2,619,258	-
Domestic listed shares	372,994	-
Convertible bonds	<u>85,288</u>	<u>-</u>
	<u>3,077,540</u>	<u>-</u>
	<u>\$ 3,077,540</u>	<u>\$ 1,271,217</u>
<u>Non-derivative financial assets - non-current</u>		
Financial assets mandatorily classified at FVTPL		
Private equity funds	\$ 47,366	\$ -
Domestic unlisted shares	281,900	-
Overseas unlisted shares	<u>98,523</u>	<u>-</u>
	<u>\$ 427,789</u>	<u>\$ -</u>

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

Investments in Equity Instruments at FVTOCI

	December 31, 2018
Domestic investments - unlisted shares	\$ 132,871
Overseas investments - unlisted shares	<u>317,526</u>
	<u>\$ 450,397</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 \$134,207 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 domestic and foreign unlisted investments completed liquidation procedures and were dissolved, and the related other equity - unrealized loss on financial assets at FVTOCI of \$172,633 thousand was transferred to retained earnings.

9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT - 2018

	December 31, 2018
Certificates of deposit	\$ 56,997
Time deposits with original maturities of more than 3 months	<u>10,220</u>
	<u>\$ 67,217</u>

The interest rates for time deposits with original maturities of more than 3 months was 0.13% at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39. Refer to Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

Refer to Note 32 for information relating to investments in financial assets at amortized cost pledged as security.

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

	December 31, 2017
Certificates of deposit	<u>\$ 80,534</u>

Refer to Note 32 for information relating to debt investments with no active market pledged as security.

11. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	2017
<u>Notes receivable</u>		
Notes receivable - operating	\$ -	\$ 4
<u>Accounts receivable</u>		
At amortized cost		
Gross carrying amount - non-related parties	\$ 5,051,051	\$ 5,598,693
Gross carrying amount - related parties	<u>344,249</u>	<u>318,151</u>
	5,395,300	5,916,844
Less: Loss Allowance	<u>151,342</u>	<u>185,393</u>
	<u>\$ 5,243,958</u>	<u>\$ 5,731,451</u>
<u>Other receivables</u>		
Income tax refund receivable	\$ 176,307	\$ 116,866
Factored accounts receivable	74,777	147,526
Others	<u>21,978</u>	<u>24,207</u>
	<u>\$ 273,062</u>	<u>\$ 288,599</u>

Trade Receivables

For the year ended December 31, 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.

December 31, 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	\$ 4,592,145	\$ 413,222	\$ 4,813	\$ 6,474	\$ 13,879	\$ 20,518	\$ 5,051,051
Loss allowance (lifetime expected credit losses)	<u>(72,558)</u>	<u>(47,920)</u>	<u>(923)</u>	<u>(1,687)</u>	<u>(8,203)</u>	<u>(20,051)</u>	<u>(151,342)</u>
Amortized cost	<u>\$ 4,519,587</u>	<u>\$ 365,302</u>	<u>\$ 3,890</u>	<u>\$ 4,787</u>	<u>\$ 5,676</u>	<u>\$ 467</u>	<u>\$ 4,899,709</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	(28,309)
Less: Amounts written off	(5,533)
Foreign exchange gains and losses	<u>(209)</u>
Balance at December 31, 2018	<u>\$ 151,342</u>

The factored accounts receivable were as follows:

	(In Thousands)				
Factor	Factor Amount	Collected Amount	Prepayments	Discount Rate (%)	Factor Limit
For the year ended <u>December 31, 2018</u>					
HSBC Bank	US\$ 42,640	US\$ 39,855	-	-	US\$ 10,400
For the year ended <u>December 31, 2017</u>					
HSBC Bank	US\$ 41,383	US\$ 35,711	-	-	US\$ 12,800

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.

December 31, 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
Not past due	\$ 5,457,310
1-60 days	406,230
61-90 days	429
91-120 days	38,566
More than 120 days	<u>14,309</u>
	<u>\$ 5,916,844</u>

The above aging schedule was based on the number of days past due at 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 recognized on receivables	-	22,958	22,958
Exchange differences	<u>-</u>	<u>755</u>	<u>755</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 185,393</u>	<u>\$ 185,393</u>

As of December 31, 2017, the Group individually recognized impairment losses on trade receivables of \$0. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The Group did not hold any collateral over these receivables.

12. INVENTORIES

	December 31	
	2018	2017
Raw materials	\$ 4,264,410	\$ 3,941,530
Work-in-process	2,000,892	1,295,526
Semifinished goods	1,273,952	1,883,751
Finished goods	<u>37,467</u>	<u>71,539</u>
	<u>\$ 7,576,721</u>	<u>\$ 7,192,346</u>

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was \$31,656,151 thousand and \$30,365,137 thousand, respectively.

The cost of goods sold for the years ended December 31, 2018 and 2017 included inventory write-downs of \$94,910 thousand and \$19,361 thousand, respectively.

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

**December 31,
2017**

Private equity

Domestic listed common shares	\$ <u>434,763</u>
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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**

Domestic unlisted common shares	\$ 362,838
Overseas unlisted common shares	394,789
Domestic private equity funds	<u>60,000</u>
	<u>\$ 817,627</u>

Classified according to financial asset measurement categories	
Available-for-sale	<u>\$ 817,627</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.

During 2017, the Group disposed of certain financial assets measured at cost with a total carrying amount of \$6,770 thousand and recognized a disposal gain of \$7,545 thousand.

During 2017, the Group recognized an impairment loss of \$169,512 thousand on the above unlisted equity investments.

15. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The subsidiaries included in the consolidated financial statements are as follows:

Investor	Investee	Principal Activities	Proportion of Ownership December 31		Remark
			2018	2017	
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	
	Emtops Electronics Corp.	Sales of flash memory controllers and peripheral system applications products	100.00	100.00	
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	100.00	100.00	
	Global Flash Limited	Investment and trade	100.00	100.00	
	Power Flash (Samoa) Limited	Investment and trade	100.00	100.00	
	Everspeed Technology Limited	Trade of electronic components	100.00	100.00	
	Regis Investment (Samoa) Limited	Investment	100.00	-	Remark 1
	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	100.00	100.00	
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	
	Core Storage Electronic (Samoa) 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	
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	-	Remark 2
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	
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100.00	100.00	
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100.00	100.00	
Everspeed Technology Limited	Memoryexchange Corporation	Design and sale of flash memory related products	100.00	100.00	
	Cloud Solution Global Limited	Trade of electronic components	100.00	100.00	
	Fast Choice Global Limited	Trade of electronic components	100.00	100.00	
Regis Investment (Samoa) Limited	Real You Investment Limited	Investment	100.00	-	Remarks 1
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

Remark 1: During 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 2: During 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 group entities were eliminated.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates	December 31	
	2018	2017
<u>Unlisted shares</u>		
Kingston Solutions Inc.	\$ 1,257,971	\$ 1,623,790
Epostar Electronics (BVI) Corporation	17,596	47,741
Microtops Design Corporation (“Microtops”)	22,696	21,563
PMS Technology Corporation	17,929	16,617
Hefei Xinpeng Technology Co., Ltd.	<u>177,857</u>	<u>-</u>
	<u>\$ 1,494,049</u>	<u>\$ 1,709,711</u>

Refer to Table 6 “Information on Investees” for the nature of activities, principal place of business and country of incorporation of the associates.

