

# **Phison Electronics Corp. and Subsidiaries**

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

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

The companies required to be included in the consolidated financial statements of affiliates in accordance with the “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA  
Chairman

March 20, 2017

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

### **Opinion**

We have audited the financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") which comprises the consolidated balance sheets as of December 31, 2016 and 2015 (2015 restated), and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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

#### **Sales Revenue Recognition**

The operating revenue, in New Taiwan dollars ("NT\$"), of the Group amounted to NT\$43,782,512 thousand, and its growth rate is higher than previous years. Sales failing to fulfill the criteria for revenue recognition may result in a significant impact on the Group's consolidated financial statements. Therefore, the recognition on sales revenue has been identified as a key audit matter.

For the audit procedures performed in response to this matter, including follow:

1. Understood and tested the process of the design and implementation of relevant controls over recognition on sales revenue.
2. Sampled the original sales orders, shipping documents, export declarations and examined the process for the payments receiving to confirm that the sales revenue have met the conditions of revenue recognition.
3. Checked if there were any instances of simultaneous purchases from and sales to the same entity. If such situations presented, we further assessed the background of the entity and the goods purchased and sold in order to evaluate the reasonableness of the transactions and to confirm whether there were instances of repeated purchases and sales.

#### Controlled Entity Transactions Upon Consolidation

As stated in Note 26 to the accompanying consolidated financial statements, as recorded in the minutes of meeting 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, that the operational management of Everspeed Technology Group ("ETG") is under the substantial control of the Chairman and should be considered a related party of the Corporation. The Corporation received Rule No. 1050036477 issued by the FSC mandating the acknowledgement of ETG as a controlled entity of the Corporation and the inclusion of the entity into the Group's consolidated financial statements. The Corporation did not originally hold any interest in ETG. For the long-term development and enhancement of the integrity of the Corporation's operating structure, the board of directors resolved on September 21, 2016, to acquire 100% equity interest in ETG from the shareholders of Everspeed Technology Limited, the parent company of ETG, on September 30, 2016. In accordance with the aforementioned Rule, ETG is included in the consolidated financial statements as a controlled entity, and this event was accounted for as an equity transaction. Consequently this matter is identified as a key audit matter.

Our key audit procedures performed in response to this matter, we:

1. Understood and tested the design and implementation of relevant controls over the management of related party transactions.
2. Obtained transaction details of transactions between the Corporation and ETG, including types of transactions, amounts and accounts involved in order to verify the consistency of the transactions.
3. Reviewed the accuracy of the elimination of transactions between the Corporation and ETG.
4. Confirmed the accuracy of the accounting treatments of the aforementioned equity transactions.

#### **Emphasised Matters**

As stated in Note 34 to the accompanying financial statements, the Corporation is under statutory investigation for an alleged violation of the Securities and Exchange Act since August 5, 2016. The investigation was ongoing, and our opinion is not modified in respect of this matter.

#### **Other Matter**

We have also audited the parent company only financial statements of Phison Electronics Corp. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 20, 2017

#### Notice to Readers

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

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

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

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

ASSETS	2016		2015 (Restated)	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 14,958,331	47	\$ 12,405,596	44
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 28)	1,227,729	4	2,226,804	8
Debt investments with no active market - current (Notes 4, 8 and 31)	58,729	-	20,408	-
Notes and accounts receivable				
Third parties (Notes 4 and 9)	4,442,409	14	4,063,528	14
Related parties (Notes 4, 9 and 29)	358,250	1	370,224	1
Other receivables (Note 9)	389,357	1	384,324	1
Current tax assets (Notes 4 and 22)	1,866	-	829	-
Inventories (Notes 4 and 10)	5,222,336	17	5,251,376	19
Prepayments	68,115	-	61,174	-
Other current assets	28,222	-	39,358	-
<b>Total current assets</b>	<b>26,755,344</b>	<b>84</b>	<b>24,823,621</b>	<b>87</b>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current (Notes 4 and 11)	372,051	1	295,950	1
Financial assets measured at cost - non-current (Notes 4 and 12)	712,890	2	605,219	2
Investments accounted for by the equity method (Notes 4 and 14)	1,256,620	4	708,755	2
Property, plant and equipment (Notes 4 and 15)	2,426,451	7	1,637,395	6
Intangible assets (Notes 4 and 16)	222,297	1	198,623	1
Deferred tax assets (Notes 4 and 22)	218,661	1	145,843	1
Guarantee deposits paid	11,325	-	3,381	-
<b>Total non-current assets</b>	<b>5,220,295</b>	<b>16</b>	<b>3,595,166</b>	<b>13</b>
<b>TOTAL</b>	<b>\$ 31,975,639</b>	<b>100</b>	<b>\$ 28,418,787</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 17)	\$ 580,500	2	\$ 196,950	1
Notes and accounts payable				
Third parties	1,737,560	5	1,091,580	4
Related parties (Note 29)	2,119,391	7	3,164,580	11
Other payables (Note 18)	3,152,524	10	2,332,344	8
Tax payable (Notes 4 and 22)	732,348	2	654,254	2
Provisions (Notes 4 and 19)	344,076	1	149,852	1
Other current liabilities	237,661	1	210,352	1
<b>Total current liabilities</b>	<b>8,904,060</b>	<b>28</b>	<b>7,799,912</b>	<b>28</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Notes 4 and 22)	315	-	1,858	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	72,725	-	66,901	-
Guarantee deposits received	314	-	254	-
<b>Total non-current liabilities</b>	<b>73,354</b>	<b>-</b>	<b>69,013</b>	<b>-</b>
<b>Total liabilities</b>	<b>8,977,414</b>	<b>28</b>	<b>7,868,925</b>	<b>28</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 21)</b>				
Share capital				
Common shares	1,970,740	6	1,973,740	7
Capital surplus	6,652,449	21	6,514,569	23
Retained earnings				
Legal reserve	2,356,107	8	1,956,106	7
Special reserve	111,358	-	5,056	-
Unappropriated earnings	11,928,136	37	9,990,216	35
Total retained earnings	14,395,601	45	11,951,378	42
Other equity	(25,965)	-	(111,358)	(1)
<b>Total equity attributable to owners of the Corporation</b>	<b>22,992,825</b>	<b>72</b>	<b>20,328,329</b>	<b>71</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>5,400</b>	<b>-</b>	<b>221,533</b>	<b>1</b>
<b>Total equity</b>	<b>22,998,225</b>	<b>72</b>	<b>20,549,862</b>	<b>72</b>
<b>TOTAL</b>	<b>\$ 31,975,639</b>	<b>100</b>	<b>\$ 28,418,787</b>	<b>100</b>

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

(With Deloitte & Touche auditors' report dated March 20, 2017)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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

	2016		2015 (Restated)	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 29)				
Gross sales	\$ 44,270,298	101	\$ 37,702,656	101
Less: Sales returns and allowances	<u>588,015</u>	<u>1</u>	<u>393,644</u>	<u>1</u>
Net sales	43,682,283	100	37,309,012	100
Other operating revenue	<u>100,229</u>	<u>-</u>	<u>100,165</u>	<u>-</u>
Total operating revenue	43,782,512	100	37,409,177	100
OPERATING COSTS (Notes 4, 10, 23 and 29)	<u>34,518,774</u>	<u>79</u>	<u>29,781,713</u>	<u>80</u>
GROSS PROFIT	<u>9,263,738</u>	<u>21</u>	<u>7,627,464</u>	<u>20</u>
OPERATING EXPENSES (Notes 23 and 29)				
Marketing	684,999	2	544,408	2
General and administrative	517,908	1	461,053	1
Research and development	<u>3,218,183</u>	<u>7</u>	<u>2,395,099</u>	<u>6</u>
Total operating expenses	<u>4,421,090</u>	<u>10</u>	<u>3,400,560</u>	<u>9</u>
OPERATING INCOME	<u>4,842,648</u>	<u>11</u>	<u>4,226,904</u>	<u>11</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 23)	16,158	-	134,119	-
Share of gains (losses) of associates (Note 14)	459,309	1	(20,736)	-
Other income (Note 23)	160,864	1	136,008	1
Financial costs	<u>(2,053)</u>	<u>-</u>	<u>(3,031)</u>	<u>-</u>
Total nonoperating income and expenses	<u>634,278</u>	<u>2</u>	<u>246,360</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	5,476,926	13	4,473,264	12
INCOME TAX EXPENSE (Notes 4 and 22)	<u>675,083</u>	<u>2</u>	<u>576,571</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>4,801,843</u>	<u>11</u>	<u>3,896,693</u>	<u>10</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(2,475)	-	(22,094)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 22)	421	-	3,756	-

