

Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2016 and
2015 (Restated) and
Independent Auditors' Review Report**

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have reviewed the accompanying consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively referred to as the "Group") as of September 30, 2016 and 2015 (2015 restated) and the related consolidated statements of comprehensive income for the three months ended and nine months ended September 30, 2016 and 2015 (2015 restated), and changes in equity and cash flows for the nine months ended September 30, 2016 and 2015 (2015 restated). These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

Except as stated in the following paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As stated in Note 13 to the consolidated financial statements, the financial statements of certain immaterial subsidiaries as of and for the nine months ended September 30, 2016 and 2015 (2015 restated) have not been reviewed. As of September 30, 2016 and 2015 (2015 restated), the total assets of these subsidiaries were 7% (NT\$2,052,131 thousand) and 6% (NT\$1,593,065 thousand), respectively, and the total liabilities of these subsidiaries were 7% (NT\$529,516 thousand) and 8% (NT\$622,680 thousand), respectively, of the related consolidated amounts (2015 amounts were restated). Of the consolidated comprehensive income and loss for the three months ended and nine months ended September 30, 2016 and 2015 (2015 restated), the subsidiaries' portions were (2%) (a loss of NT\$22,976 thousand), (6%) (a loss of NT\$67,441 thousand), (3%) (a loss of NT\$108,600 thousand), and (11%) (loss of NT\$301,097 thousand), respectively. Furthermore, as stated in Note 14 to the consolidated financial statements, the investments accounted for by the equity method as of September 30, 2016 and 2015 (2015 restated) amounted to NT\$1,024,177 thousand and NT\$709,990 thousand, respectively, and the comprehensive investment results for the three months ended and nine months ended September 30, 2016 and 2015 (2015 restated) were gain of NT\$137,996 thousand, loss of NT\$2,152 thousand, gain of NT\$226,740 thousand and loss of NT\$19,252 thousand, respectively; as stated in Note 35 to the consolidated financial statements, these investment amounts and the related information of the investees disclosed in the notes to the consolidated financial statements were based on unreviewed financial statements.

Based on our reviews, except for the effects of any adjustments that might have been made had the consolidated financial statements of the subsidiaries and the investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements of Phison Electronics Corp. and its subsidiaries as of and for the nine months ended September 30, 2016 and 2015 (2015 restated) referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 “Interim Financial Reporting” endorsed by the Financial Supervisory Commission of the Republic of China.

As stated in Note 26, as recorded in the minutes of meetings of the Corporation’s board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the Chairman of the Corporation, Mr. Khein Seng Pua, the operation management of Everspeed Technology Group are under substantial control by the Chairman and should be considered as the related parties of the Corporation. The Corporation received Rule No. 1050036477 issued by the FSC mandating of the acknowledgement of the aforementioned companies as controlled entities and the inclusion of these entities in the consolidated financial statements. The Corporation didn’t hold any interest in Everspeed Technology Group. Considering the long-term development and enhancing the integrity of the operating structure, after the board of directors on September 21, 2016, the Corporation determined to acquire 100% equity interest from the shareholders of the parent Company of Everspeed Technology Group, Everspeed Technology Limited on September 30, 2016. And the Corporation complies the policies and involves it in the consolidated financial statements as an controlled entity, accounting for as an equity transaction.

As stated in Note 34, the Corporation is under statutory investigation for alleged violation of the Securities and Exchange Act. The investigation was ongoing as of the date of this report.

November 10, 2016

Notice to Readers

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2016 (Reviewed)		December 31, 2015 (Audited after Restated)		September 30, 2015 (Reviewed after Restated)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Notes 4 and 6)	\$ 10,008,710	35	\$ 12,405,596	44	\$ 9,821,788	36
Financial assets at fair value through profit or loss - current (Notes 4 and 7)	1,236,642	4	2,226,804	8	2,235,688	8
Debt investments with no active market - current (Notes 4, 8 and 31)	59,302	-	20,408	-	20,914	-
Notes and accounts receivable						
Third parties (Notes 4 and 9)	5,781,863	20	4,063,528	14	4,744,094	18
Related parties (Notes 4, 9 and 29)	424,347	2	370,224	1	344,586	1
Other receivables (Note 9)	439,555	2	384,324	1	416,457	2
Current tax assets	-	-	829	-	13,111	-
Inventories (Notes 4 and 10)	6,057,775	21	5,251,376	19	5,768,199	21
Prepayments	73,808	-	61,174	-	53,475	-
Other current assets	34,018	-	39,358	-	100,897	1
Total current assets	24,116,020	84	24,823,621	87	23,519,209	87
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Notes 4 and 11)	320,595	1	295,950	1	322,800	1
Financial assets measured at cost - non-current (Notes 4 and 12)	758,743	2	605,219	2	603,658	2
Investments accounted for by the equity method (Notes 4 and 14)	1,024,177	3	708,755	2	709,990	3
Property, plant and equipment (Notes 4 and 15)	2,240,676	8	1,637,395	6	1,624,931	6
Intangible assets (Notes 4 and 16)	183,424	1	198,623	1	121,637	1
Deferred tax assets	211,763	1	145,843	1	113,157	-
Guarantee deposits paid	11,196	-	3,381	-	1,687	-
Total non-current assets	4,750,574	16	3,595,166	13	3,497,860	13
TOTAL	\$ 28,866,594	100	\$ 28,418,787	100	\$ 27,017,069	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	\$ -	-	\$ 196,950	1	\$ 723,140	3
Notes and accounts payable						
Third parties	1,022,302	3	1,091,580	4	1,320,464	5
Related parties (Note 29)	2,520,719	9	3,164,580	11	2,047,938	7
Other payables (Note 18)	2,799,287	10	2,332,344	8	2,349,410	9
Current tax payable	513,590	2	654,254	2	789,554	3
Current provisions (Notes 4 and 19)	204,383	1	149,852	1	84,194	-
Other current liabilities	253,311	1	210,352	1	171,487	1
Total current liabilities	7,313,592	26	7,799,912	28	7,486,187	28
NON-CURRENT LIABILITIES						
Deferred tax liabilities	1,760	-	1,858	-	11,861	-
Net defined benefit liabilities - non-current (Note 4)	69,406	-	66,901	-	44,219	-
Guarantee deposits received	314	-	254	-	254	-
Total non-current liabilities	71,480	-	69,013	-	56,334	-
Total liabilities	7,385,072	26	7,868,925	28	7,542,521	28
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 21)						
Capital stock						
Common shares	1,973,740	7	1,973,740	7	1,973,740	7
Capital surplus	6,661,944	23	6,514,569	23	6,514,569	24
Retained earnings						
Legal reserve	2,356,107	8	1,956,106	7	1,956,106	8
Special reserve	111,358	-	5,056	-	5,056	-
Unappropriated earnings	10,506,284	37	9,990,216	35	8,972,782	33
Total retained earnings	12,973,749	45	11,951,378	42	10,933,944	41
Other equity	(69,155)	(1)	(111,358)	(1)	(71,050)	-
Treasury shares	(64,722)	-	-	-	-	-
Total equity attributable to owners of the Company	21,475,556	74	20,328,329	71	19,351,203	72
NON-CONTROLLING INTERESTS	5,966	-	221,533	1	123,345	-
Total equity	21,481,522	74	20,549,862	72	19,474,548	72
TOTAL	\$ 28,866,594	100	\$ 28,418,787	100	\$ 27,017,069	100

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

(With Deloitte & Touche review report dated November 10, 2016)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2016		2015 (Restated)		2016		2015 (Restated)	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUES (Notes 4 and 29)								
Gross sales	\$ 12,475,632	101	\$ 10,286,580	101	\$ 32,952,958	101	\$ 27,226,663	101
Less: Sales returns and allowances	<u>172,251</u>	<u>1</u>	<u>108,663</u>	<u>1</u>	<u>342,131</u>	<u>1</u>	<u>254,383</u>	<u>1</u>
Net sales	12,303,381	100	10,177,917	100	32,610,827	100	26,972,280	100
Service revenue	<u>33,976</u>	<u>-</u>	<u>11,234</u>	<u>-</u>	<u>89,854</u>	<u>-</u>	<u>81,676</u>	<u>-</u>
Total operating revenues	12,337,357	100	10,189,151	100	32,700,681	100	27,053,956	100
OPERATING COSTS (Notes 4, 10, 23 and 29)	<u>9,707,871</u>	<u>79</u>	<u>8,230,711</u>	<u>81</u>	<u>26,125,143</u>	<u>80</u>	<u>21,289,325</u>	<u>79</u>
GROSS PROFIT	<u>2,629,486</u>	<u>21</u>	<u>1,958,440</u>	<u>19</u>	<u>6,575,538</u>	<u>20</u>	<u>5,764,631</u>	<u>21</u>
OPERATING EXPENSES (Note 23)								
Marketing	169,718	1	134,563	1	407,009	1	371,884	1
General and administrative	155,824	1	123,599	1	371,421	1	452,967	2
Research and development	<u>806,663</u>	<u>7</u>	<u>614,304</u>	<u>6</u>	<u>2,232,172</u>	<u>7</u>	<u>1,768,786</u>	<u>6</u>
Total operating expenses	<u>1,132,205</u>	<u>9</u>	<u>872,466</u>	<u>8</u>	<u>3,010,602</u>	<u>9</u>	<u>2,593,637</u>	<u>9</u>
OPERATING INCOME	<u>1,497,281</u>	<u>12</u>	<u>1,085,974</u>	<u>11</u>	<u>3,564,936</u>	<u>11</u>	<u>3,170,994</u>	<u>12</u>
NONOPERATING INCOME AND EXPENSES								
Other gains and losses (Note 23)	(169,601)	(1)	288,886	3	(154,278)	(1)	118,612	-
Share of gains (losses) of associates	137,996	1	(2,152)	-	226,740	1	(19,252)	-
Other income (Note 23)	78,782	1	45,982	-	143,136	-	83,652	-
Financial costs	<u>(61)</u>	<u>-</u>	<u>(552)</u>	<u>-</u>	<u>(1,339)</u>	<u>-</u>	<u>(2,169)</u>	<u>-</u>
Total nonoperating income and expenses	<u>47,116</u>	<u>1</u>	<u>332,164</u>	<u>3</u>	<u>214,259</u>	<u>-</u>	<u>180,843</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	1,544,397	13	1,418,138	14	3,779,195	11	3,351,837	12
INCOME TAX EXPENSE (Notes 4 and 22)	<u>60,954</u>	<u>1</u>	<u>234,584</u>	<u>3</u>	<u>453,280</u>	<u>1</u>	<u>588,327</u>	<u>2</u>
NET PROFIT FOR THE PERIOD	<u>1,483,443</u>	<u>12</u>	<u>1,183,554</u>	<u>11</u>	<u>3,325,915</u>	<u>10</u>	<u>2,763,510</u>	<u>10</u>

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	Three Months Ended September 30				Nine Months Ended September 30			
	2016		2015 (Restated)		2016		2015 (Restated)	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF INCOME TAX								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	\$ (27,650)	-	\$ (11,472)	-	\$ (38,600)	-	\$ (17,376)	-
Unrealized gain (loss) on available-for-sale financial assets	18,645	-	(122,100)	(1)	74,145	-	(57,900)	-
Income tax relating to items that may be reclassified subsequently to profit or loss	4,049	-	190	-	6,543	-	1,658	-
Other comprehensive income (loss) for the period, net of income tax	(4,956)	-	(133,382)	(1)	42,088	-	(73,618)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 1,478,487</u>	<u>12</u>	<u>\$ 1,050,172</u>	<u>10</u>	<u>\$ 3,368,003</u>	<u>10</u>	<u>\$ 2,689,892</u>	<u>10</u>
NET PROFIT ATTRIBUTED TO:								
Owners of the Parent	\$ 1,500,519	12	\$ 1,184,126	11	\$ 3,390,859	10	\$ 2,964,237	11
Non-controlling interests	(17,076)	-	(572)	-	(64,944)	-	(200,727)	(1)
	<u>\$ 1,483,443</u>	<u>12</u>	<u>\$ 1,183,554</u>	<u>11</u>	<u>\$ 3,325,915</u>	<u>10</u>	<u>\$ 2,763,510</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:								
Owners of the Parent	\$ 1,499,397	12	\$ 1,061,100	10	\$ 3,433,062	10	\$ 2,898,243	11
Non-controlling interests	(20,910)	-	(10,928)	-	(65,059)	-	(208,351)	(1)
	<u>\$ 1,478,487</u>	<u>12</u>	<u>\$ 1,050,172</u>	<u>10</u>	<u>\$ 3,368,003</u>	<u>10</u>	<u>\$ 2,689,892</u>	<u>10</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 24)								
Basic	<u>\$ 7.61</u>		<u>\$ 6.00</u>		<u>\$ 17.18</u>		<u>\$ 15.16</u>	
Diluted	<u>\$ 7.54</u>		<u>\$ 5.96</u>		<u>\$ 16.98</u>		<u>\$ 14.94</u>	