As of December 31, 2018, no investments in associates were individually material to the Group.

As of December 31, 2017, the summarized financial information below represents amounts shown in the associates’ financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

- a. Material associate

Kingston Solutions Inc.

	December 31, 2017
Current assets	\$ 6,703,051
Non-current assets	149,930
Current liabilities	(1,250,947)
Non-current liabilities	<u>(668,003)</u>
Equity	<u>\$ 4,934,031</u>
Equity attributable to the Corporation	<u>\$ 1,623,790</u>
	For the Year Ended December 31, 2017
Operating revenue	<u>\$ 20,205,762</u>
Net profit for the year	\$ 1,441,523
Other comprehensive loss	<u>(92)</u>
Total comprehensive income for the year	<u>\$ 1,441,431</u>

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2018	2017
The Group's share of:		
Net loss for the year	\$ (174,654)	\$ (32,037)
Other comprehensive income (loss)	<u>(745)</u>	<u>14</u>
Total comprehensive loss for the year	<u>\$ (175,399)</u>	<u>\$ (32,023)</u>

The fiscal year end date for Microtops is March 31. For the purpose of applying the equity method of accounting, the consolidated financial statements of Microtops as of March 31, 2018 and 2017 have been used as the Corporation considers that it is impracticable for Microtops to prepare a separate set of financial statements as of December 31. Appropriate adjustments have been made accordingly for the effects of significant transactions between those dates and December 31, 2018 and 2017.

Flexmedia Electronics Corporation held a shareholders' meeting on February 25, 2016 for the approval of liquidation, and completed liquidation processes on August 29, 2018.

The Group share of losses of an associate is limited to its interest in that associate. The amount of unrecognized share of losses of those associates extracted from the relevant unaudited financial statements of associates, both for the period and cumulatively, were as follows:

	For the Year Ended December 31	
	2018	2017
Unrecognized share of losses of associates for the year	\$ <u>-</u>	\$ <u>(1,280)</u>
Accumulated unrecognized share of losses of associates	\$ <u>(1,295)</u>	\$ <u>(1,295)</u>

All the aforementioned associates are accounted for using the equity method.

17. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
Cost								
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	103,215	15,027	14,535	351,000	566,412
Disposals	-	-	-	(47,548)	(8,708)	(6,080)	-	(62,336)
Effects of foreign currency exchange difference	-	-	-	428	(49)	(558)	-	(179)
Reclassification	-	-	741,000	24,140	(372)	(24,059)	(741,000)	(291)
Balance at December 31, 2017	<u>\$ 813,738</u>	<u>\$ 28,775</u>	<u>\$ 1,965,976</u>	<u>\$ 414,707</u>	<u>\$ 46,685</u>	<u>\$ 30,322</u>	<u>\$ -</u>	<u>\$ 3,300,203</u>
Accumulated depreciation								
Balance at January 1, 2017	\$ -	\$ 17,242	\$ 187,260	\$ 133,845	\$ 19,078	\$ 12,721	\$ -	\$ 370,146
Disposals	-	-	-	(47,548)	(8,708)	(6,080)	-	(62,336)
Depreciation	-	3,684	45,814	102,040	13,173	4,653	-	169,364
Effects of foreign currency exchange difference	-	-	-	155	-	(7)	-	148
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 20,926</u>	<u>\$ 233,074</u>	<u>\$ 188,492</u>	<u>\$ 23,543</u>	<u>\$ 11,287</u>	<u>\$ -</u>	<u>\$ 477,322</u>
Balance at December 31, 2017, net	<u>\$ 813,738</u>	<u>\$ 7,849</u>	<u>\$ 1,732,902</u>	<u>\$ 226,215</u>	<u>\$ 23,142</u>	<u>\$ 19,035</u>	<u>\$ -</u>	<u>\$ 2,822,881</u>
Cost								
Balance at January 1, 2018	\$ 813,738	\$ 28,775	\$ 1,965,976	\$ 414,707	\$ 46,685	\$ 30,322	\$ -	\$ 3,300,203
Additions	-	-	79,495	281,956	15,215	13,634	-	390,300
Disposals	-	(5,095)	-	(42,359)	(10,142)	(844)	-	(58,440)
Effects of foreign currency exchange difference	-	-	-	(923)	(135)	(28)	-	(1,086)
Reclassification	-	-	-	1,585	-	-	-	1,585
Balance at December 31, 2018	<u>\$ 813,738</u>	<u>\$ 23,680</u>	<u>\$ 2,045,471</u>	<u>\$ 654,966</u>	<u>\$ 51,623</u>	<u>\$ 43,084</u>	<u>\$ -</u>	<u>\$ 3,632,562</u>

(Continued)

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
<i>Accumulated depreciation</i>								
Balance at January 1, 2018	\$ -	\$ 20,926	\$ 233,074	\$ 188,492	\$ 23,543	\$ 11,287	\$ -	\$ 477,322
Disposals	-	(5,095)	-	(42,181)	(10,105)	(844)	-	(58,225)
Depreciation	-	3,472	56,845	138,056	15,928	9,529	-	223,830
Effects of foreign currency exchange difference	-	-	-	(483)	(99)	(14)	-	(596)
Balance at December 31, 2018	<u>\$ -</u>	<u>\$ 19,303</u>	<u>\$ 289,919</u>	<u>\$ 283,884</u>	<u>\$ 29,267</u>	<u>\$ 19,958</u>	<u>\$ -</u>	<u>\$ 642,331</u>
Balance at December 31, 2018, net	<u>\$ 813,738</u>	<u>\$ 4,377</u>	<u>\$ 1,755,552</u>	<u>\$ 371,082</u>	<u>\$ 22,356</u>	<u>\$ 23,126</u>	<u>\$ -</u>	<u>\$ 2,990,231</u>

(Concluded)