(Continued)



# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	2016		2015 (Restated)	
	Amount	%	Amount	%
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	\$ (48,919)	-	\$ (32,764)	-
Unrealized gain (loss) on available-for-sale financial assets	125,601	-	(84,750)	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 22)	<u>8,235</u>	<u>-</u>	<u>4,414</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>82,863</u>	<u>-</u>	<u>(131,438)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 4,884,706</u>	<u>11</u>	<u>\$ 3,765,255</u>	<u>10</u>
<b>NET PROFIT (LOSS) ATTRIBUTED TO:</b>				
Owners of the Corporation	\$ 4,866,992	11	\$ 4,000,009	10
Non-controlling interests	<u>(65,149)</u>	<u>-</u>	<u>(103,316)</u>	<u>-</u>
	<u>\$ 4,801,843</u>	<u>11</u>	<u>\$ 3,896,693</u>	<u>10</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTED TO:</b>				
Owners of the Corporation	\$ 4,950,331	11	\$ 3,875,369	10
Non-controlling interests	<u>(65,625)</u>	<u>-</u>	<u>(110,114)</u>	<u>-</u>
	<u>\$ 4,884,706</u>	<u>11</u>	<u>\$ 3,765,255</u>	<u>10</u>
<b>EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 24)</b>				
Basic	<u>\$ 24.67</u>		<u>\$ 20.41</u>	
Diluted	<u>\$ 24.35</u>		<u>\$ 20.12</u>	

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

(With Deloitte & Touche auditors' report dated March 20, 2017)

(Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

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

	Equity Attributable to the Corporation						Other Equity		Total	Non-controlling Interests	Total Equity
	Common Shares	Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares			
			Legal Reserve	Special Reserve	Unappropriated Earnings						
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 from 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
Changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	-	4,069	-	-	-	-	-	-	4,069	-	4,069
Non-controlling interests	-	-	-	-	-	-	-	-	-	71,586	71,586
Net profit (loss) for the year ended December 31, 2015	-	-	-	-	4,000,009	-	-	-	4,000,009	(103,316)	3,896,693
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(18,338)	(21,552)	(84,750)	-	(124,640)	(6,798)	(131,438)
BALANCE AT DECEMBER 31, 2015 (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
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	-	-	(7,710)	(7,710)
Changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	-	147,375	-	-	-	-	-	-	147,375	(147,375)	-
Treasury shares	-	-	-	-	-	-	-	(64,722)	(64,722)	-	(64,722)
Cancelation of treasury shares	(3,000)	(9,495)	-	-	(52,227)	-	-	64,722	-	-	-
Net profit (loss) for the year ended December 31, 2016	-	-	-	-	4,866,992	-	-	-	4,866,992	(65,149)	4,801,843
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(2,054)	(40,208)	125,601	-	83,339	(476)	82,863
BALANCE AT DECEMBER 31, 2016	<u>\$ 1,970,740</u>	<u>\$ 6,652,449</u>	<u>\$ 2,356,107</u>	<u>\$ 111,358</u>	<u>\$ 11,928,136</u>	<u>\$ (66,816)</u>	<u>\$ 40,851</u>	<u>\$ -</u>	<u>\$ 22,992,825</u>	<u>\$ 5,400</u>	<u>\$ 22,998,225</u>

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

(With Deloitte & Touche auditors' report dated March 20, 2017)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	2016	2015 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 5,476,926	\$ 4,473,264
Adjustments for:		
Share of (gains) losses of associates	(459,309)	20,736
Recognition of provisions	408,268	180,250
Depreciation	123,689	108,778
Allowance for bad debts	123,552	61,698
Amortization	122,584	105,779
Impairment loss recognized on financial assets	112,475	46,811
Gain on deconsolidation of subsidiaries	(45,649)	-
Dividend income	(40,825)	(42,656)
Interest income	(35,189)	(38,099)
Net gain on foreign currency exchange	(27,876)	(203,344)
Impairment loss recognized on Intangible assets	23,640	-
Inventory write-downs (reversal of write-downs)	8,649	(13,062)
Net (gains) losses on fair value change of financial assets designated as at fair value through loss or profit	(3,972)	10,282
Financial costs	2,053	3,031
Loss on disposal of financial assets measured at cost	-	1,614
(Gains) losses on sale of property, plant and equipment	(41)	8
Net changes related to operating assets and liabilities		
Financial assets held for trading	1,001,740	(154,391)
Notes and accounts receivable	(425,880)	(402,417)
Other receivables	(1,228)	(11,053)
Inventories	19,320	298,437
Prepayments	(11,456)	(50,530)
Other current assets	10,125	(23,725)
Notes and accounts payable	(420,224)	186,578
Other payables	837,677	412,403
Provisions	(214,044)	(101,526)
Other current liabilities	29,768	(12,273)
Net defined benefit liability	<u>5,824</u>	<u>2,349</u>
Cash generated from operations	6,620,597	4,858,942
Interest paid	(1,709)	(2,971)
Income tax paid	<u>(664,846)</u>	<u>(512,785)</u>
Net cash generated from operating activities	<u>5,954,042</u>	<u>4,343,186</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	(913,778)	(99,450)
Purchase of financial assets measured at cost	(220,146)	(273,060)
Payments for intangible assets	(177,408)	(177,598)
Proceeds of the capital reduction of available-for-sale financial assets	49,500	-
Dividends received	40,825	42,656
(Increase) decrease in debt investments with no active market	(38,321)	411

(Continued)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	2016	2015 (Restated)
Interest received	\$ 34,979	\$ 37,792
Purchase of investments accounted for by the equity method	(31,771)	-
Net cash outflow from deconsolidation of subsidiaries	(25,297)	-
Proceeds from disposal of property, plant and equipment	41	-
Increase in refundable deposits	(8,386)	(2,744)
Purchase of available-for-sale financial assets	-	(380,700)
Proceeds from sale of financial assets measured at cost	-	8,137
Proceeds of the capital reduction of investments accounted for by the equity method	-	4,298
	<u>-</u>	<u>4,298</u>
Net cash used in investing activities	<u>(1,289,762)</u>	<u>(840,258)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	(2,368,488)	(2,210,589)
Increase in short-term borrowings	380,386	198,396
Purchase of treasury shares	(64,722)	-
Increase in non-controlling interests	4,577	75,655
Increase (decrease) in guarantee deposits	60	(2,200)
Proceeds of the issue of common shares	-	2,142,000
	<u>-</u>	<u>2,142,000</u>
Net cash (used in) generated from financing activities	<u>(2,048,187)</u>	<u>203,262</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(63,358)</u>	<u>141,483</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,552,735</b>	<b>3,847,673</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b><u>12,405,596</u></b>	<b><u>8,557,923</u></b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b><u>\$ 14,958,331</u></b>	<b><u>\$ 12,405,596</u></b>

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

(With Deloitte & Touche auditors' report dated March 20, 2017)

(Concluded)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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### 1. GENERAL INFORMATION

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

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

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

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors on March 20, 2017.

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

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

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

<u>New IFRSs</u>	<u>Effective Date Announced by IASB (Note 1)</u>
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

(Continued)

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

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

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

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

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

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

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. The FSC announced that amendments to IFRS 4, IFRS 9 and IFRS 15 will take effect starting from January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC had not announced the effective dates of the other New IFRSs.

<b>New, Revised or Amended Standards and Interpretations</b>	<b>Effective Date Issued by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
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
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

- a) For debt instruments, if they are held within a business model whose objective is to collect 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 collection of contractual cash flows and the sale of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative 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 to be recognized by using the expected credit loss model". A credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since its initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since its initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

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



## Transition

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

### 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 leases 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 the interest expense accrued on the lease liability; interest is computed by using the 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 the interest portion are classified within operating activities.