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

(With Deloitte & Touche review report dated November 10, 2016)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Parent										
	Ordinary Shares	Capital Surplus	Retained Earnings			Other Equity		Treasury Shares	Total	Non-controlling Interests	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets				
BALANCE AT JANUARY 1, 2015 (AUDITED AFTER RESTATED)	\$ 1,854,740	\$ 4,487,500	\$ 1,635,991	\$ 11,241	\$ 8,533,064	\$ (5,056)	\$ -	\$ -	\$ 16,517,480	\$ 260,061	\$ 16,777,541
Appropriation of the 2014 earnings											
Legal reserve	-	-	320,115	-	(320,115)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(6,185)	6,185	-	-	-	-	-	-
Cash dividends - NT\$11.2 per share	-	-	-	-	(2,210,589)	-	-	-	(2,210,589)	-	(2,210,589)
Issue of common shares for cash on February 13, 2015 - NT\$180 per share	119,000	2,023,000	-	-	-	-	-	-	2,142,000	-	2,142,000
Change in equity from the consideration received in excess of the carrying amount of the subsidiaries' net assets during disposal or acquisition	-	4,069	-	-	-	-	-	-	4,069	-	4,069
Non-controlling interests	-	-	-	-	-	-	-	-	-	71,635	71,635
Net profit for the nine months ended September 30, 2015	-	-	-	-	2,964,237	-	-	-	2,964,237	(200,727)	2,763,510
Other comprehensive income for the nine months ended September 30, 2015, net of income tax	-	-	-	-	-	(8,094)	(57,900)	-	(65,994)	(7,624)	(73,618)
BALANCE AT SEPTEMBER 30, 2015 (REVIEWED AFTER RESTATED)	\$ 1,973,740	\$ 6,514,569	\$ 1,956,106	\$ 5,056	\$ 8,972,782	\$ (13,150)	\$ (57,900)	\$ -	\$ 19,351,203	\$ 123,345	\$ 19,474,548
BALANCE AT JANUARY 1, 2016 (AUDITED AFTER RESTATED)	\$ 1,973,740	\$ 6,514,569	\$ 1,956,106	\$ 5,056	\$ 9,990,216	\$ (26,608)	\$ (84,750)	\$ -	\$ 20,328,329	\$ 221,533	\$ 20,549,862
Appropriation of the 2015 earnings											
Legal reserve	-	-	400,001	-	(400,001)	-	-	-	-	-	-
Special reserve	-	-	-	106,302	(106,302)	-	-	-	-	-	-
Cash dividends - NT\$12 per share	-	-	-	-	(2,368,488)	-	-	-	(2,368,488)	-	(2,368,488)
Non-controlling interests	-	-	-	-	-	-	-	-	-	4,577	4,577
Disconsolidation of subsidiaries	-	-	-	-	-	-	-	-	-	(7,710)	(7,710)
Change in equity from the consideration received in excess of the carrying amount of the subsidiaries' net assets during disposal or acquisition	-	147,375	-	-	-	-	-	-	147,375	(147,375)	-
Treasury shares	-	-	-	-	-	-	-	(64,722)	(64,722)	-	(64,722)
Net profit for the nine months ended September 30, 2016	-	-	-	-	3,390,859	-	-	-	3,390,859	(64,944)	3,325,915
Other comprehensive income for the nine months ended September 30, 2016, net of income tax	-	-	-	-	-	(31,942)	74,145	-	42,203	(115)	42,088
BALANCE AT SEPTEMBER 30, 2016	\$ 1,973,740	\$ 6,661,944	\$ 2,356,107	\$ 111,358	\$ 10,506,284	\$ (58,550)	\$ (10,605)	\$ (64,722)	\$ 21,475,556	\$ 5,966	\$ 21,481,522

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

(With Deloitte & Touche review report dated November 10, 2016)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2016	2015 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 3,779,195	\$ 3,351,837
Adjustments for:		
Share of (gains) losses of associates	(226,740)	19,252
Net losses (gains) on foreign currency exchange	238,927	(237,944)
Recognition of provisions	185,474	75,772
Amortization	92,095	71,881
Depreciation	89,366	79,834
Gain on deconsolidation of subsidiaries	(45,649)	-
Dividend income	(38,768)	(40,136)
Allowance for bad debts	34,196	18,699
Interest income	(25,183)	(27,462)
Impairment loss recognized on Intangible assets	23,640	-
Net (gains) losses on fair value change of financial assets designated as at fair value through loss or profit	(11,902)	3,788
Write-down (reversal of write-down) of inventories	8,598	(12,953)
Financial costs	1,339	2,169
Impairment loss recognized on financial assets	-	40,811
Loss on disposal of financial assets measured at cost	-	1,420
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	1,001,740	(156,781)
Notes and accounts receivable	(1,856,211)	(933,833)
Other receivable	(57,413)	(46,645)
Inventories	(816,084)	(218,473)
Prepayments	(12,377)	(28,446)
Other current assets	4,329	(85,264)
Notes and accounts payable	(699,681)	(713,273)
Other payables	486,806	428,907
Provisions	(130,943)	(62,706)
Other current liabilities	16,562	(46,225)
Accrued pension costs	<u>2,505</u>	<u>1,761</u>
Cash generated from operations	2,043,821	1,485,990
Interest paid	(1,399)	(1,865)
Income tax paid	<u>(658,056)</u>	<u>(370,356)</u>
Net cash generated from operating activities	<u>1,384,366</u>	<u>1,113,769</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for property, plant and equipment	(663,739)	(72,326)
Purchase of financial assets carried at cost	(153,524)	(264,879)
Acquisition of intangible assets	(107,834)	(66,714)
Proceeds of the capital reduction of available-for-sale financial assets	49,500	-
Increase in debt investments with no active market	(38,894)	(95)

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2016	2015 (Restated)
Dividends received	\$ 38,768	\$ 40,136
Increase in prepayments for long-term investment	(31,772)	-
Interest received	25,520	29,734
Net cash outflow from deconsolidation of subsidiaries	(25,297)	-
Increase in guarantee deposits	(8,257)	(1,050)
Payment for available-for-sale financial assets	-	(380,700)
Proceeds of the capital reduction of investments accounted for by the equity method	-	4,298
Proceeds on sale of financial assets measured at cost	<u>-</u>	<u>7,711</u>
Net cash used in investing activities	<u>(915,529)</u>	<u>(703,885)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(2,368,488)	(2,210,589)
(Decrease) increase in short-term borrowings	(196,950)	724,441
Purchase of treasury shares	(64,722)	-
Increase in non-controlling interests	4,577	75,704
Increase (decrease) in guarantee deposits	60	(2,200)
Proceeds of the issue of common shares	<u>-</u>	<u>2,142,000</u>
Net cash (used in) generated from financing activities	<u>(2,625,523)</u>	<u>729,356</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(240,200)</u>	<u>124,625</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,396,886)	1,263,865
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>12,405,596</u>	<u>8,557,923</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 10,008,710</u>	<u>\$ 9,821,788</u>

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

(With Deloitte & Touche review report dated November 10, 2016)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RESTATED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (RESTATED) (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

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

The consolidated financial statements are presented in the Corporation's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors on November 10, 2016.

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

- a. International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), Interpretations of IFRS ("IFRIC"), and Interpretations of IAS ("SIC") issued by the International Accounting Standards Board ("IASB") and endorsed by the ROC Financial Supervisory Commission ("FSC") (collectively, the "IFRSs") for application starting from 2017

Rule No. 1050026834 issued by the FSC endorsed the IFRSs for application starting January 1, 2017.

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

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New IFRSs	Effective Date Announced by IASB (Note 1)
Amendment to IAS 36 “Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets”	January 1, 2014
Amendment to IAS 39 “Novation of Derivatives and Continuation of Hedge Accounting”	January 1, 2014
IFRIC 21 “Levies”	January 1, 2014 (Concluded)

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

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

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

The application of the above IFRSs, whenever applied in 2017, would not have any material impact on the Corporation’s accounting policies.

b. New IFRSs issued by IASB but not yet endorsed by the FSC

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. As of the date the consolidated financial statements were authorized for issue, except for IFRS 15 to be effective on January 1, 2018, the FSC has not announced the effective dates of the other new IFRSs.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note)
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendment to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

The impairment of financial assets

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

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

2) IFRS 16 “Leases”

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

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

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

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

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

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Group expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

The Cause and Effect of the Restatement of the 2015 Financial Statements

As recorded in the minutes of meetings of the Corporation's board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the Chairman of the Corporation, Mr. Khein Seng Pua has substantial control over the operations and management of Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation (controlled since October 2010), Cloud Solution Global Limited (established on October 25, 2012), and Fast Choice Global Limited (established on May 23, 2013)) and Twinson Electronic Corporation (100% acquired by the Corporation on December 25, 2014 and renamed as Ostek Corporation) and, therefore, these companies are related parties of the Corporation. On September 1, 2016, the Corporation received Rule No. 1050036477 issued by the FSC which mandated and acknowledged that the mentioned companies are controlled entities that should be included in the consolidated financial statements. To conform to the Rule, the Corporation has restated its consolidated financial statements from January 1, 2009 to June 30, 2016.

The Corporation does not have any equity interests in Everspeed Technology Group. Therefore, in the consolidated financial statements after restatement, the equity of Everspeed Technology Group is entirely reported as non-controlling interests, and the income (loss) and other comprehensive income (loss) of Everspeed Technology Group is entirely reported as non-controlling interests.

The Corporation has applied the consolidation basis mentioned above to restate its balance sheet accounts as of December 31, 2015 and September 30, 2015 and its profit and loss accounts for the three months and nine months ended September 30, 2015. The impact of the restatement on the consolidated financial statements was as follows:

The Effect on Assets, Liabilities, and Equity	Amount before Restatement	Affected Amount	Amount after Restatement
<u>December 31, 2015</u>			
Assets			
Current assets	\$ 24,206,141	\$ 617,480	\$ 24,823,621
Non-current assets	<u>3,546,282</u>	<u>48,884</u>	<u>3,595,166</u>
Total assets	<u>\$ 27,752,423</u>	<u>\$ 666,364</u>	<u>\$ 28,418,787</u>
Liabilities			
Current liabilities	\$ 7,327,671	\$ 472,241	\$ 7,799,912
Non-current liabilities	<u>68,087</u>	<u>926</u>	<u>69,013</u>
Total liabilities	<u>\$ 7,395,758</u>	<u>\$ 473,167</u>	<u>\$ 7,868,925</u>
Equity			
Attributed to owners of the Corporation	\$ 20,328,329	\$ -	\$ 20,328,329
Attributed to non-controlling interests	<u>28,336</u>	<u>193,197</u>	<u>221,533</u>
Total equity	<u>\$ 20,356,665</u>	<u>\$ 193,197</u>	<u>\$ 20,549,862</u>
<u>September 30, 2015</u>			
Assets			
Current assets	\$ 22,894,533	\$ 624,676	\$ 23,519,209
Non-current assets	<u>3,446,907</u>	<u>50,953</u>	<u>3,497,860</u>
Total assets	<u>\$ 26,341,440</u>	<u>\$ 675,629</u>	<u>\$ 27,017,069</u>

(Continued)