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

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

18. INTANGIBLE ASSETS

	Computer Software	Technology License Fees	Total
Balance at January 1, 2017	\$ 131,413	\$ 90,884	\$ 222,297
Additions	127,129	34,827	161,956
Amortization	(104,999)	(61,092)	(166,091)
Effects of foreign currency exchange differences	<u>(32)</u>	<u>-</u>	<u>(32)</u>
Balance at December 31, 2017	<u>\$ 153,511</u>	<u>\$ 64,619</u>	<u>\$ 218,130</u>
Balance at January 1, 2018	\$ 153,511	\$ 64,619	\$ 218,130
Additions	112,514	23,331	135,845
Amortization	(152,472)	(48,885)	(201,357)
Effects of foreign currency exchange differences	<u>(68)</u>	<u>-</u>	<u>(68)</u>
Balance at December 31, 2018	<u>\$ 113,485</u>	<u>\$ 39,065</u>	<u>\$ 152,550</u>

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. OTHER PAYABLES

	December 31	
	2018	2017
<u>Other payables</u>		
Salaries and bonuses payable	\$ 2,452,835	\$ 2,598,177
Others	<u>1,264,063</u>	<u>1,138,600</u>
	<u>\$ 3,716,898</u>	<u>\$ 3,736,777</u>

20. OTHER LIABILITIES

	December 31	
	2018	2017
<u>Current</u>		
Other payables		
Refund liabilities (Note 21)	\$ 185,919	\$ -
Payables for purchases of equipment	30,832	11,416
Receipts under custody	23,927	88,771
Others	<u>98,384</u>	<u>94,316</u>
	<u>\$ 339,062</u>	<u>\$ 194,503</u>

21. PROVISIONS - CURRENT

	December 31, 2017
Sales returns and allowances	<u>\$ 292,081</u>
	For the Year Ended December 31, 2017
Balance at January 1	\$ 344,076
Additional provisions recognized	238,449
Usage	<u>(290,444)</u>
Balance at December 31	<u>\$ 292,081</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).

22. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

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

The amounts included in the consolidated balance sheets in respect of the Corporation’s defined benefit plan were as follows:

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 127,656	\$ 116,566
Fair value of plan assets	<u>(34,829)</u>	<u>(31,669)</u>
Net defined benefit liabilities	<u>\$ 92,827</u>	<u>\$ 84,897</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2017	<u>\$ 102,213</u>	<u>\$ (29,488)</u>	<u>\$ 72,725</u>
Service costs			
Current service costs	4,456	-	4,456
Net interest expense (income)	<u>1,840</u>	<u>(531)</u>	<u>1,309</u>
Recognized in profit or loss	<u>6,296</u>	<u>(531)</u>	<u>5,765</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	231	231
Actuarial loss - changes in financial assumptions	8,786	-	8,786
Actuarial loss - experience adjustments	<u>(729)</u>	<u>-</u>	<u>(729)</u>
Recognized in other comprehensive income	<u>8,057</u>	<u>231</u>	<u>8,288</u>
Contributions from the employer	<u>-</u>	<u>(1,881)</u>	<u>(1,881)</u>
Balance at December 31, 2017	<u>\$ 116,566</u>	<u>\$ (31,669)</u>	<u>\$ 84,897</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	<u>\$ 116,566</u>	<u>\$ (31,669)</u>	<u>\$ 84,897</u>
Service costs			
Current service costs	4,954	-	4,954
Net interest expense (income)	<u>1,633</u>	<u>(443)</u>	<u>1,190</u>
Recognized in profit or loss	<u>6,587</u>	<u>(443)</u>	<u>6,144</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(802)	(802)
Actuarial loss - changes in financial assumptions	4,695	-	4,695
Actuarial loss - experience adjustments	<u>(192)</u>	<u>-</u>	<u>(192)</u>
Recognized in other comprehensive income	<u>4,503</u>	<u>(802)</u>	<u>3,701</u>
Contributions from the employer	<u>-</u>	<u>(1,915)</u>	<u>(1,915)</u>
Balance at December 31, 2018	<u>\$ 127,656</u>	<u>\$ (34,829)</u>	<u>\$ 92,827</u> (Concluded)

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

	For the Year Ended December 31	
	2018	2017
Operating costs	\$ 859	\$ 723
Marketing expenses	716	685
Administrative expenses	1,597	1,561
Research and development expenses	<u>2,972</u>	<u>2,796</u>
	<u>\$ 6,144</u>	<u>\$ 5,765</u>

Recognized in other comprehensive income was an actuarial loss of \$1,530 thousand in 2018 and an actuarial loss of \$6,880 thousand in 2017. The cumulative amount of actuarial loss recognized in other comprehensive income as of December 31, 2018 and 2017 was \$41,127 thousand and \$39,597 thousand, respectively.

Through the defined benefit plan under the Labor Standards Law, the Corporation is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2018	2017
Discount rate	1.20%	1.40%
Expected rate of salary increase	4.00%	4.00%

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

	December 31	
	2018	2017
Discount rate		
0.25% increase	\$ (5,838)	\$ (5,582)
0.25% decrease	\$ 6,160	\$ 5,902
Expected rate of salary increase		
0.25% increase	\$ 5,655	\$ 5,443
0.25% decrease	\$ (5,404)	\$ (5,191)

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

	December 31	
	2018	2017
The expected contributions to the plan for the next year	\$ 2,097	\$ 1,888
The average duration of the defined benefit obligation	19 years	20 years

23. EQUITY

a. Share capital

Common shares

	December 31	
	2018	2017
Number of shares authorized (in thousands)	230,000	230,000
Shares authorized	\$ 2,300,000	\$ 2,300,000
Number of shares issued and fully paid (in thousands)	197,074	197,074
Shares issued	\$ 1,970,740	\$ 1,970,740

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 was in effect from December 5, 2017. In accordance with Article 55, 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. 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 4, 2018.

On November 13, 2018, 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. 1070344165 and will take effect starting from November 28, 2018. In accordance with Article 55, 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 2018, 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

	December 31	
	2018	2017
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*</u>		
Issuance of ordinary shares	\$ 6,237,434	\$ 6,237,434
The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
<u>May only be used to offset a deficit</u>		
Expired share options	227	227
<u>May not be used for any purpose</u>		
Share of changes in capital surplus of associates or joint ventures	<u>288,231</u>	<u>274,083</u>
	<u>\$ 6,674,650</u>	<u>\$ 6,660,502</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 25 (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 of special reserve	(25,965)	(85,393)		
Cash dividends	3,350,258	2,759,036	\$17	\$14

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors on March 21, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 431,812	
Special reserve	380,927	
Cash dividends	2,561,962	\$13

The appropriation of earnings for 2018 are subject to the resolution of the shareholders in the shareholders' meeting to be held on June 12, 2019.