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

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

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

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

In addition, in determining whether to recognize a deferred tax asset, the Group should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as 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

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

##### The Cause and Effect of Restatement of Financial Statement

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 financial statements for year ended December 31, 2015. The impact of the restatement on the consolidated financial statements was as follows:

<b>The Effect on Assets, Liabilities, and Equity</b>	<b>Amount before Restatement</b>	<b>Amount Affected</b>	<b>Amount after Restatement</b>
<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>

<b>Impact on Total Comprehensive Income</b>	<b>Amount before Restatement</b>	<b>Amount Affected</b>	<b>Amount after Restatement</b>
<u>For the years ended December 31, 2015</u>			
Operating revenue	\$ 37,178,103	\$ 231,074	\$ 37,409,177
Operating costs	<u>29,541,921</u>	<u>239,792</u>	<u>29,781,713</u>
Gross profit	7,636,182	(8,718)	7,627,464
Operating expenses	<u>3,360,624</u>	<u>39,936</u>	<u>3,400,560</u>
Operating income	4,275,558	(48,654)	4,226,904
Non-operating income and expenses	<u>256,274</u>	<u>(9,914)</u>	<u>246,360</u>
Profit before income tax	4,531,832	(58,568)	4,473,264
Income tax expense	<u>574,303</u>	<u>2,268</u>	<u>576,571</u>
Net profit for the year	3,957,529	(60,836)	3,896,693
Other comprehensive income (loss) for the period	<u>(125,410)</u>	<u>(6,028)</u>	<u>(131,438)</u>
Total comprehensive income for the period	<u>\$ 3,832,119</u>	<u>\$ (66,864)</u>	<u>\$ 3,765,255</u>
Net profit (loss) attributed to:			
Owners of the Corporation	\$ 4,000,009	\$ -	\$ 4,000,009
Non-controlling interests	<u>(42,480)</u>	<u>(60,836)</u>	<u>(103,316)</u>
	<u>\$ 3,957,529</u>	<u>\$ (60,836)</u>	<u>\$ 3,896,693</u>
Total comprehensive income (loss) attributed to:			
Owners of the Corporation	\$ 3,875,369	\$ -	\$ 3,875,369
Non-controlling interests	<u>(43,250)</u>	<u>(66,864)</u>	<u>(110,114)</u>
	<u>\$ 3,832,119</u>	<u>\$ (66,864)</u>	<u>\$ 3,765,255</u>

The Corporation did not originally hold any equity interest in Everspeed Technology Group. However, for the long-term development and enhancement of the integrity of the Group's operating structure, the Corporation's board of directors held a meeting on September 21, 2016 and decided to acquire 100% equity interest in Everspeed Technology Group from the shareholders of Everspeed Technology Limited, the parent company of Everspeed Technology Group, for NT\$1 on September 30, 2016. Consequently, the Corporation included Everspeed Technology Group in the consolidated financial statements as a controlled entity and accounted for the acquisition as an equity transaction. 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 based on 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 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, and liabilities from former subsidiaries, and the carrying amount of non-controlling interests on the date control was lost. The basis of compliance should be the same between the accounting for all the amounts recognized in other comprehensive income related to a subsidiary and the accounting for the related assets and liabilities disposed of directly by the Group.

The remaining investments in a 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 and Tables 5 and 6 following the Notes to Consolidated Financial Statements for detailed information on subsidiaries (including the percentage of ownership and main businesses).

## **Foreign Currencies**

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

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

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

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

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

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

## **Inventories**

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

## **Investment in Associates**

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

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

When the Group subscribes for additional new shares of an associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of the equity of associates. If the Group's ownership interest is reduced due to the

additional subscription of new shares of an associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

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

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate. Any retained investment is measured at fair value at that date, and the fair value is regarded as 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 the 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 these transactions are recognized in the Group's consolidated financial statements only to the extent that interests in the associate that are not related to the Group.

### **Property, Plant and Equipment**

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

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

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

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

### **Intangible Assets**

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

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

## **Impairment of Tangible and Intangible Assets Other Than Goodwill**

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.

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

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

### 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.

#### a. 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 their 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 financial assets. Refer to Note 28 for related disclosures.

b. Available-for-sale financial assets

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

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

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

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

c. Loans and receivables

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

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

d. Impairment of financial assets

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

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

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



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

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

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

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

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

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

e. Derecognition of financial assets

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

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

## **Provisions**

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

## **Revenue Recognition**

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 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 material ownership.

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

b. Rendering service income

Service income is recognized when services are provided.

c. Dividend and interest income

Dividend income from investments is recognized when a 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 applicable effective interest rate.

## **Leasing**

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

a. The Group as lessor

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

b. The Group as lessee

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

## **Employee Benefits**

a. Short-term employee benefits

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

b. Retirement benefits

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

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

The net defined benefit 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.

c. Termination benefits

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

**Share-based Payment Arrangements - Employee Share Options**

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

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

**Taxation**

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

a. Current tax

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

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

b. Deferred tax

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

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

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

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

c. Current and deferred tax for the year

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

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

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

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

a. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between an asset's carrying amount and the present value of the 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. Inventory write-downs

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

c. Provisions for sales returns and allowances

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

**6. CASH AND CASH EQUIVALENTS**

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 99	\$ 98
Checking accounts and demand deposits	11,709,953	7,705,446
Cash equivalents		
Time deposits with original maturities of less than 3 months	<u>3,248,279</u>	<u>4,700,052</u>
	<u>\$ 14,958,331</u>	<u>\$ 12,405,596</u>

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

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
<u>Financial assets held for trading</u>		
Beneficiary certificates - open-end funds	\$ 1,147,144	\$ 2,150,244
Domestic quoted shares	<u>80,585</u>	<u>76,560</u>
	<u>\$ 1,227,729</u>	<u>\$ 2,226,804</u>

**8. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT**

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Certificates of deposit	\$ 57,439	\$ 20,408
Time deposits with original maturities of more than 3 months	<u>1,290</u>	<u>-</u>
	<u>\$ 58,729</u>	<u>\$ 20,408</u>

The market interest rates of time deposits with an original maturity of more than 3 months were 0.20%-1.75% per annum as of December 31, 2016.

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

## 9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>Notes and accounts receivable - trade</u>		
Third parties	\$ 4,604,089	\$ 4,197,226
Related parties	<u>358,250</u>	<u>370,224</u>
	4,962,339	4,567,450
Less: Allowance for doubtful accounts	<u>161,680</u>	<u>133,698</u>
	<u>\$ 4,800,659</u>	<u>\$ 4,433,752</u>
<u>Other receivables</u>		
Income tax refund receivable	\$ 164,028	\$ 204,785
Factored accounts receivable	201,744	147,260
Others	<u>23,585</u>	<u>32,279</u>
	<u>\$ 389,357</u>	<u>\$ 384,324</u>

### Accounts Receivable - Trade

For 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 has 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 counterparty.

The aging of receivables was as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Not past due	\$ 4,405,250	\$ 4,065,359
1-60 days	515,772	382,596
61-90 days	319	47,473
91-120 days	40,293	31,551
More than 120 days	<u>705</u>	<u>40,471</u>
	<u>\$ 4,962,339</u>	<u>\$ 4,567,450</u>

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

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

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

	<b>Individually Assessed for Impairment</b>	<b>Collectively Assessed for Impairment</b>	<b>Total</b>
Balance at January 1, 2015	\$ 28,474	\$ 43,526	\$ 72,000
Add: Impairment losses recognized on receivables	<u>55,048</u>	<u>6,650</u>	<u>61,698</u>
Balance at December 31, 2015	83,522	50,176	133,698
Add: Impairment losses recognized on receivables	11,910	111,642	123,552
Less: Amounts written off during the year as uncollectable	(95,432)	-	(95,432)
Foreign exchange translation losses	<u>-</u>	<u>(138)</u>	<u>(138)</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 161,680</u>	<u>\$ 161,680</u>

The Group individually recognized impairment losses on trade receivables of \$0 thousand and \$83,522 thousand as of December 31, 2016 and 2015, respectively. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The Group had no collaterals for these receivables.

The factored accounts receivable were as follows:

<b>(In Thousands)</b>					
<b>Factor</b>	<b>Factor Amount</b>	<b>Collected Amount</b>	<b>Prepayments</b>	<b>Discount Rate (%)</b>	<b>Factor Limit</b>
For the year ended <u>December 31, 2016</u>					
HSBC Bank	US\$ 93,776	US\$ 85,525	\$ -	-	US\$ 16,500
For the year ended <u>December 31, 2015</u>					
HSBC Bank	US\$ 51,684	US\$ 47,198	-	-	US\$ 12,150

Note: Recorded under other receivables

The limit above was used on a revolving basis.