The Effect on Assets, Liabilities, and Equity	Amount before Restatement	Affected Amount	Amount after Restatement
Liabilities			
Current liabilities	\$ 6,899,402	\$ 586,785	\$ 7,486,187
Non-current liabilities	<u>56,334</u>	<u>-</u>	<u>56,334</u>
Total liabilities	<u>\$ 6,955,736</u>	<u>\$ 586,785</u>	<u>\$ 7,542,521</u>
Equity			
Attributed to owners of the Corporation	\$ 19,351,203	\$ -	\$ 19,351,203
Attributed to non-controlling interests	<u>34,501</u>	<u>88,844</u>	<u>123,345</u>
Total equity	<u>\$ 19,385,704</u>	<u>\$ 88,844</u>	<u>\$ 19,474,548</u>
<u>For the three months ended September 30, 2015</u>			
Operating revenues	\$ 10,033,816	\$ 155,335	\$ 10,189,151
Operating costs	<u>8,065,700</u>	<u>165,011</u>	<u>8,230,711</u>
Gross profit	1,968,116	(9,676)	1,958,440
Operating expenses	<u>866,872</u>	<u>5,594</u>	<u>872,466</u>
Operating income	1,101,244	(15,270)	1,085,974
Non-operating income and expenses	<u>311,445</u>	<u>20,719</u>	<u>332,164</u>
Profit before income tax	1,412,689	5,449	1,418,138
Income tax expense	<u>234,584</u>	<u>-</u>	<u>234,584</u>
Net profit for the period	1,178,105	5,449	1,183,554
Other comprehensive income (loss) for the period	<u>(123,888)</u>	<u>(9,494)</u>	<u>(133,382)</u>
Total comprehensive income for the period	<u>\$ 1,054,217</u>	<u>\$ (4,045)</u>	<u>\$ 1,050,172</u>
Net profit attributed to:			
Owners of the Corporation	\$ 1,184,126	\$ -	\$ 1,184,126
Non-controlling interests	<u>(6,021)</u>	<u>5,449</u>	<u>(572)</u>
	<u>\$ 1,178,105</u>	<u>\$ 5,449</u>	<u>\$ 1,183,554</u>
Total comprehensive income attributed to:			
Owners of the Corporation	\$ 1,061,100	\$ -	\$ 1,061,100
Non-controlling interests	<u>(6,883)</u>	<u>(4,045)</u>	<u>(10,928)</u>
	<u>\$ 1,054,217</u>	<u>\$ (4,045)</u>	<u>\$ 1,050,172</u>

(Continued)

	Amount before Restatement	Affected Amount	Amount after Restatement
<u>For the nine months ended September 30, 2015</u>			
Operating revenues	\$ 26,817,450	\$ 236,506	\$ 27,053,956
Operating costs	<u>21,050,377</u>	<u>238,948</u>	<u>21,289,325</u>
Gross profit	5,767,073	(2,442)	5,764,631
Operating expenses	<u>2,443,050</u>	<u>150,587</u>	<u>2,593,637</u>
Operating income	3,324,023	(153,029)	3,170,994
Non-operating income and expenses	<u>192,522</u>	<u>(11,679)</u>	<u>180,843</u>
Profit before income tax	3,516,545	(164,708)	3,351,837
Income tax expense	<u>588,327</u>	<u>-</u>	<u>588,327</u>
Net profit for the period	2,928,218	(164,708)	2,763,510
Other comprehensive income (loss) for the period	<u>(67,109)</u>	<u>(6,509)</u>	<u>(73,618)</u>
 Total comprehensive income for the period	 <u>\$ 2,861,109</u>	 <u>\$ (171,217)</u>	 <u>\$ 2,689,892</u>
 Net profit attributed to:			
Owners of the Corporation	\$ 2,964,237	\$ -	\$ 2,964,237
Non-controlling interests	<u>(36,019)</u>	<u>(164,708)</u>	<u>(200,727)</u>
	 <u>\$ 2,928,218</u>	 <u>\$ (164,708)</u>	 <u>\$ 2,763,510</u>
 Total comprehensive income attributed to:			
Owners of the Corporation	\$ 2,898,243	\$ -	\$ 2,898,243
Non-controlling interests	<u>(37,134)</u>	<u>(171,217)</u>	<u>(208,351)</u>
	 <u>\$ 2,861,109</u>	 <u>\$ (171,217)</u>	 <u>\$ 2,689,892</u>
			(Concluded)

The Corporation does not have equity interest in Everspeed Technology Group. Therefore, for the long-term development and enhancement of the integrity of the operating structure, the Corporation's board of directors held a meeting on September 21, 2016 and decided to acquire from the shareholders of Everspeed Technology Limited, the parent company of Everspeed Technology Group, 100% equity interest of Everspeed Technology Group for NT\$1 on September 30, 2016. Then the Corporation included Everspeed Technology Group in the consolidated financial statements as a controlled entity and accounted for the acquisition as equity transaction. Please refer to Note 26 for further details.

Basis of Preparation

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

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety. These levels 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. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the 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, the difference between those as the following is recognized in disposal gains and losses: (1) the total amount of the fair value of the consideration received and the fair value of the remaining investment in the former subsidiary on the date control was lost, and (2) the total amount of assets, including goodwill, also liabilities from former subsidiaries, and the carrying amount of non-controlling interests on the date control was lost. The base of the compliance should be the same between the accounting for all the amount recognized in other comprehensive income related to the subsidiary and accounting for the related assets and liabilities disposed directly by the Group.

The remaining investment in former subsidiary is recognized as the original investment amount in the associate according to the fair value on the date control was lost.

See Note 13, Tables 5 and 6 for the detailed information of subsidiaries (including the percentage of ownership and main business).

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 on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Corporation) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the 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 products, work-in-process, finished goods and merchandise, 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. 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 weighted-average cost at the end of the reporting period.

Investment in Associates

An associate is an entity over which the Group has significant influence and that 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, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. The Group also recognizes the changes in the Group's share of equity of associates.

When the Group subscribes for additional new shares of the 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 equity. If the Group's ownership interest is reduced due to the additional subscription of the new shares of 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 determines impairment loss, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

Property, Plant and Equipment

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

Properties, 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 intended use.

Depreciation 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.

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 estimate being 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 are recognized in profit or loss.

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately 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 fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

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

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.

1) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is held for trading.

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 dividend or interest earned on the financial asset. Refer to Note 28 for related disclosures.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

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

Available-for-sale equity investments with no quoted market prices in an active market and with fair values that cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of these unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

b. Loans and receivables

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

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

c. Impairment of financial assets

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

For financial assets carried at amortized cost, such as trade receivables, 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 of 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 default on receivables, and other situation.

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

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

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

The carrying amount of the 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 a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

d. Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the 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.

Provision

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 of the amount of the obligation.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

a. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

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

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

Specifically, sales of goods are recognized when goods are delivered and title has passed.

b. Rendering service income

Service income is recognized when services are provided.

c. Dividend and interest income

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

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

Leasing

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

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 Costs

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

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

c. Termination benefits

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

Share-based Payment Arrangements - Employee Share Options

The fair value determined at the grant date of the 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 vesting 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 expense 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. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

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 estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Estimated impairment of trade receivables

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

b. Write-down of inventory

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

c. Provision for sales returns and allowances

Provision for sales returns and allowances refers to the Corporation's best estimate of the future outflow of the economic resources that will be required for the settlement of the Corporation's obligations. The estimate has been made on the basis of historical experience, management's judgment, and any known factors that would significantly affect sales returns and allowances, changes in market conditions may have a material impact on the estimation of provision.

6. CASH AND CASH EQUIVALENTS

	September 30, 2016	December 31, 2015	September 30, 2015
Cash on hand	\$ 147	\$ 98	\$ 112
Checking accounts and demand accounts	6,920,718	7,705,446	6,689,299
Cash equivalents			
Time deposits with original maturities of less 3 months	<u>3,087,845</u>	<u>4,700,052</u>	<u>3,132,377</u>
	<u>\$ 10,008,710</u>	<u>\$ 12,405,596</u>	<u>\$ 9,821,788</u>

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Financial assets held for trading</u>			
Beneficial certificates - open-end funds	\$ 1,147,182	\$ 2,150,244	\$ 2,150,631
Domestic quoted stocks	<u>89,460</u>	<u>76,560</u>	<u>85,057</u>
	<u>\$ 1,236,642</u>	<u>\$ 2,226,804</u>	<u>\$ 2,235,688</u>

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

	September 30, 2016	December 31, 2015	September 30, 2015
Certificates of deposits	<u>\$ 59,302</u>	<u>\$ 20,408</u>	<u>\$ 20,914</u>

See Note 31 for more information on debt investments with no active market.

9. NOTES AND ACCOUNTS RECEIVABLE, NET

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Notes and accounts receivable - trade</u>			
Third parties	\$ 5,949,710	\$ 4,197,226	\$ 4,834,793
Related parties	<u>424,347</u>	<u>370,224</u>	<u>344,586</u>
	6,374,057	4,567,450	5,179,379
Less: Allowance for doubtful accounts	<u>167,847</u>	<u>133,698</u>	<u>90,699</u>
Notes and accounts receivable, net	<u>\$ 6,206,210</u>	<u>\$ 4,433,752</u>	<u>\$ 5,088,680</u>
<u>Other receivables</u>			
Income tax refund receivable	\$ 255,476	\$ 204,785	\$ 204,881
Factored accounts receivable	152,412	147,260	172,840
Others	<u>31,667</u>	<u>32,279</u>	<u>38,736</u>
Other receivables	<u>\$ 439,555</u>	<u>\$ 384,324</u>	<u>\$ 416,457</u>

Accounts Receivable - Trade

Of the balances of trade receivables that were past due at the end of the reporting period, the Group had not recognized an allowance for impaired trade receivables because there had been 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 nor did it have a legal right to make offsets against any amounts owed by the Group to the counter-party.

The aging of receivables was as follows:

	September 30, 2016	December 31, 2015	September 30, 2015
Not pass due	\$ 5,954,819	\$ 4,065,359	\$ 4,508,170
1-60 days	187,186	382,596	613,121
61-90 days	3,790	47,473	25
91-120 days	19,188	31,551	20,886
More than 121 days	<u>209,074</u>	<u>40,471</u>	<u>37,177</u>
	<u>\$ 6,374,057</u>	<u>\$ 4,567,450</u>	<u>\$ 5,179,379</u>

The above analysis was based on the past due date from end of credit term.

The Group did not have receivables that were past due but not impaired.

Movements in the allowance for impairment loss recognized on trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2015	\$ 28,474	\$ 43,526	\$ 72,000
Add: Impairment losses recognized on receivables	<u>1,166</u>	<u>17,533</u>	<u>18,699</u>
Balance at September 30, 2015	<u>\$ 29,640</u>	<u>\$ 61,059</u>	<u>\$ 90,699</u>
Balance at January 1, 2016	\$ 83,522	\$ 50,176	\$ 133,698
Add: Impairment losses recognized on receivables	17,132	17,064	34,196
Less: Exchange differences	<u>-</u>	<u>(47)</u>	<u>(47)</u>
Balance at September 30, 2016	<u>\$ 100,654</u>	<u>\$ 67,193</u>	<u>\$ 167,847</u>

The Group individually recognized impairment losses on trade receivables of \$100,654 thousand, \$83,522 thousand and \$29,640 thousand as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively. These amounts mainly pertained to customers that were in liquidation or in severe financial difficulties. The Group had no collaterals for these receivables.

The factored accounts receivable were as follows:

	(In Thousands)				
Factor	Factored Amount	Collected Amount	Prepayment	Discount Rate (%)	Factor's Limit
<u>For the three months ended September 30, 2016</u>					
HSBC Bank	US\$ 75,403	US\$ 66,739	\$ -	-	US\$ 13,900
<u>For the three months ended September 30, 2015</u>					
HSBC Bank	US\$ 37,009	US\$ 31,750	-	-	US\$ 10,350

Note: Under other receivables.

The limit above was used on a revolving basis.

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

10. INVENTORIES

	September 30, 2016	December 31, 2015	September 30, 2015
Raw materials	\$ 3,206,499	\$ 3,183,262	\$ 3,162,945
Work in process	1,839,683	1,285,493	1,881,702
Semifinished products	937,424	720,852	679,504
Finished goods	<u>74,169</u>	<u>61,769</u>	<u>44,048</u>
	<u>\$ 6,057,775</u>	<u>\$ 5,251,376</u>	<u>\$ 5,768,199</u>

The costs of inventories recognized as cost of goods sold for the three months ended and nine months ended September 30, 2016 and 2015 were \$9,707,871 thousand, \$8,230,711 thousand, \$26,125,143 thousand and \$21,289,325 thousand, respectively.

The costs of goods sold for the three months ended and nine months ended September 30, 2016 and 2015 included inventory write-downs of zero, \$13,857 thousand, \$8,598 thousand and reversal inventory write-downs of \$12,953 thousand, respectively.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Private equity</u>			
Domestic listed, common shares	<u>\$ 320,595</u>	<u>\$ 295,950</u>	<u>\$ 322,800</u>

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

The Group received the cash refund \$49,500 thousand due to capital reduction from APACER Technology Inc. in the third season of 2016.