d. Other equity items

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

	For the Year Ended December 31	
	2018	2017
Balance at January 1	\$ (67,147)	\$ (66,816)
Effect of change in tax rate	2,426	-
Exchange differences arising on translating the financial statements of foreign operations	(3,975)	(392)
Related income tax	<u>788</u>	<u>61</u>
Balance at December 31	<u><u>\$ (67,908)</u></u>	<u><u>\$ (67,147)</u></u>

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

Balance at January 1, 2017	\$ 40,851
Unrealized gain arising during the year	<u>62,712</u>
Balance at December 31, 2017	<u><u>\$ 103,563</u></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>\$ -</u></u>

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

	For the Year Ended December 31, 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	(169,451)
Cumulative unrealized gain (loss) on equity instruments transferred to retained earnings due to disposals	<u>172,633</u>
Balance at December 31	<u><u>\$ (313,019)</u></u>

e. Non-controlling interests

	For the Year Ended December 31, 2017
Balance at January 1	\$ 5,400
Acquisition of non-controlling interests in subsidiaries of Phisontech Electronics (Malaysia) Sdn. Bhd. (Note 27)	(7,626)
Attributable to non-controlling interests:	
Share of profit for the year	318
Exchange difference arising on translation of foreign operations	<u>1,908</u>
Balance at December 31	<u><u>\$ -</u></u>

24. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current year	\$ 659,411	\$ 976,422
Income tax on unappropriated earnings	185,973	170,486
Adjustments for prior periods	<u>(163,086)</u>	<u>(100,245)</u>
	682,298	1,046,663
Deferred tax		
In respect of the current year	54,748	(90,083)
Effect of change in tax rate	<u>(49,984)</u>	<u>-</u>
	<u>4,764</u>	<u>(90,083)</u>
Income tax expense recognized in profit or loss	<u><u>\$ 687,062</u></u>	<u><u>\$ 956,580</u></u>

A reconciliation of accounting profit and income tax expense for 2018 and 2017 is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	<u>\$ 5,005,181</u>	<u>\$ 6,717,870</u>
Income tax expense calculated at the statutory rate	\$ 1,022,903	\$ 1,142,671
Nondeductible expenses in determining taxable income	1,107	93
Unrecognized deductible temporary differences	(6,690)	(4,837)
Tax-exempt income	(304,852)	(255,057)
Income tax on unappropriated earnings	185,973	170,486
Effect of change in tax rate	(49,984)	-
Effect of different tax rate of group entities operating in other jurisdictions	1,691	3,469
Adjustments for prior years' tax	<u>(163,086)</u>	<u>(100,245)</u>
Income tax expense recognized in profit or loss	<u><u>\$ 687,062</u></u>	<u><u>\$ 956,580</u></u>

In 2017, the applicable corporate income tax rate used by the group entities in the ROC was 17%. However, 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. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

The appropriation of the 2019 earnings is uncertain and is subject to approval at the shareholders' meeting; thus, the potential consequences of income tax on the 2018 unappropriated earnings are not reliably determinable.

b. Income tax benefit recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
<u>Deferred income tax</u>		
Effect of change in tax rate	\$ 3,857	\$ -
Recognized in other comprehensive income		
Actuarial gain on defined benefit plan	740	1,408
Translation of foreign operations	<u>788</u>	<u>61</u>
Total income tax recognized in other comprehensive income	<u>\$ 5,385</u>	<u>\$ 1,469</u>

c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	<u>\$ 23,448</u>	<u>\$ 9,237</u>
Current tax liabilities		
Income tax payable	<u>\$ 523,854</u>	<u>\$ 1,092,802</u>

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Doubtful accounts	\$ 21,608	\$ (4,211)	\$ -	\$ -	\$ 17,397
Inventory write-downs	52,567	27,752	-	-	80,319
Unearned revenue	4,928	(967)	-	(83)	3,878
Refund liabilities	49,654	(12,470)	-	-	37,184
					(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Exchange Differences	Closing Balance
Defined benefit obligation	\$ 14,433	\$ 1,961	\$ 2,171	\$ -	\$ 18,565
Unrealized exchange losses	77,475	7,767	-	-	85,242
Impairment loss on financial assets	44,475	(12,674)	-	-	31,801
Exchange differences on translating foreign operations	13,746	-	3,214	-	16,960
Share of losses of subsidiaries and associates	29,224	(16,114)	-	-	13,110
Property, plant and equipment	1,915	282	-	-	2,197
Unrealized gain on transactions with subsidiaries	-	3,910	-	-	3,910
	<u>\$ 310,025</u>	<u>\$ (4,764)</u>	<u>\$ 5,385</u>	<u>\$ (83)</u>	<u>\$ 310,563</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre- hensive Income	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Doubtful accounts	\$ 19,107	\$ 2,507	\$ -	\$ (6)	\$ 21,608
Inventory write-downs	49,277	3,284	-	6	52,567
Unearned revenue	-	4,865	-	63	4,928
Provisions	58,493	(8,839)	-	-	49,654
Defined benefit obligation	12,363	662	1,408	-	14,433
Unrealized exchange losses	17,767	59,577	-	131	77,475
Impairment loss on financial assets	23,899	20,576	-	-	44,475
Exchange differences on translating foreign operations	13,685	-	61	-	13,746
Share of losses of subsidiaries and associates	22,107	7,117	-	-	29,224
Property, plant and equipment	<u>1,963</u>	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>1,915</u>
	<u>\$ 218,661</u>	<u>\$ 89,701</u>	<u>\$ 1,469</u>	<u>\$ 194</u>	<u>\$ 310,025</u>

Deferred tax liabilities

Unrealized exchange gains	<u>\$ 315</u>	<u>\$ (382)</u>	<u>\$ -</u>	<u>\$ 67</u>	<u>\$ -</u>
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e. Income tax assessments

<u>Associate</u>	<u>For the Year Ended</u>
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

25. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

The following items were included in the net profit for 2018 and 2017:

a. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Fair value changes of financial assets and financial liabilities		
Financial assets mandatorily at FVTPL	\$ (12,148)	\$ -
Net foreign exchange gains (losses), net	185,916	(404,573)
Impairment loss recognized on financial assets	-	(169,512)
Loss arising on financial assets classified as held for trading	-	(4,585)
Net gain on disposal of financial assets measured at cost	-	7,545
Others	<u>1,856</u>	<u>(761)</u>
	<u>\$ 175,624</u>	<u>\$ (571,886)</u>

b. Other income

	For the Year Ended December 31	
	2018	2017
Interest income		
Bank deposits	\$ 51,067	\$ 42,511
Convertible bonds	3,122	-
Rental income	1,885	2,530
Dividend income	41,698	29,947
Others	<u>201,725</u>	<u>45,689</u>
	<u>\$ 299,497</u>	<u>\$ 120,677</u>

c. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	\$ 223,830	\$ 169,364
Intangible assets	<u>201,357</u>	<u>166,091</u>
	<u>\$ 425,187</u>	<u>\$ 335,455</u>
An analysis of depreciation by function		
Operating costs	\$ 45,945	\$ 37,340
Operating expenses	<u>177,885</u>	<u>132,024</u>
	<u>\$ 223,830</u>	<u>\$ 169,364</u>
An analysis of amortization by function		
General and administrative expenses	\$ 7,909	\$ 8,369
Research and development expenses	<u>193,448</u>	<u>157,722</u>
	<u>\$ 201,357</u>	<u>\$ 166,091</u>

d. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 2,939,711	\$ 3,539,975
Post-employment benefits		
Defined contribution plan	82,200	69,244
Defined benefit plan	6,144	5,765
	<u>88,344</u>	<u>75,009</u>
Other employee benefits		
Employee welfare	55,870	54,933
Food stipend	41,210	36,766
	<u>97,080</u>	<u>91,699</u>
Termination benefits	<u>55</u>	<u>-</u>
	<u>\$ 3,125,190</u>	<u>\$ 3,706,683</u>
Employee benefits		
Recognized in operating costs	\$ 212,504	\$ 197,568
Recognized in operating expenses	<u>2,912,686</u>	<u>3,509,115</u>
	<u>\$ 3,125,190</u>	<u>\$ 3,706,683</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. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2018 and 2017, which have been approved by the Corporation's board of directors on March 21, 2019 and March 16, 2018, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2018	2017
Employees' compensation	9.84%	9.00%
Remuneration of directors and supervisors	0.72%	0.81%

Amount

	For the Year Ended December 31			
	2018		2017	
	Cash Dividends	Share Dividends	Cash Dividends	Share Dividends
Employees' compensation	\$ 550,000	\$ -	\$ 670,000	\$ -
Remuneration of directors and supervisors	40,000	-	60,000	-

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

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

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2019 and 2018 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

f. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2018	2017
Foreign exchange gains	\$ 589,489	\$ 404,688
Foreign exchange losses	<u>(403,573)</u>	<u>(809,261)</u>
Net gain (loss)	<u>\$ 185,916</u>	<u>\$ (404,573)</u>

26. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	<u>\$ 21.91</u>	<u>\$ 29.23</u>
Diluted earnings per share	<u>\$ 21.60</u>	<u>\$ 28.83</u>

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

Net Profit for the Year

	For the Year Ended December 31	
	2018	2017
Earnings used in the computation of basic earnings per share		
Profit for the period attributable to owners of the Corporation	<u>\$ 4,318,119</u>	<u>\$ 5,760,972</u>
Earnings used in the computation of diluted earnings per share		
Profit for the period attributable to owners of the Corporation	<u>\$ 4,318,119</u>	<u>\$ 5,760,972</u>

Shares

(In Thousands of Shares)

	For the Year Ended December 31	
	2018	2017
Weighted-average number of common shares used in the computation of basic earnings per share	197,074	197,074
Effect of potentially dilutive common shares:		
Employees' compensation	<u>2,867</u>	<u>2,766</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>199,941</u>	<u>199,840</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.

27. 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%.

28. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of net debts (borrowings offset by cash and cash equivalents) and equity (comprising share capital, capital surplus, retained earnings and other equities).

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 and the amount of new debt issued or existing debt redeemed.

29. FINANCIAL INSTRUMENTS

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

1) Fair value hierarchy

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 372,994	\$ -	\$ -	\$ 372,994
Domestic unlisted shares	-	-	281,900	281,900
Overseas unlisted shares	-	-	98,523	98,523
Domestic private equity funds	-	-	47,366	47,366
Beneficiary certificates - open-ended funds	2,619,258	-	-	2,619,258
Convertible bonds	<u>-</u>	<u>-</u>	<u>85,288</u>	<u>85,288</u>
	<u>\$ 2,992,252</u>	<u>\$ -</u>	<u>\$ 513,077</u>	<u>\$ 3,505,329</u>
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	\$ -	\$ -	\$ 132,871	\$ 132,871
Overseas unlisted shares	<u>-</u>	<u>-</u>	<u>317,526</u>	<u>317,526</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 450,397</u>	<u>\$ 450,397</u>

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	\$ 67,095	\$ -	\$ -	\$ 67,095
Beneficiary certificates - open-ended 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>

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

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

For the year ended December 31, 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 of IFRS 9)	47,032	-	302,656	511,227	860,915
Recognized in profit or loss					
Other gains and losses	334	3,478	134,421	-	138,233
Recognized in other comprehensive income					
Unrealized loss on financial assets at FVTOCI	-	-	-	(169,451)	(169,451)
Purchases	-	77,763	13,201	134,207	225,171
Sales	-	(49,675)	-	(25,586)	(75,261)
Capital reduction and refund of shares	-	-	(69,855)	-	(69,855)
Transfers out of Level 3	-	-	(434,763)	-	(434,763)
Balance at December 31, 2018	<u>\$ 47,366</u>	<u>\$ 85,288</u>	<u>\$ 380,423</u>	<u>\$ 450,397</u>	<u>\$ 963,474</u>

For the year ended December 31, 2017

	Financial Assets at FVTPL	Available-for-sale Financial Assets	Total
	Convertible Bonds	Equity Instruments	
Balance at January 1, 2017	\$ -	\$ 372,051	\$ 372,051
Purchase	49,675	-	49,675
Recognized in profit or loss			
Other gains and losses	4,047	-	4,047
Recognized in other comprehensive income			
Unrealized gain arising on revaluation of available-for-sale financial assets	-	62,712	62,712
Balance at December 31, 2017	<u>\$ 53,722</u>	<u>\$ 434,763</u>	<u>\$ 488,485</u>

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

- a) The fair values of convertible bonds are determined using the Binary Tree Evaluation Model and option pricing models where the significant unobservable input is historical volatility. As of December 31, 2018 and 2017, the historical volatilities used were 58.61% and 46.75%, respectively.

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

	December 31	
	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 in sustainable revenue growth rates would result in a decrease in fair value.

	December 31	
	2018	2017
Discount for non-controlling interests	15.0%	Note
Discount for lack of marketability	15.0%	Note
Sustainable revenue growth rates	2.0%	Note
WACC	13.7%	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.

	December 31	
	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

	December 31	
	2018	2017
<u>Financial assets</u>		
Financial assets at FVTPL		
Held for trading	\$ -	\$ 1,271,217
Mandatorily at FVTPL	3,505,329	-
Loans and receivables (Note 1)	-	20,242,977
Available-for-sale financial assets (Note 2)	-	1,252,390
Financial assets at amortized cost (Note 3)	19,760,633	-
Financial assets at FVTOCI		
Equity instruments	450,397	-

Financial liabilities

Financial liabilities at amortized cost (Note 4)	8,522,445	7,384,022
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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 loans, notes payable, and trade and other payables.

d. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade receivable, trade payables and borrowings. The Group's financial management department provides services to the business unit and coordinates access to 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 set out in Note 34.