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

## 10. INVENTORIES

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Raw materials	\$ 3,299,881	\$ 3,183,262
Work-in-process	925,394	1,285,493
Semifinished products	909,398	720,852
Finished goods	<u>87,663</u>	<u>61,769</u>
	<u>\$ 5,222,336</u>	<u>\$ 5,251,376</u>

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2016 and 2015 was \$34,518,774 thousand and \$29,781,713 thousand, respectively.

The cost of goods sold for the years ended December 31, 2016 and 2015 included inventory write-downs of \$8,649 thousand and a reversal of inventory write-downs of \$13,062 thousand, respectively.

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

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
<u>Private equity</u>		
Domestic listed, common shares	<u>\$ 372,051</u>	<u>\$ 295,950</u>

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

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

## 12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	<u>December 31</u>	
	<b>2016</b>	<b>2015</b>
Domestic unlisted common shares	\$ 435,218	\$ 446,045
Overseas unlisted common shares	<u>277,672</u>	<u>159,174</u>
	<u>\$ 712,890</u>	<u>\$ 605,219</u>
Classified according to financial asset measurement categories		
Available-for-sale	<u>\$ 712,890</u>	<u>\$ 605,219</u>

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

The Group recognized impairment losses of \$112,475 thousand in 2016 and \$46,811 thousand in 2015 on domestic and foreign shares.



### 13. SUBSIDIARIES

#### a. Subsidiaries included in the consolidated financial report

The consolidated financial statement prepared in the main as follows:

Investor	Investee (Note 1)	Nature of Activities	Proportion of Ownership		Remark
			2016	2015	
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	-
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	-
	Emtops Electronics Corp.	Sales of flash memory controllers and peripheral system applications products	100.00	100.00	-
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	87.00	87.00	-
	Global Flash Limited	Investment and trade	100.00	100.00	-
	Power Flash (Samoa) Limited	Investment and trade	100.00	-	Remark 3
	Epostar Electronics (BVI) Corporation	Investment	44.21	60.00	Note 25
	Everspeed Technology Limited	Trade of electronic components	100.00	-	Remark 2 and Note 26
Global Flash Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	100.00	100.00	-
	Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	-
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.	100.00	100.00	Remark 1
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	100.00	100.00	-
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100.00	100.00	-
Epostar Electronics (BVI) Corporation	Epostar Electronics Corporation	Design, production and sale of flash memory controllers and peripheral system applications	100.00	100.00	Note 26
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100.00	-	Remark 3
Everspeed Technology Limited	Memoryexchange Corporation	Design and sale of flash memory related products	100.00	94.00	Remarks 2 and 4
	Cloud Solution Global Limited	Trade of electronic components	100.00	100.00	Remark 2
	Fast Choice Global Limited	Trade of electronic components	100.00	100.00	Remark 2

Remarks:

- 1) Established in July 2015.
  - 2) Refer to Note 4 for the more information on the reasons for restatement.
  - 3) Established in March 2016.
  - 4) On September 22, 2016, Everspeed Technology Limited acquired the remaining interest in Memoryexchange Corporation from other shareholders in order to own 100% equity.
- b. Subsidiaries excluded from the consolidated financial statements: None.
- c. During the preparation of the consolidated financial statements, the substantial transactions between the consolidated entities were entirely written off.

#### 14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in Associates	December 31	
	2016	2015
<u>Unlisted shares</u>		
Material associates		
Kingston Solutions Inc.	\$ 1,149,415	\$ 658,526
Associates that are not individually material		
Epostar Electronics (BVI) Corporation (Note 25)	79,732	-
Microtops Design Corporation (“Microtops”)	24,211	21,678
PMS Technology Corporation	2,199	2,124
Flexmedia Electronics Corporation	1,063	1,278
Manutius IP, Inc.	-	25,149
Asdhya Enterprise Private Limited	-	-
	<u>\$ 1,256,620</u>	<u>\$ 708,755</u>

a. Material associate

Name of Associate	Proportion of Ownership and Voting Rights December 31	
	2016	2015
Kingston Solutions Inc.	32.91%	32.91%

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

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

The summarized financial information below represents amounts shown in the associates’ financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

Kingston Solutions Inc.

	December 31	
	2016	2015
Current assets	\$ 7,227,726	\$ 3,192,178
Non-current assets	167,420	205,126
Current liabilities	(3,589,797)	(1,215,305)
Non-current liabilities	<u>(312,749)</u>	<u>(181,010)</u>
Equity	<u>\$ 3,492,600</u>	<u>\$ 2,000,989</u>
Equity attributable to the Corporation	<u>\$ 1,149,415</u>	<u>\$ 658,526</u>

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Operating revenue	\$ <u>17,458,278</u>	\$ <u>12,811,095</u>
Net profit for the year	\$ 1,492,011	\$ 146,234
Other comprehensive loss	<u>(400)</u>	<u>(1)</u>
Total comprehensive income for the year	\$ <u>1,491,611</u>	\$ <u>146,233</u>

b. Aggregate information of associates that are not individually material

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
The Group's share of:		
Net loss for the year	\$ <u>(31,580)</u>	\$ <u>(68,862)</u>
Total comprehensive loss for the year	\$ <u>(31,580)</u>	\$ <u>(68,862)</u>

The fiscal year end date for Microtops is March 31. For the purpose of applying the equity method of accounting, the consolidated financial statements of the Microtops as of March 31, 2016 and 2015 have been used in the Group's preparation of its consolidated financial statements as the Group considers that it is impracticable for Microtops to prepare a separate set of financial statements as of December 31. Appropriate adjustments have been made accordingly for the effects of significant transactions between those dates and December 31, 2016 and 2015.

Except for Manutius IP Inc., Asadhya Enterprises Private Limited and Flexmedia Electronics Corporation, investments accounted for by using the equity method, and the share of profit or loss and other comprehensive income of those investments, all investments were calculated based on financial statements that have been audited. Management of the Group believes that the unaudited financial statements of these aforementioned investees does not result in any material impacts.

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

## 15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>								
Balance at January 1, 2015	\$ 547,014	\$ 27,995	\$ 1,052,762	\$ 207,491	\$ 40,425	\$ 10,389	\$ -	\$ 1,886,076
Additions	-	690	7,790	75,751	8,460	7,198	-	99,889
Disposals	-	-	-	(26,506)	(983)	-	-	(27,489)
Effects of foreign currency exchange difference	-	-	-	(365)	(196)	(160)	-	(721)
Reclassification	-	-	-	<u>12,602</u>	-	-	-	<u>12,602</u>
Balance at December 31, 2015	<u>\$ 547,014</u>	<u>\$ 28,685</u>	<u>\$ 1,060,552</u>	<u>\$ 268,973</u>	<u>\$ 47,706</u>	<u>\$ 17,427</u>	<u>\$ -</u>	<u>\$ 1,970,357</u>
<u>Accumulated depreciation</u>								
Balance at January 1, 2015	\$ -	\$ 9,902	\$ 128,003	\$ 88,133	\$ 19,167	\$ 6,851	\$ -	\$ 252,056
Disposals	-	-	-	(26,506)	(975)	-	-	(27,481)
Depreciation	-	3,668	28,531	60,902	12,143	3,534	-	108,778
Effects of foreign currency exchange difference	-	-	-	(181)	(131)	(79)	-	(391)
Balance at December 31, 2015	<u>\$ -</u>	<u>\$ 13,570</u>	<u>\$ 156,534</u>	<u>\$ 122,348</u>	<u>\$ 30,204</u>	<u>\$ 10,306</u>	<u>\$ -</u>	<u>\$ 332,962</u>
Balance at December 31, 2015, net	<u>\$ 547,014</u>	<u>\$ 15,115</u>	<u>\$ 904,018</u>	<u>\$ 146,625</u>	<u>\$ 17,502</u>	<u>\$ 7,121</u>	<u>\$ -</u>	<u>\$ 1,637,395</u>

(Continued)