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	September 30, 2016	December 31, 2015	September 30, 2015
Domestic unlisted common stocks	\$ 451,147	\$ 446,045	\$ 446,665
Overseas unlisted common stocks	<u>307,596</u>	<u>159,174</u>	<u>156,993</u>
	<u>\$ 758,743</u>	<u>\$ 605,219</u>	<u>\$ 603,658</u>
Classified according to categories			
Available-for-sale	<u>\$ 758,743</u>	<u>\$ 605,219</u>	<u>\$ 603,658</u>

Management believed that the above unlisted equity investments held by the Group, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of the reporting period.

Impairment losses recognized on investment of domestic and oversea unlisted common shares for the nine months ended September 30, 2015 was \$40,811 thousand.

13. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial report

Investor	Investee (Note 1)	Main Businesses and Products	Investment Percentage			Note
			September 30, 2016	December 31, 2015	September 30, 2015	
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	100.00	-
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	100.00	-
	Emtops Electronics Corp.	Sell flash memory controllers and peripheral system applications products	100.00	100.00	100.00	-
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, produce and sell flash memory controllers and peripheral system applications	87.00	87.00	87.00	-
	Global Flash Limited	Investment and trade	100.00	100.00	100.00	-
	Power Flash (Samoa) Limited	Investment and trade	100.00	-	-	Note 2
	Epostar Electronics (BVI) Corporation	Investment	44.21	60.00	60.00	Note 7
Global Flash Limited	Everspeed Technology Limited	Trading of electronics components	100.00	-	-	Notes 5 and 8
	Phisontech (Shenzhen) Limited	Design, R&D, import and export storage devices and electronics	100.00	100.00	100.00	-
Core Storage Electronics (Samoa) Limited	Core Storage Electronics (Samoa) Limited	Investment and trade	100.00	100.00	100.00	-
	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering related services.	100.00	100.00	100.00	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Design ASIC and R&D, manufacture, and sell ASIC of IP and technical support service	100.00	100.00	100.00	-
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trading of electronic components	100.00	100.00	100.00	Notes 6
Epostar Electronics (BVI) Corporation	Epostar Electronics Corporation	Design, produce and sell flash memory controllers and peripheral system applications	100.00	100.00	99.91	Note 7
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic product	100.00	-	-	Note 2
Everspeed Technology Limited	Memoryexchange Corporation	Design and sell flash memory controllers and peripheral system applications	100.00	94.00	94.00	Note 4
	Cloud Solution Global Limited	Trading of electronic component	100.00	100.00	100.00	Note 5
	Fast Choice Global Limited	Trading of electronic components	100.00	100.00	100.00	Note 5

Note 1: Above immaterial subsidiaries have not been reviewed, except those of Ostek Corporation.

Note 2: Established in March 2016.

Note 3: Established in July 2015.

Note 4: Everspeed Technology Limited acquired from other shareholders the remaining interest to own 100% equity in Memoryexchange Corporation on September 22, 2016.

Note 5: Refer to Note 4 for more information on restated reasons.

Note 6: The Corporation acquired 100% shares on December 25, 2014.

Note 7: Refer to Note 25.

Note 8: Refer to Note 26.

- b. Subsidiaries not included in the consolidated financial report: None.
- c. During the preparation of the consolidated financial statements, the substantial transactions between the consolidated entities are entirely written off.

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments in Associates	September 30, 2016	December 31, 2015	September 30, 2015
<u>Unlisted stocks</u>			
Material associates			
Kingston Solutions Inc.	\$ 915,431	\$ 658,526	\$ 649,675
Associates that are not individually material			
Epostar Electronics (BVI) Corporation (Note 25)	83,571	-	-
Microtops Design Corporation	21,616	21,678	25,698
PMS Technology Corporation	2,497	2,124	2,957
Flexmedia Electronics Corporation	1,062	1,278	4,348
Manutius IP, Inc.	-	25,149	26,654
Asdhya Enterprise Private Limited	-	-	658
	<u>\$ 1,024,177</u>	<u>\$ 708,755</u>	<u>\$ 709,990</u>

Material Joint Ventures

Associate	September 30, 2016	December 31, 2015	September 30, 2015
Kingston Solutions Inc.	32.91	32.91	32.91

In April 2014, Emtops Electronics Corporation and Fast Choice Global Limited invested in Manutius IP, Inc. for 19% and 48% of the shares, respectively. The Corporation did not have substantial control over Manutius IP, Inc.; therefore, the investment in Manutius IP, Inc. was accounted for by the equity-method. Manutius IP, Inc. had been approved to dissolve by the USA local government on July 8, 2016.

Refer to Table 5 “Information on Investees” for the nature of activities, principal place of business and country of incorporation of the joint ventures.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>								
Balance, January 1, 2015	\$ 547,014	\$ 27,995	\$ 1,052,762	\$ 207,491	\$ 40,425	\$ 10,389	\$ -	\$ 1,886,076
Additions	-	690	2,282	53,934	3,810	6,972	-	67,688
Disposal	-	-	-	(14,423)	(975)	-	-	(15,398)
Net exchange differences	-	-	-	(413)	(20)	(181)	-	(614)
Reclassified	-	-	-	3,227	-	-	-	3,227
Balance, September 30, 2015	<u>\$ 547,014</u>	<u>\$ 28,685</u>	<u>\$ 1,055,044</u>	<u>\$ 249,816</u>	<u>\$ 43,240</u>	<u>\$ 17,180</u>	<u>\$ -</u>	<u>\$ 1,940,979</u>

(Continued)

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
<u>Accumulated depreciation</u>								
Balance, January 1, 2015	\$ -	\$ 9,902	\$ 128,003	\$ 88,133	\$ 19,167	\$ 6,851	\$ -	\$ 252,056
Disposal	-	-	-	(14,423)	(975)	-	-	(15,398)
Depreciation	-	2,751	21,369	44,415	8,832	2,467	-	79,834
Net exchange differences	-	-	-	(208)	(146)	(90)	-	(444)
Balance, September 30, 2015	<u>\$ -</u>	<u>\$ 12,653</u>	<u>\$ 149,372</u>	<u>\$ 117,917</u>	<u>\$ 26,878</u>	<u>\$ 9,228</u>	<u>\$ -</u>	<u>\$ 316,048</u>
Balance, September 30, 2015, net	<u>\$ 547,014</u>	<u>\$ 16,032</u>	<u>\$ 905,672</u>	<u>\$ 131,899</u>	<u>\$ 16,362</u>	<u>\$ 7,952</u>	<u>\$ -</u>	<u>\$ 1,624,931</u>
<u>Cost</u>								
Balance, January 1, 2016	\$ 547,014	\$ 28,685	\$ 1,060,552	\$ 268,973	\$ 47,706	\$ 17,427	\$ -	\$ 1,970,357
Additions	266,724	-	69,230	92,487	13,123	15,290	234,000	690,854
Disposal	-	-	-	(37,914)	(20,729)	(2,683)	-	(61,326)
Number of deconsolidation subsidiary impacts	-	-	-	(2,331)	-	(1,783)	-	(4,114)
Net exchange differences	-	-	-	(180)	(310)	(405)	-	(895)
Reclassified	-	-	2,859	2,198	905	-	-	5,962
Balance, September 30, 2016	<u>\$ 813,738</u>	<u>\$ 28,685</u>	<u>\$ 1,132,641</u>	<u>\$ 323,233</u>	<u>\$ 40,695</u>	<u>\$ 27,846</u>	<u>\$ 234,000</u>	<u>\$ 2,600,838</u>
<u>Accumulated depreciation</u>								
Balance, January 1, 2016	\$ -	\$ 13,570	\$ 156,534	\$ 122,348	\$ 30,204	\$ 10,306	\$ -	\$ 332,962
Disposal	-	-	-	(37,914)	(20,729)	(2,683)	-	(61,326)
Depreciation	-	2,751	22,465	52,784	7,522	3,844	-	89,366
Number of deconsolidation subsidiary impacts	-	-	-	(507)	-	(186)	-	(693)
Net exchange differences	-	-	-	(51)	(68)	(47)	-	(166)
Reclassified	-	-	-	-	19	-	-	19
Balance, September 30, 2016	<u>\$ -</u>	<u>\$ 16,321</u>	<u>\$ 178,999</u>	<u>\$ 136,660</u>	<u>\$ 16,948</u>	<u>\$ 11,234</u>	<u>\$ -</u>	<u>\$ 360,162</u>
Balance, September 30, 2016, net	<u>\$ 813,738</u>	<u>\$ 12,364</u>	<u>\$ 953,642</u>	<u>\$ 186,573</u>	<u>\$ 23,747</u>	<u>\$ 16,612</u>	<u>\$ 234,000</u>	<u>\$ 2,240,676</u>

(Concluded)

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

Land improvements	7 years
Buildings	20-50 years
Buildings - electrical engineering	20 years
Testing equipment	2-5 years
Office equipment	3 years
Other equipment	3-5 years

16. INTANGIBLE ASSETS

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Carrying amount</u>			
Computer software	\$ 92,031	\$ 69,751	\$ 59,522
Technology license fees	91,393	105,232	38,475
Patent	<u>-</u>	<u>23,640</u>	<u>23,640</u>
	<u>\$ 183,424</u>	<u>\$ 198,623</u>	<u>\$ 121,637</u>

The Group's patents with indefinite useful lives were tested for impairment at least annually, and whenever there was an indication that the asset might be impaired.

A subsidiary held the patent of the multimedia digital photo frame. As of September 30, 2016, he related products were no longer produced, therefore, the Group assessed that the future economic benefit of the patent cannot be determined. Also there was no information about the net realizable value which could be used as basis for valuation. As a result, the Group recognized the entire amount of patent as impairment losses in the current period.

Except for the above description and the amortization recognized, the Group had no significant addition to, disposal of, and impairment of intangible assets for the three months ended and nine months ended September 30, 2016 and 2015.

The above items of intangible assets are amortized on a straight-line basis over the estimated useful life of the assets.

Computer software	0.5-3 years
Technology license fees	0.5-8 years

17. SHORT-TERM LOANS

Short-term Borrowings

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Unsecured borrowings</u>			
Bank loans	\$ <u>-</u>	\$ <u>196,950</u>	\$ <u>723,140</u>
Interest rate	-	0.90-0.92	0.75-0.82
Due date	-	2016.2.15	2015.11.22

18. OTHER PAYABLES AND OTHER CURRENT LIABILITIES

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Other payables</u>			
Salaries payable and bonus payable	\$ 1,805,005	\$ 1,326,739	\$ 1,097,791
Others	<u>994,282</u>	<u>1,005,605</u>	<u>1,251,619</u>
	<u>\$ 2,799,287</u>	<u>\$ 2,332,344</u>	<u>\$ 2,349,410</u>

19. PROVISIONS - CURRENT

	September 30, 2016	December 31, 2015	September 30, 2015
Sales returns and allowances	\$ <u>204,383</u>	\$ <u>149,852</u>	\$ <u>84,194</u>
		For the Nine Months Ended September 30	
		2016	2015
Balance, January 1		\$ 149,852	\$ 71,128
Recognized provision		185,474	75,772
Usage of provision		<u>(130,943)</u>	<u>(62,706)</u>
Balance, September 30		<u>\$ 204,383</u>	<u>\$ 84,194</u>

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

20. RETIREMENT BENEFIT PLANS

The Corporation recognized pension costs of \$1,310 thousand, \$1,065 thousand, \$3,930 thousand and \$3,198 thousand for three months ended and nine months ended September 30, 2016 and 2015, respectively.

21. EQUITY

a. Share capital

Common shares

	September 30, 2016	December 31, 2015	September 30, 2015
Number of shares authorized (in thousands)	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>
Capital authorized	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>
Number of shares issued and fully paid (in thousands)	<u>197,374</u>	<u>197,374</u>	<u>197,374</u>
Capital issued	<u>\$ 1,973,740</u>	<u>\$ 1,973,740</u>	<u>\$ 1,973,740</u>

In their meeting on June 17, 2014, the Corporation's shareholders decided to issue upper limit 50,000 thousand common shares by private equity-raising. On June 17, 2014 and February 6, 2015, the board of directors resolved to issue 5,000 thousand and 11,900 thousand common shares by private equity raising, the share issuance at a NT\$10 par value and set June 20, 2014 and February 13, 2015 as the fund raising deadline, with NT\$185 and NT\$180 as the offering price. This common share issuance was approved by and registered with the government authorities on July 3, 2014 and March 11, 2015 respectively. In their meeting on June 2, 2015, the shareholders approved the decision not to raise capital from the remaining shares of private equity-raising.

On November 12, 2015, an employee stock option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in FSC document No. 1040048913.

In accordance with the Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2015, the shares could 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 authorities. The employee share options were not issued because very high cost of issuance will be incurred if the options are issued. The employee share options cannot be issued after November 26, 2016.