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 used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates is 6%. 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 Year Ended December 31	
	2018	2017
Profit or loss	\$ 256,005	\$ 373,382

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:

	December 31	
	2018	2017
Fair value interest rate risk		
Financial assets	\$ 4,943,621	\$ 4,584,471
Cash flow interest rate risk		
Financial assets	9,299,883	9,638,332

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 years ended December 31, 2018 and 2017 would increase by \$930 thousand and \$964 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risks through its investments in international and domestic listed stock, private equity funds and beneficial certificates.

Sensitivity analysis

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

If equity prices had been 1% higher/lower, pre-tax profit for the year ended December 31, 2018 would have increased/decreased by \$35,053 thousand, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2018 would have increased/decreased by \$4,504 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 year ended December 31, 2017 would have increased/decreased by \$12,712 thousand, as a result of the changes in fair value of held-for-trading investments, and the pre-tax other comprehensive income for the year ended December 31, 2017 would increase/decrease by \$4,348 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 December 31, 2018 and 2017, the Group had available unutilized short-term bank loan facilities of \$7,922,200 thousand and \$6,820,500 thousand, respectively.

Liquidity and interest risk rate table for non-derivative financial liabilities

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

	December 31, 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	\$ 3,848,521	\$ 2,902,468	\$ 2,295,310	\$ -	\$ -
	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	\$ 2,641,026	\$ 2,875,361	\$ 2,960,437	\$ -	\$ -

e. Information on transfers of financial assets

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

30. TRANSACTIONS WITH RELATED-PARTIES

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

Related Party	Relationship
Toshiba International Procurement Hong Kong, Ltd.	Other related party
Toshiba Memory America, Inc.	Other related party
Toshiba Singapore Pte. Ltd.	Other related party
Toshiba Corporation, Japan	Other related party
Toshiba Client Solutions ANZ Pty Limited	Other related party
Toshiba Memory Corporation	Other related party
Toshiba Electronics Asia (Singapore) Pte., Ltd.	Other related party
Toshiba America Electronic, Components, Inc.	Other related party
Toshiba (Australia) Pty., Limited	Other related party
Toshiba Memory Singapore Pte. Ltd.	Other related party
Toshiba Electronics (China) Co., Ltd.	Other related party
Toshiba Memory Taiwan Corporation	Other related party
Toshiba Electronic Components Taiwan Corporation	Other related party
Orient Semiconductor Electronics Ltd.	Other related party
Dawning Leading Technology Inc.	Other related party (Note)
Apacer Technology Inc.	Other related party
Kingston Solutions Inc.	Associate
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate

Note: The dissolution of Dawning Leading Technology Inc. was approved in their shareholders' meeting held on August 29, 2018 and the date of merger was set as November 1, 2018; thus, starting from November 1, Dawning Leading Technology Inc. was no longer a related party of the Group.

b. Operating revenue

	<u>For the Year Ended December 31</u>	
	2018	2017
<u>Related-party categories</u>		
Associates	\$ 88,762	\$ 22,380
Other related parties	<u>1,831,022</u>	<u>1,855,850</u>
	<u>\$ 1,919,784</u>	<u>\$ 1,878,230</u>

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

c. Operating costs

1) Purchase of goods

	<u>For the Year Ended December 31</u>	
	2018	2017
<u>Related-party categories</u>		
Associates	\$ 689,883	\$ 293,119
Other related parties		
Toshiba Memory Taiwan Corporation	13,871,205	3,210,897
Toshiba Memory America, Inc.	4,468,490	921,246
Toshiba Electronic Components Taiwan Corporation	168	12,335,671
Others	<u>8,899</u>	<u>2,814,061</u>
	<u>\$ 19,038,645</u>	<u>\$ 19,574,994</u>

2) Processing costs

	<u>For the Year Ended December 31</u>	
	2018	2017
<u>Related-party categories</u>		
Associates	\$ 185	\$ 1,330
Other related parties	<u>1,758,073</u>	<u>1,387,601</u>
	<u>\$ 1,758,258</u>	<u>\$ 1,388,931</u>

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

d. Receivables from related parties

	December 31	
	2018	2017
<u>Related-party categories</u>		
Associates	\$ 81,354	\$ 465
Other related parties	<u>262,895</u>	<u>317,686</u>
	<u>\$ 344,249</u>	<u>\$ 318,151</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

	December 31	
	2018	2017
<u>Related-party categories</u>		
Associates	\$ 134,362	\$ 24,959
Other related parties		
Toshiba Electronic Components Taiwan Corporation	-	17
Toshiba Memory Taiwan Corporation	2,077,768	2,105,363
Others	<u>644,014</u>	<u>430,199</u>
	<u>\$ 2,856,144</u>	<u>\$ 2,560,538</u>

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	\$ 192,693	\$ 287,412
Post-employment benefits	1,866	1,492
Other employee benefits	<u>4,294</u>	<u>4,873</u>
	<u>\$ 198,853</u>	<u>\$ 293,777</u>

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

31. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

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

Future minimum lease payments under the above operating leases are as follows:

	December 31	
	2018	2017
Not later than 1 year	\$ 19,421	\$ 17,644
Later than 1 year and not later than 5 years	<u>21,855</u>	<u>34,538</u>
	<u>\$ 41,276</u>	<u>\$ 52,182</u>

b. The Group as lessor

Operating leases relate to the property are owned by the Group, and such leases will expire on December 31, 2019.

For the years ended December 31, 2018 and 2017, the Group recognized a guarantee on trade receivables of \$76 thousand and \$206 thousand, respectively.

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

	December 31	
	2018	2017
Not later than 1 year	<u>\$ 1,353</u>	<u>\$ 2,087</u>

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2018	2017
Refundable deposits for the Customs Duty Bureau - certificates of deposit (financial assets at amortized cost)	\$ 56,997	\$ -
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	<u>-</u>	<u>80,534</u>
	<u>\$ 56,997</u>	<u>\$ 80,534</u>

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

Significant Commitments

	December 31	
	2018	2017
Unused letters of credit	<u>\$ 1,670,000</u>	<u>\$ 2,046,500</u>

34. 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:

In Thousands of New Taiwan Dollars and Foreign Currencies

December 31, 2018			
	Foreign Currency	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD (USD:NTD)	\$ 240,853	30.7150	\$ 7,397,797
USD (USD:CNY)	4,805	6.8632	147,582
CNY (CNY:NTD)	33,224	4.4720	148,577
<u>Financial liabilities</u>			
Monetary			
USD (USD:NTD)	106,744	30.7150	3,278,640
December 31, 2017			
	Foreign Currency	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

For the years ended December 31, 2018 and 2017, (realized and unrealized) net foreign exchange gains were \$185,916 thousand and loss \$404,573 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 entities.