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>								
Balance at January 1, 2016	\$ 547,014	\$ 28,685	\$ 1,060,552	\$ 268,973	\$ 47,706	\$ 17,427	\$ -	\$ 1,970,357
Additions	266,724	90	78,930	127,878	13,559	34,846	390,000	912,027
Disposals	-	-	-	(61,838)	(20,964)	(2,679)	-	(85,481)
Gains on deconsolidation of subsidiaries	-	-	-	(2,331)	-	(1,783)	-	(4,114)
Effects of foreign currency exchange difference	-	-	-	(408)	(419)	(1,327)	-	(2,154)
Reclassification	-	-	2,859	2,198	905	-	-	5,962
Balance at December 31, 2016	<u>\$ 813,738</u>	<u>\$ 28,775</u>	<u>\$ 1,142,341</u>	<u>\$ 334,472</u>	<u>\$ 40,787</u>	<u>\$ 46,484</u>	<u>\$ 390,000</u>	<u>\$ 2,796,597</u>
<u>Accumulated depreciation</u>								
Balance at January 1, 2016	\$ -	\$ 13,570	\$ 156,534	\$ 122,348	\$ 30,204	\$ 10,306	\$ -	\$ 332,962
Disposals	-	-	-	(61,838)	(20,964)	(2,679)	-	(85,481)
Depreciation	-	3,672	30,726	73,988	9,932	5,371	-	123,689
Gains on deconsolidation of subsidiaries	-	-	-	(507)	-	(186)	-	(693)
Effects of foreign currency exchange difference	-	-	-	(146)	(113)	(91)	-	(350)
Reclassification	-	-	-	-	19	-	-	19
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 17,242</u>	<u>\$ 187,260</u>	<u>\$ 133,845</u>	<u>\$ 19,078</u>	<u>\$ 12,721</u>	<u>\$ -</u>	<u>\$ 370,146</u>
Balance at December 31, 2016, net	<u>\$ 813,738</u>	<u>\$ 11,533</u>	<u>\$ 955,081</u>	<u>\$ 200,627</u>	<u>\$ 21,709</u>	<u>\$ 33,763</u>	<u>\$ 390,000</u>	<u>\$ 2,426,451</u>

(Concluded)

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

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

## 16. INTANGIBLE ASSETS

	Computer Software	Technology License Fees	Patents	Total
Balance at January 1, 2015	\$ 76,755	\$ 26,409	\$ 23,640	\$ 126,804
Additions	68,423	109,175	-	177,598
Amortization	<u>(75,427)</u>	<u>(30,352)</u>	<u>-</u>	<u>(105,779)</u>
Balance at December 31, 2015	<u>\$ 69,751</u>	<u>\$ 105,232</u>	<u>\$ 23,640</u>	<u>\$ 198,623</u>
Balance at January 1, 2016	\$ 69,751	\$ 105,232	\$ 23,640	\$ 198,623
Additions	143,845	33,563	-	177,408
Amortization	(74,763)	(47,911)	-	(122,584)
Impairment losses recognized	-	-	(23,640)	(23,640)
Gains on deconsolidation of subsidiaries	(5,526)	-	-	(5,526)
Reclassification	(1,757)	-	-	(1,757)
Effects of foreign currency exchange differences	<u>(227)</u>	<u>-</u>	<u>-</u>	<u>(227)</u>
Balance at December 31, 2016	<u>\$ 131,413</u>	<u>\$ 90,884</u>	<u>\$ -</u>	<u>\$ 222,297</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 a patent for a multimedia digital picture frame. As of December 31, 2016, the related products were no longer produced; therefore, the Group assessed that the future economic benefits of the patent cannot be determined. Also there was no information about the net realizable value which could be used as a basis for valuation. As a result, the Group recognized an impairment loss for the entire amount of the patent in the current period.

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

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

## 17. SHORT-TERM BORROWINGS

### Short-term Borrowings

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Unsecured borrowings</u>		
Bank loans	<u>\$ 580,500</u>	<u>\$ 196,950</u>
Interest rate (%)	0.94-1.33	0.90-0.92
Due date	2017.3.1	2016.2.15

## 18. OTHER PAYABLES

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Other payables</u>		
Salaries payable and bonuses payable	\$ 2,052,764	\$ 1,326,739
Others	<u>1,099,760</u>	<u>1,005,605</u>
	<u>\$ 3,152,524</u>	<u>\$ 2,332,344</u>

## 19. PROVISIONS - CURRENT

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Sales returns and allowances	<u>\$ 344,076</u>	<u>\$ 149,852</u>
	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ 149,852	\$ 71,128
Additional provisions recognized	408,268	180,250
Usage	<u>(214,044)</u>	<u>(101,526)</u>
Balance at December 31	<u>\$ 344,076</u>	<u>\$ 149,852</u>

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

## 20. RETIREMENT BENEFIT PLANS

### a. Defined contribution plan

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

### b. Defined benefit plan

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

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Present value of defined benefit obligation	\$ 102,213	\$ 94,249
Fair value of plan assets	<u>(29,488)</u>	<u>(27,348)</u>
Net defined benefit liability	<u>\$ 72,725</u>	<u>\$ 66,901</u>

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

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Balance at January 1, 2015	<u>\$ 67,248</u>	<u>\$ (24,790)</u>	<u>\$ 42,458</u>
Service costs			
Current service costs	3,309	-	3,309
Net interest expense (income)	<u>1,513</u>	<u>(558)</u>	<u>955</u>
Recognized in profit or loss	<u>4,822</u>	<u>(558)</u>	<u>4,264</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability (Asset)</b>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (85)	\$ (85)
Actuarial loss - changes in financial assumptions	9,926	-	9,926
Actuarial loss - experience adjustments	<u>12,253</u>	<u>-</u>	<u>12,253</u>
Recognized in other comprehensive income	<u>22,179</u>	<u>(85)</u>	<u>22,094</u>
Contributions from the employer	<u>-</u>	<u>(1,915)</u>	<u>(1,915)</u>
Balance at December 31, 2015	<u>\$ 94,249</u>	<u>\$ (27,348)</u>	<u>\$ 66,901</u>
Balance at January 1, 2016	<u>\$ 94,249</u>	<u>\$ (27,348)</u>	<u>\$ 66,901</u>
Service costs			
Current service costs	4,103	-	4,103
Net interest expense (income)	<u>1,602</u>	<u>(465)</u>	<u>1,137</u>
Recognized in profit or loss	<u>5,705</u>	<u>(465)</u>	<u>5,240</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	216	216
Actuarial gain - changes in financial assumptions	(2,038)	-	(2,038)
Actuarial loss - experience adjustments	<u>4,297</u>	<u>-</u>	<u>4,297</u>
Recognized in other comprehensive income	<u>2,259</u>	<u>216</u>	<u>2,475</u>
Contributions from the employer	<u>-</u>	<u>(1,891)</u>	<u>(1,891)</u>
Balance at December 31, 2016	<u>\$ 102,213</u>	<u>\$ (29,488)</u>	<u>\$ 72,725</u>

(Continued)

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Operating costs	\$ 711	\$ 572
Selling and marketing expenses	694	670
General administrative expenses	1,396	1,058
Research and development expenses	<u>2,439</u>	<u>1,964</u>
	<u>\$ 5,240</u>	<u>\$ 4,264</u>

The Corporation recognized actuarial losses of \$2,054 thousand and \$18,338 thousand in other comprehensive income in 2016 and 2015, respectively. The cumulative amount of actuarial loss recognized in other comprehensive income as of December 31, 2016 and 2015 was \$32,717 thousand and \$30,663 thousand, respectively.

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

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

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Discount rate(s)	1.80%	1.70%
Expected rate(s) of salary increase	4.00%	4.00%

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Discount rate(s)		
0.25% increase	<u>\$ (4,902)</u>	<u>\$ (4,295)</u>
0.25% decrease	<u>\$ 5,182</u>	<u>\$ 5,397</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 4,800</u>	<u>\$ 4,934</u>
0.25% decrease	<u>\$ (4,577)</u>	<u>\$ (4,059)</u>

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
The expected contributions to the plan for the next year	<u>\$ 1,853</u>	<u>\$ 1,907</u>
The average duration of the defined benefit obligation	21 years	22 years



## 21. EQUITY

### a. Share capital

#### Common shares

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Number of shares authorized (in thousands)	<u>230,000</u>	<u>230,000</u>
Shares authorized	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>
Number of shares issued and fully paid (in thousands)	<u>197,074</u>	<u>197,374</u>
Shares issued	<u>\$ 1,970,740</u>	<u>\$ 1,973,740</u>

In their meeting on June 17, 2014, the Corporation's shareholders decided to issue common shares to raise private equity with an upper limit of 50,000 thousand shares. On June 17, 2014 and February 6, 2015, the board of directors resolved to issue 5,000 thousand and 11,900 thousand common shares at a par value of NT\$10 to raise private equity. The share issuance was set with a fund raising deadline of June 20, 2014 and February 13, 2015, with NT\$185 and NT\$180 as the offering prices, respectively. This common share issuance was approved by and registered with the competent 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 for private equity raising.