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

b. Capital surplus

	September 30, 2016	December 31, 2015	September 30, 2015
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital (Note)</u>			
Arising from issuance of common share	\$ 6,246,929	\$ 6,246,929	\$ 6,246,929
Arising from the difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	151,444	4,069	4,069
<u>May be used to offset a deficit only</u>			
Expired stock options	227	227	227
<u>May not be used for any purpose</u>			
Arising from share of changes in capital surplus of associates	<u>263,344</u>	<u>263,344</u>	<u>263,344</u>
	<u>\$ 6,661,944</u>	<u>\$ 6,514,569</u>	<u>\$ 6,514,569</u>

Note: 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

In accordance with the amendments to the Corporation's Act made in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held the annual general shareholders' meeting ("AGM") on June 15, 2016 and, in that meeting, had resolved to make amendments to Articles, particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

The policy on appropriation of earnings and dividend distribution in amended to the Corporation's Articles of Incorporation provided that, according to the final settlement, earns profits in a fiscal year, such profits shall first be set aside to pay the applicable taxes, offset losses, set aside for legal reserve pursuant to laws and regulations, unless the legal reserve has reached total paid-up capital. The remaining profits shall be set aside for special reserve in accordance with the laws, regulations, or the business requirements. Any further remaining profits plus unappropriated earnings shall be distributed in accordance with the proposal submitted by the Board of Directors, for approval at a shareholders' meeting. For the policies on distribution of employees' compensation or bonuses to employees and remuneration to directors before and after amendment, see Note 23(d).

The Corporation's dividend appropriation is based on its profitability. The Corporation dividends will be appropriated in consideration of the current and future investment environment, capital requirements, domestic and international competition, capital budget plans, shareholders' interests, balance between cash and stock dividends, and the Corporation's long-term financial plans. The board of directors prepares the proposal on annual earnings distribution for the shareholders' approval. Profits may be distributed as cash or stock dividend; however, cash dividends should be at least 10% of 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.

Legal reserve may be used to offset deficit. 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.

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

The appropriations of earnings for 2015 and 2014 have been approved in the shareholders' meetings on June 15, 2016 and June 2, 2015. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Year 2015</u>	<u>For Year 2014</u>	<u>For Year 2015</u>	<u>For Year 2014</u>
Legal reserve	\$ 400,001	\$ 320,115		
(Reversal of) special reserve	106,302	(6,185)		
Cash dividends	2,368,488	2,210,589	\$12.0	\$11.2

d. Others equity items

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

	<u>For the Nine Months Ended September 30</u>	
	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ (26,608)	\$ (5,056)
Exchange differences arising on translating the financial statements of foreign operations	(38,485)	(9,752)
Related income tax	<u>6,543</u>	<u>1,658</u>
Balance at September 30	<u>\$ (58,550)</u>	<u>\$ (13,150)</u>

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

	<u>For the Nine Months Ended September 30</u>	
	<u>2016</u>	<u>2015</u>
Balance at January 1	\$ (84,750)	\$ -
Unrealized gain arising on revaluation of available-for-sale financial assets	<u>74,145</u>	<u>(57,900)</u>
Balance at September 30	<u>\$ (10,605)</u>	<u>\$ (57,900)</u>

e. Non-controlling interests

	For the Nine Months Ended September 30	
	2016	2015
Balance at January 1	\$ 221,533	\$ 260,061
Non-controlling interest reducing from Everspeed Technology Limited (Note 26)	(147,375)	-
Non-proportional investment Epostar Electronics (BVI) Corporation (Note 25)	(7,710)	-
Non-controlling interest arising from Epostar Electronics (BVI) Corporation	-	63,874
Partial disposal of Phisontech Electronics (Malaysia) Sdn. Bhd. (Notes 26)	-	7,761
Other	4,577	-
Attributable to non-controlling interests:		
Share of profit for the year	(64,944)	(200,727)
Exchange difference arising on translation of foreign entities	<u>(115)</u>	<u>(7,624)</u>
Balance at September 30	<u>\$ 5,966</u>	<u>\$ 123,345</u>

On March 23, 2015, the Corporation subscribed for additional new shares of EpoStar Electronics (BVI) Corporation at a percentage different from its existing ownership percentage, and increased continuing interest to 60%, therefore, the Corporation acquired control over Epostar Electronics (BVI) Corporation. On April 10, 2015, EpoStar Electronics (BVI) Corporation then subscribed for additional new shares of Epostar Electronics Corporation at a percentage different from its existing ownership percentage, and increased its continuing interest to 99.91%, therefore, EpoStar Electronics (BVI) Corporation acquired control over EpoStar Electronics Corporation. Starting from the date the Corporation acquired the control, the two companies were included in the consolidated report as subsidiaries and the non-controlling interests increased by \$63,874 thousand.

f. Treasury shares

	For Company Credit and Shareholders' Equity (In Thousands of Shares)
Share Buy-Back	
Number of shares at January 1, 2016	-
Increase during the year	<u>300</u>
Number of shares at September 30, 2016	<u>300</u>

After the Board Meeting on August 8, 2016, the Corporation has decided to buy back shares under Article 28-2 of the Securities and Exchange Act and under the Regulations Governing Share Repurchase by Exchange-Listed and OTC-Listed Companies published by the Securities and Futures Bureau. The purpose of the share buy-back is to maintain the Corporation's credit and shareholders' equity. The planned buy-back period is from August 9, 2016 to October 8, 2016. The Corporation is planned to buy back 7,500 thousand shares at prices from NT\$189 to NT\$270 per share. As at September 30, 2016, the Corporation has bought back 300 thousand shares.

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to receive dividends and to vote. Under Article 28-2, paragraphs 4 of the Securities and Exchange Act, companies that buy back shares in order to maintain credit and shareholders' equity, and reduce the shares subsequently must apply for amendment of registration of capital stock within six months after the buy-back.

For the purpose of the amendment of the registered capital amount after the reduction of shares, the Corporation's board of directors has set November 10, 2016 as the record date of the reverse split.

22. INCOME TAXES

- a. Income tax recognized in profit or loss:

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Current tax				
Current period	\$ 205,796	\$ 167,379	\$ 500,650	\$ 490,274
Income tax expense of unappropriated earnings	-	-	112,522	67,663
In respect of prior periods	<u>(100,419)</u>	<u>44,595</u>	<u>(100,419)</u>	<u>44,595</u>
	<u>105,377</u>	<u>211,974</u>	<u>512,753</u>	<u>602,532</u>
Deferred tax				
Current period	<u>(44,423)</u>	<u>22,610</u>	<u>(59,473)</u>	<u>(14,205)</u>
Income tax expense recognized in profit or loss	<u>\$ 60,954</u>	<u>\$ 234,584</u>	<u>\$ 453,280</u>	<u>\$ 588,327</u>

- b. Income tax benefits recognized in other comprehensive income:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
<u>Deferred income tax</u>				
Recognized in other comprehensive income				
Translation of foreign operations	<u>\$ 4,049</u>	<u>\$ 190</u>	<u>\$ 6,543</u>	<u>\$ 1,658</u>

- c. The Corporation's net operating income generated from the following expansion projects is exempt from income taxes:

	Tax-exemption Period
Fifth expansion of the Corporation's factories	January 1, 2012 to December 31, 2016

d. Integrated income tax information of the Corporation:

	September 30, 2016	December 31, 2015	September 30, 2015
Unappropriated retained earning			
Unappropriated retained earnings generated on and after January 1, 1998	<u>\$ 10,506,284</u>	<u>\$ 9,990,216</u>	<u>\$ 8,972,782</u>
Balance of imputation credit account (ICA)	<u>\$ 1,099,004</u>	<u>\$ 1,071,531</u>	<u>\$ 852,967</u>
		December 31	
		2015	2014
The creditable ratios for the distribution of earnings		14.61%	14.08%

e. Income tax assessments

Associate	For the Year Ended
Phison Electronics Corp.	2014
Lian Xu Dong Investment Corporation	2014
Emtops Electronics Corp.	2014
Ostek Corporation	2014
Phisontech Electronics Taiwan Corp.	2014
Memoryexchange Corporation.	2013

23. NET PROFIT AND OTHER COMPREHENSIVE INCOME

The following items were included in the net profit for 2016 and 2015:

a. Other gains and losses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Foreign exchange gain (loss), net	\$ (191,042)	\$ 335,548	\$ (183,853)	\$ 214,641
Gain (loss) on disposal of financial assets carried at cost measure	-	(1,420)	-	(1,420)
Gain on deconsolidation of subsidiaries	45,649	-	45,649	-
Impairment loss recognized on financial assets	-	(40,811)	-	(40,811)
Impairment loss recognized on intangible assets	(23,640)	-	(23,640)	-
Loss on financial assets held for trading	3,770	(4,435)	11,902	(3,788)
Others	<u>(4,338)</u>	<u>4</u>	<u>(4,336)</u>	<u>(50,010)</u>
	<u>\$ (169,601)</u>	<u>\$ 288,886</u>	<u>\$ (154,278)</u>	<u>\$ 118,612</u>

b. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Interest income				
Bank deposits	\$ 6,139	\$ 7,994	\$ 25,183	\$ 27,462
Rental income	620	1,375	1,816	7,294
Dividend income	33,009	33,000	38,768	40,136
Others	<u>39,014</u>	<u>3,613</u>	<u>77,369</u>	<u>8,760</u>
	<u>\$ 78,782</u>	<u>\$ 45,982</u>	<u>\$ 143,136</u>	<u>\$ 83,652</u>

c. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Property, plant and equipment	\$ 31,564	\$ 27,305	\$ 89,366	\$ 79,834
Intangible assets	<u>26,500</u>	<u>26,143</u>	<u>92,095</u>	<u>71,881</u>
	<u>\$ 58,064</u>	<u>\$ 53,448</u>	<u>\$ 181,461</u>	<u>\$ 151,715</u>
An analysis of depreciation by function				
Operating costs	\$ 5,566	\$ 7,516	\$ 17,368	\$ 23,037
Operating expenses	<u>25,998</u>	<u>19,789</u>	<u>71,998</u>	<u>56,797</u>
	<u>\$ 31,564</u>	<u>\$ 27,305</u>	<u>\$ 89,366</u>	<u>\$ 79,834</u>
An analysis of amortization by function				
General and administrative expenses	\$ 1,840	\$ 1,180	\$ 5,152	\$ 3,524
Research and development expenses	<u>24,660</u>	<u>24,963</u>	<u>86,943</u>	<u>68,357</u>
	<u>\$ 26,500</u>	<u>\$ 26,143</u>	<u>\$ 92,095</u>	<u>\$ 71,881</u>

d. Employee benefit expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Short-term employee benefits	<u>\$ 834,787</u>	<u>\$ 650,586</u>	<u>\$ 2,121,591</u>	<u>\$ 1,745,624</u>
Post-employment benefits				
Defined contribution plans	15,805	12,784	46,173	35,600
Defined benefit plans	<u>1,310</u>	<u>1,065</u>	<u>3,930</u>	<u>3,198</u>
	<u>17,115</u>	<u>13,849</u>	<u>50,103</u>	<u>38,798</u>
Termination benefits	<u>-</u>	<u>(8)</u>	<u>-</u>	<u>264</u>

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Other employee benefits				
Employee welfare	\$ 16,173	\$ 13,395	\$ 43,045	\$ 35,493
Food stipend	<u>8,619</u>	<u>7,397</u>	<u>25,048</u>	<u>18,844</u>
	<u>24,792</u>	<u>20,792</u>	<u>68,093</u>	<u>54,337</u>
	<u>\$ 876,694</u>	<u>\$ 685,219</u>	<u>\$ 2,239,787</u>	<u>\$ 1,839,023</u>
Employee benefits				
Recognized in operating costs	\$ 44,974	\$ 42,425	\$ 132,754	\$ 122,542
Recognized in operating expenses	<u>831,720</u>	<u>642,794</u>	<u>2,107,033</u>	<u>1,716,481</u>
	<u>\$ 876,694</u>	<u>\$ 685,219</u>	<u>\$ 2,239,787</u>	<u>\$ 1,839,023</u>

(Concluded)

In compliance with the Company Act as amended in May 2015, the Corporation proposed amendments to its Articles of Incorporation to distribute employees' compensation and remuneration to directors and supervisors at the rates between 8% and 19%, and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration to directors and supervisors.

The existing Articles of Incorporation of the Company stipulate to distribute bonus to employees and remuneration to directors and supervisors representing 12%-25% and 1%, respectively, of net income (net of the bonus and remuneration), before the amendments to the Corporation's Articles.