35. 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.

36. ADDITIONAL DISCLOSURES

a. Information about significant transactions and b. investees:

- 1) Financing provided to others. (None)
- 2) Endorsement/guarantee provided. (None)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures). (Table 1)
- 4) Marketable securities acquired or disposed of at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (Table 2)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4)

- 9) Trading in derivative instruments. (None)
 - 10) Other: Intercompany relationships and significant intercompany transactions. (Table 5)
 - 11) Information of investees. (Table 6)
- 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 7)
 - 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 8)
 - 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 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.

37. 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:

	Segment Revenue		Segment Profit (Loss)	
	For the Year Ended December 31		For the Year Ended December 31	
	2018	2017	2018	2017
Department that designs and sells flash memory controllers	\$ 40,788,105	\$ 41,864,759	\$ 4,710,274	\$ 6,732,575
Investment department	-	-	(490)	(883)
Total operating segments	<u>\$ 40,788,105</u>	<u>\$ 41,864,759</u>	4,709,784	6,731,692
Other gains and losses			175,624	(571,886)
Share of gains (losses) of associates			(174,654)	442,368
Other income			299,498	120,677
Financial costs			<u>(5,071)</u>	<u>(4,981)</u>
Profit before tax			<u>\$ 5,005,181</u>	<u>\$ 6,717,870</u>

Segment revenue reported above was generated from external customers. There were no intersegment sales for the years 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 the 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.

c. Revenue from major products and services

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

	For the Year Ended December 31	
	2018	2017
Sales of nand flash controller and application products etc.	\$ 40,615,264	\$ 41,690,713
Services income	<u>172,841</u>	<u>174,046</u>
	<u>\$ 40,788,105</u>	<u>\$ 41,864,759</u>

d. Geographical information

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

	Revenue from External Customers		Non-current Assets	
	For the Year Ended December 31		For the Year Ended December 31	
	2018	2017	2018	2017
Asia	\$ 24,336,197	\$ 23,853,418	\$ 3,149,935	\$ 3,044,791
America	12,646,332	13,514,981	-	-
Europe	3,609,347	4,126,140	-	-
Australia	195,271	368,827	-	-
Others	958	1,393	-	-
	<u>\$ 40,788,105</u>	<u>\$ 41,864,759</u>	<u>\$ 3,149,935</u>	<u>\$ 3,044,791</u>

Revenue was categorized depending on clients' locations.

e. Information about major customers

Included in revenue arising from the sale of nand flash, controller and application products of \$40,615,264 thousand and \$41,690,713 thousand in 2018 and 2017, respectively, is revenue of approximately \$8,928,975 thousand and \$9,217,685 thousand which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2018 and 2017.

TABLE 1

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

DECEMBER 31, 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	December 31, 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	\$ 204,436	-	\$ 204,436	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	13,369	204,235	-	204,235	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	20,685	213,487	-	213,487	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at FVTPL - current	9,298	151,380	-	151,380	Note 3
	Jih Sun Money Market Fund	-	Financial assets at FVTPL - current	13,767	203,655	-	203,655	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	16,113	201,596	-	201,596	Note 3
	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL - current	18,239	200,702	-	200,702	Note 3
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	12,070	190,629	-	190,629	Note 3
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at FVTPL - current	11,087	150,607	-	150,607	Note 3
	Taishin 1699 Money Market Fund		Financial assets at FVTPL - current	14,809	200,032	-	200,032	Note 3
	Taishin Ta-Chong Money Market Fund		Financial assets at FVTPL - current	14,102	200,030	-	200,030	Note 3
	TCB Taiwan Money Market Fund		Financial assets at FVTPL - current	19,716	200,030	-	200,030	Note 3
	Capital Money Market Fund		Financial assets at FVTPL - current	12,416	200,031	-	200,031	Note 3
	<u>Convertible bonds</u>							
	Ubitus Inc.		Financial assets at FVTPL - current	-	85,288	-	85,288	Note 9
	<u>Common shares</u>							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	86,569	1.33	86,569	Note 4
	Apacer Technology Inc.	-	Financial assets at FVTPL - current	10,050	286,425	9.96	286,425	Note 4
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets at FVTPL - non-current	1,000	1,134	0.50	1,134	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets at FVTPL - non-current	2,165	27,799	18.75	27,799	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	20,556	19.00	20,556	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	950	53,097	0.67	53,097	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets at FVTPL - non-current	8,850	214,309	11.11	214,309	Note 5
	Innorich Venture Capital Corp.	-	Financial assets at FVTPL - non-current	3,000	20,402	5.61	20,402	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	33,137	18.15	33,137	Note 5
	GeoThings, Inc.	-	Financial assets at FVTOCI - non-current	150	-	6.70	-	-

(Continued)

Holding Company Name	Marketable Securities Type/ Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment Corporation	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
	H3 Platform, Inc.	-	Financial assets at FVTOCI - non-current	18,400	30,705	12.14	30,705	Note 7
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at FVTOCI - non-current	11,966	48,859	17.16	48,859	Note 5
	Gomore Inc.	-	Financial assets at FVTOCI - non-current	16,925	10,741	6.15	10,741	Note 5
	Patriot Memory Asia Headquarter	-	Financial assets at FVTOCI - non-current	580	16,441	4.33	16,441	Note 5
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Financial assets at FVTPL - non-current	25,000	19,390	1.08	19,390	Note 5
	<u>Private equity fund</u>							
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	47,366	3.81	47,366	Note 5
	<u>Beneficiary certificates</u>							
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	30,341	-	30,341	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	2,424	30,329	-	30,329	Note 3
	<u>Common shares</u>							
	United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	5,616	44,394	16.12	44,394	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	37,786	1.18	37,786	Note 5
	Translink Capital Partners IV L.P.	-	Financial assets at FVTPL - non-current	300	6,506	0.78	6,506	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	98,740	10.92	98,740	Note 5
	UMBO CV Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,626	29,696	3.02	29,696	Note 8
	Omni Media International Incorporation	-	Financial assets at FVTOCI - non-current	1,714	18,343	4.56	18,343	Note 8
	RENIAC, INC. (preference shares)	-	Financial assets at FVTOCI - non-current	302	15,285	3.46	15,285	Note 5
Emtops Electronics Corporation	<u>Beneficiary certificates - open-end funds</u>							
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	815	10,194	-	10,194	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	988	10,202	-	10,202	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	<u>Beneficiary certificates</u>							
	United Cash Fund	-	Financial assets at FVTPL - current	2,410	17,342	-	17,342	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	80,496	4.74	80,496	Note 7

(Continued)

Note 1: The marketable securities listed refer to the types of financial instruments within the scope of IFRS 9 “Financial Instruments”.