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

In accordance with Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2015, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities. The employee share options were not issued because very high cost of issuance would be incurred. 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 authorized capital shares, 16,000 thousand shares were reserved for the issuance of employee share options.

### b. Capital surplus

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*</u>		
Issuance of ordinary share	\$ 6,237,434	\$ 6,246,929
Changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	151,444	4,069

(Continued)

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
<u>May only be used to offset a deficit</u>		
Expired share options	\$ 227	\$ 227
<u>May not be used for any purpose</u>		
Share of changes in capital surplus of associates or joint ventures	<u>263,344</u>	<u>263,344</u>
	<u>\$ 6,652,449</u>	<u>\$ 6,514,569</u>
		(Concluded)

\* 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 Company's Act made in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 15, 2016 and, in that meeting, resolved amendments to the Corporation's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on the distribution of employees' compensation.

The policy on appropriation of earnings and dividend distribution in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, refer to Note 23 (d) "employee benefits expense".

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

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

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

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

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 15, 2016 and June 2, 2015, respectively, 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		
Appropriation to (reversal from) special reserve	106,302	(6,185)		
Cash dividends	2,368,488	2,210,589	\$ 12.0	\$ 11.2

The appropriation of earnings for 2016 were proposed by the Corporation's board of directors on March 20, 2017. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>	<u>Dividends Per Share (NT\$)</u>
Legal reserve	\$ 486,699	
Reversal from special reserve	85,393	
Cash dividends	2,759,036	\$14

The appropriations of earnings for 2016 are subject to resolution in the shareholders' meeting to be held on June 13, 2017.

d. Others equity items

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

	<u>For the Year Ended December 31</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	(48,443)	(25,966)
Related income tax	<u>8,235</u>	<u>4,414</u>
Balance at December 31	<u>\$ (66,816)</u>	<u>\$ (26,608)</u>

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

	<u>For the Year Ended December 31</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>125,601</u>	<u>(84,750)</u>
Balance at December 31	<u>\$ 40,851</u>	<u>\$ (84,750)</u>

e. Non-controlling interests

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Balance at January 1	\$ 221,533	\$ 260,061
Non-controlling interest reduction from Everspeed Technology Limited (Note 26)	(147,375)	-
Non-proportional investment in Epostar Electronics (BVI) Corporation (Note 25)	(7,710)	-
Non-controlling interest in Epostar Electronics (BVI) Corporation (Note 13)	-	47,722
Partial disposal of Phisontech Electronics (Malaysia) Sdn. Bhd. (Notes 13 and 26)	-	7,761
Non-controlling interest in Epostar Electronics Corporation (Note 13)	-	16,151
Acquisition of non-controlling interest in Epostar Electronics Corporation (Notes 13 and 26)	-	(48)
Others	4,577	-
Attributable to non-controlling interests:		
Share of losses for the year	(65,149)	(103,316)
Exchange difference arising on translation of foreign entities	<u>(476)</u>	<u>(6,798)</u>
Balance at December 31	<u>\$ 5,400</u>	<u>\$ 221,533</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, which increased its 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, which 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 control, the two companies were included in the consolidated financial statements as subsidiaries, and the Group purchased 0.09% interest in Epostar Electronics Corporation, and its non-controlling interests increased by \$63,825 thousand.

f. Treasury shares

<b>Treasury Shares</b>	<b>For Company Credit and Shareholders' Equity (In Thousands of Shares)</b>
Number of shares at January 1, 2016	-
Increase during the year	300
Decrease during the year	<u>(300)</u>
Number of shares at December 31, 2016	<u><u>-</u></u>

After the board of directors 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 planned to buy back 7,500 thousand shares at prices from NT\$189 to NT\$270 per share.

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the 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 company credit and shareholders' equity, and reduce the shares subsequently must apply for an amendment of registration of share capital within six months after the buy-back. The Group completed the procedure for the change of capital registration on December 5, 2016.

## 22. INCOME TAXES

### a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Current tax		
In respect of the current year	\$ 722,500	\$ 661,260
Income tax on unappropriated earnings	118,722	68,573
Adjustments for prior periods	<u>(100,417)</u>	<u>(102,882)</u>
	740,805	626,951
Deferred tax		
In respect of the current period	<u>(65,722)</u>	<u>(50,380)</u>
Income tax expense recognized in profit or loss	<u>\$ 675,083</u>	<u>\$ 576,571</u>

A reconciliation of accounting profit and income tax expense for 2016 and 2015 is as follows:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Profit before tax from continuing operations	<u>\$ 5,476,926</u>	<u>\$ 4,473,264</u>
Income tax expense calculated at the statutory rate	\$ 927,843	\$ 794,484
Unrecognized deductible temporary differences	8,358	8,078
Tax-exempt income	(284,765)	(191,777)
Income tax on unappropriated earnings	118,722	68,573
Unrecognized loss carryforwards	1,509	(2,446)
Effect of different tax rate of group entities operating in other jurisdictions	3,833	2,541
Adjustments for prior years' tax	<u>(100,417)</u>	<u>(102,882)</u>
Income tax expense recognized in profit or loss	<u>\$ 675,083</u>	<u>\$ 576,571</u>

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

The appropriation of the 2017 earnings is uncertain, and thus, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

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

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Deferred income tax</u>		
Recognized in other comprehensive income		
Actuarial gains and losses on defined benefit plan	\$ 421	\$ 3,756
Translation of foreign operations	<u>8,235</u>	<u>4,414</u>
	<u>\$ 8,656</u>	<u>\$ 8,170</u>

- c. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Current tax assets		
Tax refund receivable	\$ <u>1,866</u>	\$ <u>829</u>
Current tax liabilities		
Income tax payable	\$ <u>732,348</u>	\$ <u>654,254</u>

- d. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Compre- hensive Income</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Doubtful accounts	\$ 15,012	\$ 4,117	\$ -	\$ (22)	\$ 19,107
Inventory write-downs	47,808	1,470	-	(1)	49,277
Provisions	25,475	33,018	-	-	58,493
Defined benefit obligation	11,373	569	421	-	12,363
Unrealized exchange losses	6,183	11,584	-	-	17,767
Impairment loss on financial assets	12,428	11,471	-	-	23,899
Exchange differences on translating foreign operations	5,450	-	8,235	-	13,685
Share of losses of subsidiaries and associates	20,103	2,004	-	-	22,107
Property, plant and equipment	<u>2,011</u>	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>1,963</u>
	<u>\$ 145,843</u>	<u>\$ 64,185</u>	<u>\$ 8,656</u>	<u>\$ (23)</u>	<u>\$ 218,661</u>
<u>Deferred tax liabilities</u>					
Unrealized exchange gains	<u>\$ 1,858</u>	<u>\$ (1,537)</u>	<u>\$ -</u>	<u>\$ (6)</u>	<u>\$ 315</u>

For the year ended December 31, 2015

	<b>Opening Balance</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Compre- hensive Income</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>					
Temporary differences					
Doubtful accounts	\$ 4,579	\$ 10,433	\$ -	\$ -	\$ 15,012
Inventory write-downs	45,282	2,526	-	-	47,808
Provisions	12,092	13,383	-	-	25,475
Defined benefit obligation	7,218	399	3,756	-	11,373
Unrealized exchange losses	-	6,183	-	-	6,183
Impairment loss on financial assets	11,994	434	-	-	12,428
Exchange differences on translating foreign operations	1,036	-	4,414	-	5,450
Share of losses of subsidiaries and associates	9,021	11,082	-	-	20,103
Property, plant and equipment	<u>2,059</u>	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>2,011</u>
	<u>\$ 93,281</u>	<u>\$ 44,392</u>	<u>\$ 8,170</u>	<u>\$ -</u>	<u>\$ 145,843</u>
<u>Deferred tax liabilities</u>					
Unrealized exchange gains	<u>\$ 7,891</u>	<u>\$ (5,988)</u>	<u>\$ -</u>	<u>\$ (45)</u>	<u>\$ 1,858</u>

e. Income tax exemptions

The Group's net operating income generated from the following expansion projects is exempt from income taxes:

	<u>Tax-exemption Period</u>
Fifth expansion of the Group's factories	January 1, 2012 to December 31, 2016

f. Integrated income tax information of the Group

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Unappropriated retained earnings		
Generated on and after January 1, 1998	<u>\$ 11,928,136</u>	<u>\$ 9,990,216</u>
Shareholder-imputed credits account	<u>\$ 1,338,726</u>	<u>\$ 1,071,531</u>
	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
	<u>(Expected)</u>	<u>(Actual)</u>
Creditable ratios for distribution of earnings	11.22%	14.61%

g. Income tax assessments

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

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Impairment loss recognized on financial assets	\$ (112,475)	\$ (46,811)
Foreign exchange gains, net	106,951	237,330
Gains on deconsolidation of subsidiaries	45,649	-
Impairment loss recognized on intangible assets	(23,640)	-
Gains (Losses) on financial assets held for trading	3,972	(10,282)
Loss on disposal of financial assets measured at cost measure	-	(1,614)
Others	<u>(4,299)</u>	<u>(44,504)</u>
	<u>\$ 16,158</u>	<u>\$ 134,119</u>

b. Other income

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Interest income		
Bank deposits	\$ 35,189	\$ 38,099
Rental income	2,444	7,876
Dividend income	40,825	42,656
Others	<u>82,406</u>	<u>47,377</u>
	<u>\$ 160,864</u>	<u>\$ 136,008</u>

c. Depreciation and amortization

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Property, plant and equipment	\$ 123,689	\$ 108,778
Intangible assets	<u>122,584</u>	<u>105,779</u>
	<u>\$ 246,273</u>	<u>\$ 214,557</u>

(Continued)



	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
An analysis of depreciation by function		
Operating costs	\$ 23,669	\$ 30,438
Operating expenses	<u>100,020</u>	<u>78,340</u>
	<u>\$ 123,689</u>	<u>\$ 108,778</u>
An analysis of amortization by function		
General and administrative expenses	\$ 7,206	\$ 5,107
Research and development expenses	<u>115,378</u>	<u>100,672</u>
	<u>\$ 122,584</u>	<u>\$ 105,779</u>

(Concluded)

d. Employee benefits expense

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Short-term employee benefits	<u>\$ 3,072,506</u>	<u>\$ 2,370,507</u>
Post-employment benefits		
Defined contribution plan	62,220	50,008
Defined benefit plan	<u>5,240</u>	<u>4,264</u>
	<u>67,460</u>	<u>54,272</u>
Termination benefits	<u>-</u>	<u>259</u>
Other employee benefits		
Employee welfare	58,221	50,273
Food stipend	<u>33,662</u>	<u>26,547</u>
	<u>91,883</u>	<u>76,820</u>
	<u>\$ 3,231,849</u>	<u>\$ 2,501,858</u>
Employee benefits		
Recognized in operating costs	\$ 180,878	\$ 167,471
Recognized in operating expenses	<u>3,050,971</u>	<u>2,334,387</u>
	<u>\$ 3,231,849</u>	<u>\$ 2,501,858</u>

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

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Corporation approved by the shareholders in their meeting in June 2016, the Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates from 8%-19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on March 20, 2017 and March 22, 2016, respectively, were as follows:

Accrual rate

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Employees' compensation	8.96%	9.81%
Remuneration of directors and supervisors	0.90%	0.75%

Amount

	<b>For the Year Ended December 31, 2016</b>		<b>For the Year Ended December 31, 2015</b>	
	<b>Cash Dividends</b>	<b>Share Dividends</b>	<b>Cash Dividends</b>	<b>Share Dividends</b>
Employees' compensation	\$ 550,000	\$ -	\$ 500,000	\$ -
Remuneration of directors and supervisors	55,000	-	38,000	-

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

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

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

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

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 2, 2015 were as follows:

	<b>For the Year Ended December 31, 2014</b>	
	<b>Cash</b>	<b>Shares</b>
Bonus to employees	\$ 420,000	-
Remuneration of directors and supervisors	26,572	-

The bonus to employees and the remuneration of directors and supervisors for 2014 approved in the shareholders' meeting on June 2, 2015 and the amounts recognized in the financial statements were as follows:

	<b>For the Year Ended December 31, 2014</b>	
	<b>Bonus to Employees</b>	<b>Remuneration of Directors and Supervisors</b>
Amounts approved in shareholders' meeting	<u>\$ 420,000</u>	<u>\$ 26,572</u>
Amounts recognized in annual financial statements	<u>\$ 420,000</u>	<u>\$ 26,724</u>

The differences were adjusted to profit and loss for the year ended December 31, 2015.

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

e. Gains or losses on foreign currency exchange

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Foreign exchange gains	\$ 726,804	\$ 806,092
Foreign exchange losses	<u>(619,853)</u>	<u>(568,762)</u>
	<u>\$ 106,951</u>	<u>\$ 237,330</u>

## 24. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Basic earnings per share	<u>\$ 24.67</u>	<u>\$ 20.41</u>
Diluted earnings per share	<u>\$ 24.35</u>	<u>\$ 20.12</u>

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

### Net Profit for the Year

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Earnings used in the computation of basic earnings per share		
Profit for the period attributable to owners of the Corporation	<u>\$ 4,866,992</u>	<u>\$ 4,000,009</u>
Earnings used in the computation of diluted earnings per share		
Profit for the period attributable to owners of the Corporation	<u>\$ 4,866,992</u>	<u>\$ 4,000,009</u>

## Shares

	<b>Unit: Thousands of Shares</b>	
	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Weighted-average number of common shares in computation of basic earnings per share	197,256	195,972
Effect of potential dilutive common shares:		
Employees' compensation	<u>2,595</u>	<u>2,860</u>
Weighted-average number of common shares used in the computation of dilutive earnings per share	<u>199,851</u>	<u>198,832</u>

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

## 25. DISPOSAL OF SUBSIDIARIES

On August 25, 2016, the Corporation paid \$31,771 thousand to subscribe for the new issue common shares for cash of Epostar Electronics (BVI) Corporation at a percentage different from its prior ownership percentage. 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

	<b>August 24, 2016</b>
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 25<sup>th</sup>  
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>
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**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 Group purchased 0.09% of its interest in Epostar Electronics Corporation on December 30, 2015, increasing its continuing interest from 99.91% to 100%.

These transactions were accounted for as equity transactions since the Group did not cease to have control over these subsidiaries.

	<b>Everspeed Technology Limited</b>	<b>Phisontech Electronics (Malaysia) Sdn. Bhd.</b>	<b>Epostar Electronics Corporation</b>
Cash consideration received (paid)	\$ -	\$ 11,830	\$ (48)
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests	<u>147,375</u>	<u>(7,761)</u>	<u>48</u>
Differences recognized from equity transactions	<u>\$ 147,375</u>	<u>\$ 4,069</u>	<u>\$ -</u>
<u>Line items adjusted for equity transactions</u>			
Capital surplus- changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	<u>\$ 147,375</u>	<u>\$ 4,069</u>	<u>\$ -</u>

## 27. CAPITAL MANAGEMENT

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

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

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

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

## 28. FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

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

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

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

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	\$ 80,585	\$ -	\$ -	\$ 80,585
Beneficiary certificates - open-end funds	<u>1,147,144</u>	<u>-</u>	<u>-</u>	<u>1,147,144</u>
	<u>\$ 1,227,729</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,227,729</u>
Available-for-sale financial assets				
Unlisted debt securities - ROC	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,051</u>	<u>\$ 372,051</u>

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	\$ 76,560	\$ -	\$ -	\$ 76,560
Beneficiary 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>\$ -</u>	<u>\$ 295,950</u>	<u>\$ 295,950</u>

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

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

	<u>December 31</u>	
	2016	2015
<u>Available-for-sale equity instruments</u>		
Balance at January 1, 2016	\$ 295,950	\$ -
Purchases	-	380,700
Capital reduction by cash	(49,500)	-
Recognized in other comprehensive income		
Available-for-sale financial assets		
Unrealized gain (loss)	<u>125,601</u>	<u>(84,750)</u>
Balance at December 31, 2016	<u>\$ 372,051</u>	<u>\$ 295,950</u>

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

December 31, 2016

Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Quantitative Information	Relevance between Inputs and Fair Value	Sensitivity Analysis of Relation between Inputs and Fair Values
Available-for-sale shares	Market approach (price-earnings ratio and price-to-book ratio method)	Lack of liquidity discount	15.69%	The higher the level of liquidity, the lower the estimation of fair value.	When lack of liquidity percentage increases/decreases by 10%, equity of the Corporation will increase/decrease by \$37,205 thousand.