The amount of the bonus to employees and the remuneration to directors and supervisors for the three months and nine months ended September 30, 2016 were determined by the policies before amendment.

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Bonus to employees	<u>\$ 173,950</u>	<u>\$ 166,689</u>	<u>\$ 420,717</u>	<u>\$ 424,588</u>
Remuneration of directors and supervisors	<u>\$ 17,395</u>	<u>\$ 13,890</u>	<u>\$ 42,572</u>	<u>\$ 35,382</u>

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

The appropriations of employees' compensation and remuneration to directors and supervisors for 2015 having been resolved by the board of directors on March 22, 2016, and the appropriations of bonus to employees and remuneration to directors and supervisors for 2014 having been approved in the shareholders' meetings on June 2, 2015, respectively, were stated as below. The employees' compensation and remuneration to directors and supervisors for 2015 are subject to the resolution of the amendments to the Company's Articles of Incorporation for adoption by the shareholders in their meeting to be held on June 15, 2016, and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting.

	For the Year Ended 2015		For the Year Ended 2014	
	Cash Dividends	Stock Dividends	Cash Dividends	Stock Dividends
Bonus to employees	\$ 500,000	\$ -	\$ 420,000	\$ -
Remuneration of directors and supervisors	38,000	-	26,572	-

The employees' compensation and the remuneration to directors and supervisors for 2015, the amount of bonus to employees and the remuneration to directors and supervisors for 2014 were approved in the shareholders' meetings on March 22, 2016 and June 2, 2015, respectively were as follows:

	For the Year Ended 2015		For the Year Ended 2014	
	Bonus to Employees	Remuneration of Directors and Supervisors	Bonus to Employees	Remuneration of Directors and Supervisors
Amounts approved in board of directors	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 420,000</u>	<u>\$ 26,572</u>
Amounts approved in shareholders' meetings	<u>\$ 500,000</u>	<u>\$ 38,000</u>	<u>\$ -</u>	<u>\$ -</u>
Amounts recognized in respective financial statements	<u>\$ 500,000</u>	<u>\$ 38,000</u>	<u>\$ 420,000</u>	<u>\$ 26,724</u>

The differences above were recognized in profit and loss in next year.

Information on the employees' compensation and remuneration to directors and supervisors for 2015 resolved by the Company's board of directors in 2016 and bonus to employees, directors and supervisors for 2014 resolved by the shareholders' meeting in 2015 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

e. Foreign exchange (loss) gain, net

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Foreign exchange gain	\$ 135,788	\$ 530,935	\$ 483,398	\$ 672,725
Foreign exchange loss	<u>(326,830)</u>	<u>(195,387)</u>	<u>(667,251)</u>	<u>(458,084)</u>
Net gain (loss)	<u>\$ (191,042)</u>	<u>\$ 335,548</u>	<u>\$ (183,853)</u>	<u>\$ 214,641</u>

24. EARNINGS PER SHARE

(New Taiwan Dollars)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Basic earnings per share	<u>\$ 7.61</u>	<u>\$ 6.00</u>	<u>\$ 17.18</u>	<u>\$ 15.16</u>
Diluted earnings per share	<u>\$ 7.54</u>	<u>\$ 5.96</u>	<u>\$ 16.98</u>	<u>\$ 14.94</u>

Earnings and weighted average shares used to calculate earnings per share were as follows:

Net Profit for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Earnings used in the computation of basic earnings per share				
Profit for the period attributable to owners of the Corporation	\$ 1,500,519	\$ 1,184,126	\$ 3,390,859	\$ 2,964,237
Earnings used in the computation of diluted earnings per share				
Profit for the period attributable to owners of the Corporation	1,500,519	1,184,126	3,390,859	2,964,237

Shares

(In Thousands of Shares)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Weighted average number of ordinary shares in computation of basic earnings per share	197,204	197,374	197,317	195,500
Effect of potentially dilutive ordinary shares:				
Bonus issue to employees	<u>1,768</u>	<u>1,221</u>	<u>2,359</u>	<u>2,971</u>
Weighted average number of ordinary shares used in the computation of dilutive earnings per share	<u>198,972</u>	<u>198,595</u>	<u>199,676</u>	<u>198,471</u>

Since the Group is able to settle the bonus to employees by cash or shares, the Group presumed that the entire amount of the bonus would 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 EPS, if the shares had a dilutive effect. Such dilutive effect of the potential shares was included in the computation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

25. DISPOSAL OF SUBSIDIARIES

The Group did not proportionally subscribe for the new issue of common shares for cash of Epostar Electronics (BVI) Corporation on August 25, 2016. As a result, the Corporation's ownership percentage decreased from 60% to 44%. The Corporation's less than 50% voting rights had no power to govern the financial and operating policies of Epostar Electronics (BVI) Corporation. Therefore the Corporation has lost control over Epostar Electronics (BVI) Corporation on August 25, 2016.

a. Analysis of assets and liabilities on the date control was lost

	August 24, 2016
Current assets	
Cash and cash equivalents	\$ 25,297
Trade receivables	1,776
Inventories	1,090
Other	1,125
Non-current assets	
Property, plant and equipment	3,421
Intangible assets	5,526
Other	442
Current liabilities	
Payables	(340)
Other payables	(18,344)
Other	<u>(718)</u>
Net assets disposed of	<u>\$ 19,275</u>

b. Gain on disposal of subsidiary

		For the Eight Months and 25th Ended August 25, 2016
Consideration received of fair value		\$ 57,214
Less: Consideration received of book value		11,565
Net assets disposed of	19,275	
Non-controlling interests	<u>(7,710)</u>	
Gain on disposal		<u>\$ 45,649</u>

c. Net cash inflow on disposal of subsidiary

	August 25, 2016
Cash and cash equivalent balances disposed of	<u>\$ 25,297</u>

26. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

As stated in Note 4, as recorded in the minutes of meetings of the Corporation's board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the Chairman of the Corporation, Khein Seng Pua, the operation management of Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation (controlled since October 2010), Cloud Solution Global Limited (established on October 25, 2012), and Fast Choice Global Limited (established on May 23, 2013)) and Twinson Electronic Corporation (100% acquired by the Corporation on December 25, 2014 and renamed as Ostek Corporation) are under substantial control by the Chairman and should be considered as the related parties of the Corporation. Otherwise, according to Rule No. 1050036477 issued by the FSC, the Corporation treated the aforementioned companies as controlled entities and included these entities in the consolidated financial statements.

The Corporation does not have equity interest in Everspeed Technology Group. However, the Chairman of the Corporation has substantial control over Everspeed Technology Group. Therefore, for the long-term development and enhancement of the integrity of the operating structure, the Corporation board of directors held a meeting on September 21, 2016 and decided to acquire from the shareholders of Everspeed Technology Limited, the parent company of Everspeed Technology Group, 100% equity interest of Everspeed Technology Group for NT\$1 from the shareholders of the parent of Everspeed Technology Group, Everspeed Technology Limited on September 30, 2016. Then the Corporation included Everspeed Technology Group in the consolidated financial statements as a controlled entity and accounted for the acquisition as equity transaction.

On June 23, 2015, the Corporation disposed of 13% of its interest in Phisontech Electronics (Malaysia) Sdn. Bhd. and reduced its continuing interest from 100% to 87%. The transactions was accounted for as equity transaction since the Group did not cease to have control over the subsidiary.

	Everspeed Technology Limited	Phisontech Electronics (Malaysia) Sdn. Bhd.
Cash consideration received (paid)	\$ -	\$ 11,830
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to non-controlling interests	<u>147,375</u>	<u>(7,761)</u>
Differences arising from equity transaction	<u>\$ 147,375</u>	<u>\$ 4,069</u>
<u>Line items adjusted for equity transaction</u>		
Capital surplus - difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	<u>\$ 147,375</u>	<u>\$ 4,069</u>

27. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of net debts (net balance of loans and cash and cash equivalents) and equity (capital stock, capital surplus, retained earnings, and other equities).

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

The key management personnel of the Group review the capital structure on an annual basis. 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.

28. FINANCIAL INSTRUMENTS

Fair Value of Financial Information

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

The Group management considers the carrying amounts of financial assets and financial liabilities not carried at fair value recognized in the consolidated financial statements 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 recurring basis

1) Fair value hierarchy

September 30, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic quoted stocks	\$ 89,460	\$ -	\$ -	\$ 89,460
Beneficial certificates - open-end funds	<u>1,147,182</u>	<u>-</u>	<u>-</u>	<u>1,147,182</u>
	<u>\$ 1,236,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,236,642</u>
Available-for-sale financial assets				
Unlisted debt securities-ROC	<u>\$ -</u>	<u>\$ 320,595</u>	<u>\$ -</u>	<u>\$ 320,595</u>

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic quoted stocks	\$ 76,560	\$ -	\$ -	\$ 76,560
Beneficial certificates - open-end funds	<u>2,150,244</u>	<u>-</u>	<u>-</u>	<u>2,150,244</u>
	<u>\$ 2,226,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,226,804</u>
Available-for-sale financial assets				
Unlisted debt securities-ROC	<u>\$ -</u>	<u>\$ 295,950</u>	<u>\$ -</u>	<u>\$ 295,950</u>

September 30, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic quoted stocks	\$ 85,057	\$ -	\$ -	\$ 85,057
Beneficial certificates - open-end funds	<u>2,150,631</u>	<u>-</u>	<u>-</u>	<u>2,150,631</u>
	<u>\$ 2,235,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,235,688</u>
Available-for-sale financial assets				
Unlisted debt securities-ROC	<u>\$ -</u>	<u>\$ 322,800</u>	<u>\$ -</u>	<u>\$ 322,800</u>

There were no transfers between Levels 1 and 2 for the nine months ended September 30, 2016 and 2015.

- 2) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Unlisted debt securities - ROC	To determine the reasonable fair value, the price-earnings ratio and price-book ratio method based on market approach is used; the financial statements and market condition of similar stock issuers are referred to, with consideration of discount for the lack of marketability of the debt securities.

Categories of Financial Instruments

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Financial assets</u>			
Financial assets at fair value through profit or loss			
Held for trading	\$ 1,236,642	\$ 2,226,804	\$ 2,235,688
Notes receivable and accounts receivable (Note 1)	16,274,222	16,859,756	14,931,382
Available-for-sale financial assets (Note 2)	1,079,338	901,169	926,458

Financial liabilities

Financial liabilities at amortized cost (Note 3)	3,543,021	4,453,110	4,091,542
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Note 1: Including cash and cash equivalents, debt investments with no active market, notes receivable and accounts receivable, and loans and other receivables measured at amortized cost.

Note 2: Including the carrying amounts of available-for-sale financial assets measured at cost.

Note 3: Including financial liabilities measured at amortized cost, which comprise short-term borrowings, short-term notes payable and notes and accounts payable.

Financial Risk Management Objectives and Policies

The Group's major financial instruments consisted of equity investments, accounts receivable, accounts payable, and borrowings. The Group's financial management department provides services to all departments and manages the trading in domestic and foreign financial markets. The risks include market risk (including foreign currency risk, interest rate risk, and other price risk), credit risk, and liquidity risk.

a. Market risk

The Group's activities expose it primarily to the financial risks of changes in currency rates and interest rates.

1) 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 rate, the Corporation used foreign currency borrowings to hedge against risks of foreign currency exchange rate. The gain or loss caused by change in foreign currency exchange rate will be offset by profit or loss from the hedge. As a result, the market risk is immaterial.

Refer to Note 33 to the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities (including those eliminated on consolidation) at the end of the reporting period.

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 New Taiwan dollars (the functional currency) against the relevant foreign currencies. The 6% sensitivity rate is 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. The sensitivity analysis included only outstanding foreign currency denominated monetary items 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 New Taiwan dollars strengthening 6% against the relevant currency. For a 6% weakening of New Taiwan dollars against the relevant currency, there would be an equal and opposite impact on pre-tax profit and other equity, and the balances below would be negative.

	Impact of USD	
	For the Nine Months Ended	
	September 30	
	2016	2015
Profit or loss	\$ 572,592	\$ 305,119

2) Interest rate risk

The Group was exposed to interest rate risk because group entities borrowed funds at floating interest rates.

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

	September 30, 2016	December 31, 2015	September 30, 2015
Fair value interest rate risk			
Financial assets	\$ 3,147,147	\$ 4,720,460	\$ 3,153,291
Financial liabilities	-	196,950	723,140
Cash flow interest rate risk			
Financial assets	6,920,718	7,705,446	6,689,299

Interest rate sensitivity analysis

Had interest rates been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2016 and 2015 would have increased by approximately \$519 thousand and \$502 thousand, respectively.