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 December 28, 2018.

Note 4: The calculation of the market value was based on the closing price as of December 28, 2018.

Note 5: Refer to Note 29 (b)-3 for market value information.

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

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

Note 8: The calculation of the market value was based on the most recent acquisition price.

Note 9: The calculation of the market value was based on the expert evaluation report as of December 28, 2018.

Note 10: 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

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2018

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

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance (Note)	
					Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares (In Thousands)	Amount
Phison Electronics Corp.	Beneficiary certificates													
	Taishin Ta-Chong Money Market Fund	Financial assets at FVTPL - current	-	-	3,594	\$ 50,757	21,180	\$ 300,000	10,672	\$ 151,070	\$ 150,000	\$ 1,070	14,102	\$ 200,030
	Taishin 1699 Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	29,668	400,000	14,859	200,290	200,000	290	14,809	200,032
	TCB Taiwan Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	39,497	400,000	19,781	200,289	200,000	289	19,716	200,030

Note: The amounts of beginning and ending balance include the valuation gains or losses on financial instruments.

TABLE 3**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 YEAR ENDED DECEMBER 31, 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	\$ 673,914	2	Net 30 days after monthly closing	None	None	\$ (134,248)	(3)	-
	Toshiba Memory America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	4,468,490	16	Net 30 days after receipt date	None	None	(300,170)	(6)	-
	Toshiba Memory Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	13,871,205	51	Net 30 days after monthly closing	None	None	(2,077,768)	(43)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,439,882	5	Net 15 days after monthly closing	None	None	(343,844)	(7)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	318,191	1	Net 45 days after monthly closing	None	None	-	-	Note
	Toshiba Singapore Pte Ltd	The associates of a subsidiary which is a legal entity on the Corporation's board of directors	Sale	(169,870)	-	Net 60 days after monthly closing	None	None	-	-	-
	Toshiba Memory Corporation	The Corporation's legal entity board of directors	Sale	(885,227)	(2)	Net 60 days after monthly closing	None	None	95,909	2	-
	Apacer Technology Inc.	The Corporation is its director	Sale	(613,758)	(2)	Net 45 days after monthly closing	None	None	132,734	2	-
	Hefei Core Storage Electronic Limited	Sub-subsiary	Sale	(265,696)	(1)	Net 30 days after monthly closing	None	None	3,439	-	-
	Hefei Ruhan Electronic Technology Limited	Sub-subsiary	Sale	(103,518)	-	Net 30 days after monthly closing	None	None	19,360	-	-
Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	Fellow subsidiary	Purchase	107,194	29	Net 30 days after monthly closing	None	None	20,566	56	

Note: The dissolution of Dawning Leading Technology Inc. was approved in their shareholders' meeting held on August 29, 2018 and the date of merger was set as November 1, 2018; and thus, starting from November 1, Dawning Leading Technology Inc. was no longer a related party of the Corporation.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 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	\$ 132,734	6.66	\$ -	-	\$ 132,734	\$ -

Note: As of March 5, 2019.

TABLE 5**PHISON ELECTRONICS CORP. AND SUBSIDIARIES****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 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	\$ 265,696	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Accounts receivable	3,439	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Other payables	44,116	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Research expense	164,383	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Sales revenue	11,423	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Accounts receivable	6,773	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	34,152	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	5,291	Based on regular terms	-
		Ostek Corporation	1	Other payables	2,300	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expenses	15,192	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other payables	2,830	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Sales revenue	18,134	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Accounts receivable	9,781	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Inventory	6,643	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	1	Sales revenue	103,518	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	1	Accounts receivable	19,360	Based on regular terms	-
1	Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	2	Inventory	107,194	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	2	Accounts payable	20,566	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.

TABLE 6

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEEES
 FOR THE YEAR ENDED DECEMBER 31, 2018
 (In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 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	\$ 1,257,971	\$ (402,522)	\$ (132,470)	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	71,102	944	944	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	484,367	(211)	(211)	Subsidiary
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	22,696	2,313	1,133	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	28,982	2,000	100.00	34,764	(17)	(17)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	665,823	665,823	21,000,000	100.00	628,701	34,684	34,684	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	64,275	1,414	1,414	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	17,596	(115,248)	(43,587)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	101,359	553	553	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	252,981	112,544	112,544	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	199,332	-	6,700,000	100.00	205,618	769	769	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	52,855	(691)	-	Sub-subsubsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	17,929	3,936	-	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	41,635	2,880	-	Sub-subsubsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	599,958	49,188	-	Sub-subsubsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 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	\$ 95,308	\$ 403	\$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Production and sale of flash memory related products	391,986	391,986	40,950,000	100.00	116,518	109,154	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,681	(40)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	11,984	339	-	Sub-subsidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	197,760	-	6,650,000	100.00	204,123	845	-	Sub-subsidiary

(Concluded)

TABLE 7

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 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 December 31, 2018	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 53,096	2	\$ 53,096	\$ -	\$ -	\$ 53,096	100.00	\$ (14,830)	\$ 8,777	\$ -
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	2	576,780	-	-	576,780	100.00	49,190	598,892	-
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics hardware and rendering of related services and investment	182,825	1	-	182,825	-	182,825	100.00	703	183,151	-
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and software and rendering of related services and investment	185,369	2	-	-	-	-	100.00	(1,003)	180,133	-
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	2	-	-	-	-	36.36	(1,043)	177,857	-

Accumulated Investments in Mainland China as of December 31, 2018	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investments (Note 3)
\$ 812,701 (US\$ 25,762)	\$ 1,220,501 (US\$ 39,190)	\$ 16,147,122

(Continued)

Note 1: 1) Indirectly invested in a China-based company through a company located in a third region, Regis Investment Limited, and its subsidiaries.
2) Indirectly invested in a China-based company through a company located in a third region, Global Flash Limited, and its subsidiaries.

Note 2: Amount was recognized based on the audited 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 \$26,911,870 x 60% = \$16,147,122.

(Concluded)

TABLE 8**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 YEAR ENDED DECEMBER 31, 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	\$ 265,696	1	Net 30 days after monthly closing	None	None	\$ 3,439	-	-
	Hefei Ruhan Electronic Technology Limited	Sub-subsidiary	Sale	103,518	-	Net 30 days after monthly closing	None	None	19,360	-	-
Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	Fellow subsidiary	Purchase	107,194	29	Net 30 days after monthly closing	None	None	20,566	56	-