3) Other price risk

The Group was exposed to equity price risk through its investments in listed equity securities.

Sensitivity analysis

The sensitivity analyses below were 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 nine months ended September 30, 2016 and 2015 would have increased by \$12,366 thousand and \$22,357 thousand, respectively. The pre-tax other comprehensive income for the nine months ended September 30, 2016 and 2015 would increase by \$3,206 thousand and \$3,228 thousand, respectively.

b. Credit risk

Credit risk refers to the risk that counter-party will default on its contractual obligations, resulting in financial loss to the Group. As at the end of the reporting period, the Group's maximum exposure to credit risk, which will cause a financial loss to the Group due to failure of discharge an obligation by the counter-parties as well as financial guarantees provided by the Group, arose from the carrying amounts of the respective recognized financial assets as stated in the condensed balance sheets.

The Group adopted a policy of dealing only with creditworthy counter-parties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. In addition, the Group only transacts with entities that are rated the equivalent of investment grade and above. Further, the Group's exposure and the credit ratings of its counter-parties are continually monitored and the aggregate value of transactions concluded is spread out among approved counter-parties. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The financial assets were potentially influenced when the Group's counter-parties defaulted on the contractual obligations, and the contracts with positive fair values as of the balance sheet date were the targets for evaluation. The customers of the Group are financial institutions or manufacturers with good credit rating; thus, there's no expected material credit risk.

c. Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Group relies on bank borrowings as a significant source of liquidity. As of September 30, 2016, December 31, 2015 and September 30, 2015, the Group had available unutilized overdraft and short-term bank loan facilities of approximately \$3,307,134 thousand, \$2,868,675 thousand and \$3,863,610 thousand, respectively.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its nonderivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities, including the interest and principal cash flow based on the earliest date on which the Group can be required to pay.

	September 30, 2016				
	Pay Immediately or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Nonderivative financial liabilities</u>					
Liability without interest	\$ 1,671,388	\$ 2,772,517	\$ 2,411,993	\$ -	\$ -
Variable interest rate instruments	-	-	-	-	-
	<u>\$ 1,671,388</u>	<u>\$ 2,772,517</u>	<u>\$ 2,411,993</u>	<u>\$ -</u>	<u>\$ -</u>

	December 31, 2015				
	Pay Immediately or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Nonderivative financial liabilities</u>					
Liability without interest	\$ 2,660,256	\$ 2,419,785	\$ 2,162,717	\$ -	\$ -
Fixed interest rate instruments	65,650	131,300	-	-	-
	<u>\$ 2,725,906</u>	<u>\$ 2,551,085</u>	<u>\$ 2,162,717</u>	<u>\$ -</u>	<u>\$ -</u>

	September 30, 2015				
	Pay Immediately or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Nonderivative financial liabilities</u>					
Liability without interest	\$ 2,202,733	\$ 2,255,381	\$ 2,049,252	\$ -	\$ -
Fixed interest rate instruments	493,050	230,090	-	-	-
	<u>\$ 2,695,783</u>	<u>\$ 2,485,471</u>	<u>\$ 2,049,252</u>	<u>\$ -</u>	<u>\$ -</u>

Information of Financial Assets Transfer

See Note 9 for more information.

29. RELATED-PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. In addition to those disclosed in other notes, details of transactions between the Group and other related parties are disclosed below.

a. Operating revenue

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
<u>Related parties categories</u>				
Associates	\$ 14,214	\$ 1,417	\$ 30,180	\$ 9,863
Other related parties (Note)	<u>579,117</u>	<u>447,716</u>	<u>1,538,074</u>	<u>1,117,571</u>
	<u>\$ 593,331</u>	<u>\$ 449,133</u>	<u>\$ 1,568,254</u>	<u>\$ 1,127,434</u>

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

b. Operating cost

1) Purchase

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
<u>Related parties categories</u>				
Associates	\$ 72,744	\$ 68,033	\$ 231,299	\$ 187,221
Other related parties (Note)	<u>4,625,426</u>	<u>3,709,634</u>	<u>17,542,154</u>	<u>12,053,033</u>
	<u>\$ 4,698,170</u>	<u>\$ 3,777,667</u>	<u>\$ 17,773,453</u>	<u>\$ 12,240,254</u>

2) Process cost

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
<u>Related parties categories</u>				
Associates	\$ -	\$ 80	\$ -	\$ 80
Other related parties (Note)	<u>826,550</u>	<u>410,326</u>	<u>2,563,532</u>	<u>597,402</u>
	<u>\$ 826,550</u>	<u>\$ 410,406</u>	<u>\$ 2,563,532</u>	<u>\$ 597,482</u>

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

c. Receivables from related parties

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Related parties types</u>			
Associates	\$ 14,184	\$ 1,692	\$ 391
Other related parties (Note)	<u>410,163</u>	<u>368,532</u>	<u>344,195</u>
	<u>\$ 424,347</u>	<u>\$ 370,224</u>	<u>\$ 344,586</u>

The outstanding trade receivables from related parties are unsecured. No bad debt expense was recognized for the nine months ended September 30, 2016 and 2015 for the allowance for impaired trade receivables with respect to the amounts owed by related parties.

d. Payable to related parties

	September 30, 2016	December 31, 2015	September 30, 2015
<u>Related parties types</u>			
Associates	\$ 38,981	\$ 21,534	\$ 8,501
Other related parties (Note)	<u>2,481,738</u>	<u>3,143,046</u>	<u>2,039,437</u>
	<u>\$ 2,520,719</u>	<u>\$ 3,164,580</u>	<u>\$ 2,047,938</u>

The outstanding trade payables from related parties are unsecured.

Note: Other related parties are mainly corporate members of the Corporation's board of directors and their subsidiaries.

e. Compensation of key management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Short-term employee benefits	\$ 110,721	\$ 62,878	\$ 197,738	\$ 151,563
Post-employment benefits	365	317	1,081	949
Termination benefits	-	(8)	-	264
Other employee benefits	<u>2,556</u>	<u>1,716</u>	<u>4,745</u>	<u>3,718</u>
	<u>\$ 113,642</u>	<u>\$ 64,903</u>	<u>\$ 203,564</u>	<u>\$ 156,494</u>

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

30. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

The Group's lease contracts for the factory and the office expire on April 24, 2018.

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

Period/Year	Amount
2016 (from September to December)	\$ 3,512
2017	8,603
2018	<u>369</u>
	<u>\$ 12,484</u>

b. The Group as lessor

Operating leases relate to the property owned by the Group, the leases will expire on December 31, 2016.

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

Period/Year	Amount
2016 (from September to December)	<u>\$ 628</u>

31. ASSETS PLEDGED

The following assets had been pledged as refundable deposits as required by customs authorities:

	September 30, 2016	December 31, 2015	September 30, 2015
Refundable deposits for the Customs Duty Bureau - certificates of deposits (debt investments with no active market)	<u>\$ 59,302</u>	<u>\$ 20,408</u>	<u>\$ 20,914</u>

32. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Group's significant commitments and contingencies as of September 30, 2016, December 31, 2015 and September 30, 2015 were as follows:

Significant Commitments

	September 30, 2016	December 31, 2015	September 30, 2015
Unused letters of credit	<u>\$ 2,020,946</u>	<u>\$ 710,000</u>	<u>\$ 710,000</u>

33. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The monetary assets or liabilities denominated in foreign currencies that have material effect on the Group financial statements were as follows:

In Thousands of New Taiwan Dollars and Foreign Currencies

		September 30, 2016		
		Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>				
Monetary				
USD	\$	387,232	31.360	\$ 12,143,589
CNY		53,187	4.693	249,608
<u>Financial liabilities</u>				
Monetary				
USD		82,921	31.360	2,600,400
		December 31, 2015		
		Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>				
Monetary				
USD	\$	257,252	32.825	\$ 8,444,306
CNY		42,572	4.995	212,646
<u>Financial liabilities</u>				
Monetary				
USD		106,407	32.825	3,492,815
		September 30, 2015		
		Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>				
Monetary				
USD	\$	254,663	32.8700	\$ 8,370,777
CNY		32,470	5.1760	168,063
<u>Financial liabilities</u>				
Monetary				
USD		99,953	32.8700	3,285,458

For the three months ended and nine months ended September 30, 2016 and 2015, (realized and unrealized) net foreign exchange losses were \$191,042 thousand, gains \$335,548 thousand, losses \$183,853 thousand and gains \$214,641 thousand, respectively. It is impractical to disclose net foreign exchange gains by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the group entities.

34. OTHER SIGNIFICANT EVENT

On August 5, 2016, the Hsinchu District Prosecutors Office conducted a statutory investigation of the Corporation, and the media reported an alleged violation of the Securities and Exchange Act by the Corporation. On August 6, 2016, the Corporation held a press conference and indicated a case between and among the Corporation, Ostek Corporation (former name was Twinson Electronics Corporation), Memoryexchange Corp and Everspeed Technology Group. The statutory investigation was ongoing, and it has not affected the Corporation's financial condition and business operation.

35. ADDITIONAL DISCLOSURES

a. Information about significant transactions and 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 and disposed at costs or prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 20% of the paid-in capital. (None)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 2)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
- 9) Trading in derivative instruments. (None)
- 10) Intercompany relationships and significant intercompany transactions. (Table 4)
- 11) Information for investees. (Table 5)

b. Information on investments in mainland China

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

- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses. (Table 7)
- The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - The amount of property transactions and the amount of the resultant gains or losses.
 - The balance of negotiable instrument endorsements or guarantees or pledges of collateral at the end of the period and the purposes.
 - The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receiving of services.

36. 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 under IFRS 8 - "Operating Segments" therefore include departments that design and sell flash memory controllers and make investments.

a. Segment revenues and results

The Group's revenues and results by reportable segment were as follows:

	Segment Revenues		Segment Profits	
	For the Three Months Ended September 30		For the Three Months Ended September 30	
	2016	2015	2016	2015
Department that designs and sells flash memory controllers	\$ 12,337,357	\$ 10,189,151	\$ 1,497,297	\$ 1,085,990
Investment department	<u>-</u>	<u>-</u>	<u>(16)</u>	<u>(16)</u>
Total operating segments	<u>\$ 12,337,357</u>	<u>\$ 10,189,151</u>	1,497,281	1,085,974
Other gains and losses			(169,601)	288,886
Share of gains (losses) of associates			137,996	(2,152)
Other income			78,782	45,982
Financial costs			<u>(61)</u>	<u>(552)</u>
Income before income tax			<u>\$ 1,544,397</u>	<u>\$ 1,418,138</u>

	<u>Segment Revenues</u>		<u>Segment Profits</u>	
	<u>For the Nine Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Department that designs and sells flash memory controllers	\$ 32,700,681	\$ 27,053,956	\$ 3,565,118	\$ 3,171,845
Investment department	-	-	(182)	(851)
Total operating segments	<u>\$ 32,700,681</u>	<u>\$ 27,053,956</u>	3,564,936	3,170,994
Other gains and losses			(154,278)	118,612
Share of gains of associates			226,740	(19,252)
Other income			143,136	83,652
Financial costs			<u>(1,339)</u>	<u>(2,169)</u>
Income before income tax			<u>\$ 3,779,195</u>	<u>\$ 3,351,837</u>

Segment revenue reported above was generated from external customers. There were no intersegment sales for the nine months ended September 30, 2016 and 2015.

Segment profit is the profit earned by each segment without share of gains or loss of associates, rental revenue, interest income, gain or loss on disposal of property, plant and equipment, gain or loss on sale of investments, exchange gain or loss, valuation gain or loss on financial instruments, interest expense and income tax expense.

b. Segment assets and liabilities

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

TABLE 1

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RESTATEd MARKETABLE SECURITIES HELD

SEPTEMBER 30, 2016

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

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2016				Note	
				Shares or Units (Thousands)	Carrying Value (Note 2)	Percentage of Ownership	Market Value		
Phison Electronics Corp.	<u>Beneficial certificate</u>								
	Maga Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,307	\$ 103,092	-	\$ 103,092	Note 3	
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,139	92,915	-	92,915	Note 3	
	UPAMC James Bond Money Market Fund	-	Financial assets at fair value through profit or loss - current	12,254	202,764	-	202,764	Note 3	
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,995	91,459	-	91,459	Note 3	
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss - current	14,847	151,816	-	151,816	Note 3	
	Yuanta De-Li Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,130	50,523	-	50,523	Note 3	
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	13,767	201,816	-	201,816	Note 3	
	Taishin Ta-Chong Market Fund	-	Financial assets at fair value through profit or loss - current	3,594	50,537	-	50,537	Note 3	
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,119	100,684	-	100,684	Note 3	
	<u>Common stock</u>								
	Orient Semiconductor Electronics Ltd.	-	Financial assets at fair value through profit or loss - current	7,100	89,460	0.88	89,460	Note 4	
	Aptos Technology Inc.	-	Financial assets carried at cost - non-current	2,647	19,306	1.84	15,454	Note 5	
	Viva Baseball Co., Ltd.	-	Financial assets carried at cost - non-current	Note 7	266	8.33	262	Note 5	
	Jafco Asia Technology Fund IV L.P.	-	Financial assets carried at cost - non-current	950	10,956	0.50	6,091	Note 5	
	AppWorks Fund I Co., Ltd.	-	Financial assets carried at cost - non-current	3,000	24,471	18.75	30,612	Note 5	
	Zillians Inc.	-	Financial assets carried at cost - non-current	440	-	17.25	(6,350)	Note 5	
	Adam Elements International Co., Ltd.	-	Financial assets carried at cost - non-current	1,710	13,373	19.00	19,965	Note 5	
	Jafco Asia Technology Fund VI L.P.	-	Financial assets carried at cost - non-current	900	25,755	0.67	24,418	Note 5	
	THLight Co., Ltd.	-	Financial assets carried at cost - non-current	6,388	4,186	17.94	2,334	Note 5	
	UD INFO Corp.	-	Financial assets carried at cost - non-current	570	5,569	19.00	7,110	Note 5	
	Appworks Fund II Co., Ltd.	-	Financial assets carried at cost - non-current	15,000	150,000	11.11	141,043	Note 5	
	bOMDIC Co., Ltd.	-	Financial assets carried at cost - non-current	322	6,770	9.46	3,181	Note 5	
	Geothings, Inc.	-	Financial assets carried at cost - non-current	150	1,500	6.70	891	Note 5	
	Ironyun Incorporated (preference shares)	-	Financial assets carried at cost - non-current	5,000	30,781	6.02	7,269	Note 5	
	Vescir Ltd.	-	Financial assets carried at cost - non-current	63	3,004	6.59	189	Note 5	
	Innorich Venture Capital Corp.	-	Financial assets carried at cost - non-current	3,000	30,000	5.61	28,980	Note 5	
	Dawning Leading Technology Inc.	-	Financial assets carried at cost - non-current	10,131	140,000	2.85	117,937	Note 5	
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets carried at cost - non-current	11,966	101,130	15.94	111,077	Note 5	
	Apacer Technology Inc.	-	Available-for-sale financial assets - non-current	10,050	320,595	9.96	320,595	Note 6	
	Lian Xu Dong Investment Corporation	<u>Beneficial certificate</u>							
		FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,986	30,063	-	30,063	Note 3
Allianz Global Investors Taiwan Money Market Fund		-	Financial assets at fair value through profit or loss - current	2,424	30,061	-	30,061	Note 3	

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2016				Note
				Shares or Units (Thousands)	Carrying Value (Note 2)	Percentage of Ownership	Market Value	
	<u>Common stock</u>							
	United Power Research Technology Corp.	-	Financial assets carried at cost - non-current	5,106	\$ 45,702	16.12	\$ 69,569	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets carried at cost - non-current	1,250	43,300	2.33	2,678	Note 5
	Translink Capital Partners III L.P.	-	Financial assets carried at cost - non-current	720	22,359	1.18	22,815	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets carried at cost - non-current	425	47,518	2.83	(687)	Note 5
	Weltronics Corp., Ltd.	-	Financial assets carried at cost - non-current	700	7,000	19.44	2,805	Note 5
	UMBO CV INC. (preference shares)	-	Financial assets carried at cost - non-current	1,626	16,860	5.10	2,511	Note 5
Emtops Electronics Corporation	<u>Beneficial certificate</u>							
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	815	10,104	-	10,104	Note 3
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss - current	988	10,108	-	10,108	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	<u>Beneficial certificate</u>							
	United Cash Fund	-	Financial assets at fair value through profit or loss - current	2,926	21,240	-	21,240	Note 3
Everspeed Technology Limited	<u>Common stock</u>							
	Peripheral Devices & Products System Inc.	-	Financial assets carried at cost - non-current	20	-	1.00	(305)	Note 5
	Zillians Inc.	-	Financial assets carried at cost - non-current	500	-	19.61	(7,218)	Note 5
Cloud Solution Global Limited	<u>Common stock</u>							
	My Digital Discount, Inc.	-	Financial assets carried at cost - non-current	-	8,937	19.00	(132)	Note 5

Note 1: The market securities listed on above table means the types of financial instruments applied International Accounting Standard 39 "Financial Instruments Recognition and Measurement".

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

Note 3: The calculation of the market value was based on their net asset value as of September 30, 2016.

Note 4: The calculation of the market value was based on the closing price as of September 30, 2016.

Note 5: The calculation of the net asset value was based on the investee's unreviewed financial statements as of September 30, 2016.

Note 6: Refer to Note 28-b. 2) for market value information.

Note 7: This is not a company limited by shares.

Note 8: The Corporation held marketable securities that had not been guaranteed, pledged or mortgaged as collaterals or restricted by other commitments.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RESTATED TOTAL PURCHASES FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(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	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Phison Electronics Corp.	Toshiba Electronics Components Taiwan Corporation	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	\$ 15,828,039	59	Net 30 days after monthly closing	None	None	\$ (1,794,345)	(51)	-
	Toshiba America Electronic Components, Inc.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	1,737,282	6	Net 30 days after receiving	None	None	(305,968)	(9)	-
	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	231,213	1	Net 30 days after monthly closing	None	None	(38,981)	(1)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,624,903	6	Net 15 days after monthly closing	None	None	(178,826)	(5)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	938,629	4	Net 45 days after monthly closing	None	None	(202,599)	(6)	-
	Toshiba International Procurement Hong Kong Ltd. (Toshiba-TIPH)	Subsidiary of a corporate member of a corporate member of the Corporation's board of directors	Sale	(231,035)	(1)	Net 60 days after monthly closing	None	None	28,099	-	-
	Toshiba Corporation, Japan	Corporation's board of directors	Sale	(1,277,394)	(4)	Net 60 days after monthly closing	None	None	377,394	6	-

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

**RESTATED RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 SEPTEMBER 30, 2016
 (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.	Toshiba Corporation, Japan	Corporation's board of directors	\$ 377,394	5.35	\$ -	-	\$ 254,426	\$ -

Note: As of October 31, 2016.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RESTATED INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS

SEPTEMBER 30, 2016

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

Number	Company Name	Counter-party	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	Note	Sales revenues	\$ 358,620	Based on regular terms	1
		Hefei Core Storage Electronic Limited	Note	Accounts receivable	149,636	Based on regular terms	1
		Phisontech Electronics Taiwan Corp.	Note	Sales revenues	11,531	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	Note	Accounts receivable	2,118	Based on regular terms	-
		Ostek Corporation	Note	Accounts payable	2,251	Based on regular terms	-
		Ostek Corporation	Note	Manufacture expense	17,216	Based on regular terms	-
		Phison Electronics Japan Corp.	Note	Sales expense	5,038	Based on regular terms	-
		Phison Electronics Japan Corp.	Note	Other accounts payable	1,909	Based on regular terms	-
		Emtops Electronics Corporation	Note	Sales revenues	2,903	Based on regular terms	-
		Emtops Electronics Corporation	Note	Accounts receivable	999	Based on regular terms	-
		Epostar Electronics Corporation	Note	Sales revenues	1,687	Based on regular terms	-

Note: Parent to subsidiary.

TABLE 5

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RESTATED INFORMATION OF INVESTEEES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2016			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
Phison Electronics Corp.	Kingston Solutions Inc.	Hsinchu, Taiwan	Embedded flash product and market development	\$ 106,050	\$ 106,050	10,605,000	32.91	\$ 915,431	\$ 780,631	\$ 256,906	Equity-method investee
	Emtops Electronics Corporation	Hsinchu, Taiwan	Sell flash memory controllers and peripheral system applications products	95,000	95,000	9,500,000	100.00	72,717	(3,118)	(3,118)	Subsidiary
	Lian Xu Dong Investment Corporation	Hsinchu, Taiwan	Investment	400,000	400,000	40,000,000	100.00	427,608	(6,020)	(6,020)	Subsidiary
	Flexmedia Electronics Corporation	Hsinchu, Taiwan	High-tech Multi-Media design R&D, sales and production	8,077	8,077	482,142	21.43	1,062	(1,006)	(216)	Equity-method investee
	Microtops Design Corporation	Miaoli, Taiwan	Research and design on flash memory controllers and their related products	22,638	22,638	2,263,800	49.00	21,616	(127)	(62)	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	28,982	28,982	900	100.00	11,232	(2,130)	(2,130)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	635,696	635,696	20,000,000	100.00	575,730	(6,598)	(6,598)	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, produce and sell flash memory controllers and peripheral system applications	81,771	81,771	8,700,000	87.00	39,925	(76)	(66)	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	102,216	10,600,000	44.21	83,571	(48,585)	(27,217)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	-	3,200,000	100.00	101,803	1,086	1,086	Subsidiary
Everspeed Technology Limited	Samoa	Trading of electronic components	-	-	1,000,000	100.00	147,375	(50,212)	-	Subsidiary	
Lian Xu Dong Investment Corporation	Ostek Corporation	Hsinchu, Taiwan	Manufacture and trading of electronic components	9,000	9,000	900,000	100.00	69,329	(8,162)	-	Sub-subsubsidiary
	PMS Technology Corporation	Miaoli, Taiwan	Research and design on flash memory controllers and their related products	2,000	2,000	200,000	33.33	2,497	1,117	-	Equity-method investee
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Hsinchu, Taiwan	Design ASIC and R&D, manufacture, and sell ASIC of IP and technical support service	10,000	10,000	1,000,000	100.00	33,208	1,709	-	Sub-subsubsidiary
Global Flash Limited	Core Storage Electronics (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	534,639	(4,640)	-	Sub-subsubsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2016			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 2016	December 31, 2015	Shares	Percentage of Ownership	Carrying Value			
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trading of electronic product	\$ 98,754	\$ -	3,000,000	100.00	\$ 95,529	\$ 1,499	\$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Miaoli, Taiwan	Design and sell flash memory related products	61,986	59,286	7,950,000	100.00	(317,496)	(3,581)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trading of electronic components	1,482	1,482	50,000	100.00	2,846	(24,894)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trading of electronic components	186,963	-	5,950,440	100.00	20,922	27,150	-	Sub-subsidiary
Fast Choice Global Limited	Manutius IP, Inc.	U.S.A	Business of patent management and authorization	87,036	87,036	1,440,000	48.00	-	(2,855)	-	Note
Cloud Solution Global Limited	Asdhya Enterprise Private Limited	India	Trading of electronic product	611	611	122,255	49.00	-	(2)	-	Equity-method investee
Emtops Electronics Corporation	Manutius IP, Inc.	U.S.A	Business of patent management and authorization	34,468	34,468	570,000	19.00	-	(2,855)	-	Note

Note: The entity had been approved to dissolve by the local government on July 8, 2016.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RESTATED INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(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, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2016	Percentage of Ownership	Investment (Loss) Income (Note 2)	Carrying Value as of September 30, 2016	Accumulated Inward Remittance of Earnings as of September 30, 2016
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export storage devices and electronics	\$ 23,006	2	\$ 23,006	\$ -	\$ -	\$ 23,006	100.00	\$ (283)	\$ 2,425	\$ -
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering related services.	576,780	2	576,780	-	-	576,780	100.00	(4,566)	533,446	-

Accumulated Investment in mainland China as of September 30, 2016	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investment (Note 3)
\$ 599,786 (US\$ 18,790)	\$ 599,786 (US\$ 18,790)	\$ 12,888,913

Note 1: Indirectly invested in China company through third region Company Global Flash Limited and subsidiaries.

Note 2: Amount was recognized based on the unreviewed financial statements.

Note 3: The limit of investment in mainland China based on Regulations governing the Approval of Investments on Technical Corporation in mainland China is 60% of net asset value, \$21,481,522 x 60% = \$12,888,913.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RESTATED SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Phison Electronics Corp.	Hefei Core Storage Electronic Limited	Sub-subsiary	Sale	\$ 358,620	1	Net 30 days after monthly closing	None	None	\$ 149,636	2	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiaries	Sale	332,428	89	Net 30 days after monthly closing	None	None	137,670	100	-