December 31, 2015

Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Quantitative Information	Relevance between Inputs and Fair Value	Sensitivity Analysis of Relation between Inputs and Fair Values
Available-for-sale shares	Market approach (price-earnings ratio and price-to-book ratio method)	Lack of liquidity discount	28.61%	The higher the level of liquidity, the lower the estimation of fair value.	When lack of liquidity percentage increases/decreases by 10%, equity of the Corporation will increase/decrease by \$29,595 thousand.

**Categories of Financial Instruments**

	<u>December 31</u>	
	2016	2015
<u>Financial assets</u>		
Fair value through profit or loss (FVTPL)		
Held for trading	\$ 1,227,729	\$ 2,226,804
Loans and receivables (Note 1)	20,207,076	17,244,080
Available-for-sale financial assets (Note 2)	1,084,941	901,169

Financial liabilities

Financial liabilities at amortized cost (Note 3)	4,437,451	4,453,110
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Note 1: The balance includes loans and receivables measured at amortized cost, which comprise cash and cash equivalents, debt investments with no active market, notes receivable, and Accounts receivables and other receivables.

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

Note 3: The balance includes financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable and trade payables.

**Financial Risk Management Objectives and Policies**

The Group's major financial instruments include equity investments, trade receivable, trade payables and borrowings. The Group's financial management department provides services to the business unit and coordinates access the operation in domestic and international financial markets. The risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk and liquidity risk.



a. Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign 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 rates, the Group used foreign currency borrowings to hedge risks of foreign currency exchange rates. The gain or loss caused by changes in foreign currency exchange rates will be offset by profit or loss from the hedge. As a result, the market risk is immaterial.

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

Sensitivity analysis

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

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

	<b>Impact of USD</b>	
	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Profit or loss	\$ 383,610	\$ 297,089

2) Interest rate risk

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

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

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Fair value interest rate risk		
Financial assets	\$ 3,307,008	\$ 4,720,460
Financial liabilities	-	196,950
Cash flow interest rate risk		
Financial assets	11,709,953	7,705,446
Financial liabilities	580,500	-

### Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2016 and 2015 would increase by \$1,113 thousand and \$771 thousand, respectively.

### 3) Other price risk

The Group was exposed to equity price risks through its investments in international and domestic quoted stocks and beneficial certificates.

### Sensitivity analysis

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

If equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2016 and 2015 would have increased/decreased by \$12,277 thousand and \$22,268 thousand, respectively. The pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would increase/decrease by \$3,721 thousand and \$2,960 thousand, respectively.

### b. Credit risk

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

The Group adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. The Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure to such risk and the credit ratings of its counterparties are continually monitored, and the aggregate value of transactions was concluded to be spread out amongst approved counterparties. Ongoing credit evaluations are performed on the financial condition of trade receivables.

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

### 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 December 31, 2016 and 2015, the Group had available unutilized short-term bank loan facilities of \$2,907,500 thousand and \$2,868,675 thousand, respectively.

## Liquidity and interest risk tables

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

	<b>December 31, 2016</b>				
	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>More than 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 2,225,637	\$ 2,478,340	\$ 3,037,846	\$ -	\$ -
Variable interest rate instruments	<u>354,750</u>	<u>225,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,580,387</u>	<u>\$ 2,704,090</u>	<u>\$ 3,037,846</u>	<u>\$ -</u>	<u>\$ -</u>
	<b>December 31, 2015</b>				
	<b>On Demand or Less Than 1 Month</b>	<b>1-3 Months</b>	<b>3 Months to 1 Year</b>	<b>1-5 Years</b>	<b>More Than 5 Years</b>
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 2,660,256	\$ 2,419,785	\$ 2,162,717	\$ -	\$ -
Fixed interest rate instruments	<u>65,650</u>	<u>131,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,725,906</u>	<u>\$ 2,551,085</u>	<u>\$ 2,162,717</u>	<u>\$ -</u>	<u>\$ -</u>

## **Information on Transfers of Financial Assets**

Refer to Note 9 for more information relating to the Group's factored trade receivables.

## **29. TRANSACTIONS WITH RELATED-PARTIES**

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

### a. Operating revenue

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Related-party categories</u>		
Associates	\$ 33,281	\$ 18,232
Other related parties (Note 1)	<u>2,070,971</u>	<u>1,616,248</u>
	<u>\$ 2,104,252</u>	<u>\$ 1,634,480</u>

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

b. Operating costs

1) Purchase of goods

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Related-party categories</u>		
Associates	\$ 318,003	\$ 244,065
Other related parties (Note 1)	<u>21,511,793</u>	<u>17,093,964</u>
	<u>\$ 21,829,796</u>	<u>\$ 17,338,029</u>

2) Processing costs

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Related-party categories</u>		
Associates	\$ 13	\$ 88
Other related parties (Note 2)	<u>3,039,291</u>	<u>1,153,682</u>
	<u>\$ 3,039,304</u>	<u>\$ 1,153,770</u>

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

c. Receivables from related parties

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Related-party categories</u>		
Associates	\$ 1,039	\$ 1,692
Other related parties (Note 1)	<u>357,211</u>	<u>368,532</u>
	<u>\$ 358,250</u>	<u>\$ 370,224</u>

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

d. Payables to related parties

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
<u>Related-party categories</u>		
Associates	\$ 79,059	\$ 21,534
Other related parties (Note 1)	<u>2,040,332</u>	<u>3,143,046</u>
	<u>\$ 2,119,391</u>	<u>\$ 3,164,580</u>

The outstanding trade payables from related parties are unsecured.

Note 1: Other related parties are mainly corporate members of the Corporation's board of directors and their subsidiaries.

Note 2: The related party is member of the Corporation's board of directors.

e. Compensation of key management personnel

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Short-term employee benefits	\$ 262,337	\$ 177,195
Post-employment benefits	1,436	2,227
Termination benefits	-	259
Other employee benefits	<u>6,409</u>	<u>5,271</u>
	<u>\$ 270,182</u>	<u>\$ 184,952</u>

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

### 30. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

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

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

<b>Period/Year</b>	<b>Amount</b>
2017	\$ 11,457
2018	<u>892</u>
	<u>\$ 12,349</u>

b. The Group as lessor

Operating leases all relate to the property owned by the Group, and such leases will expire on December 31, 2017.

For the years ended December 31, 2016 and 2015, The Group individually recognized a guarantee on trade receivables of \$256 thousand and \$196 thousand, respectively.

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

<b>Period/Year</b>	<b>Amount</b>
2017	<u>\$ 2,488</u>

### 31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	<u>December 31</u>	
	2016	2015
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	<u>\$ 57,439</u>	<u>\$ 20,408</u>

### 32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2016 and 2015 were as follows:

#### Significant Commitments

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

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

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

#### In Thousands of New Taiwan Dollars and Foreign Currencies

	<u>December 31, 2016</u>		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD	\$ 308,979	32.250	\$ 9,964,583
CNY	46,020	4.617	212,475
<u>Financial liabilities</u>			
Monetary			
USD	110,731	32,250	3,571,076

	<b>December 31, 2015</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rates</b>	<b>New Taiwan Dollars</b>
<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

For the years ended December 31, 2016 and 2015, (realized and unrealized) net foreign exchange gains were \$106,951 thousand and \$237,330 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

#### **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 Corporation and Everspeed Technology Group. The statutory investigation is ongoing, and it has not affected the Corporation's financial condition and business operations.

#### **35. ADDITIONAL DISCLOSURES**

a. Information about significant transactions and b. investees:

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

- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
  - 9) Trading in derivative instruments. (None)
  - 10) Other: Intercompany relationships and significant intercompany transactions. (Table 4)
  - 11) Information of investees. (Table 5)
- c. Information on investments in mainland China:
- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 6)
  - 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses. (Table 7)
    - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
    - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
    - c) The amount of property transactions and the amount of the resultant gains or losses.
    - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes.
    - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
    - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

### **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 include departments that design and sell flash memory controllers and make investments.



a. Segment revenue and results

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

	<u>Segment Revenue</u>		<u>Segment Profits (Loss)</u>	
	<u>For the Year Ended December 31</u>		<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Department that designs and sells flash memory controllers	\$ 43,782,512	\$ 37,409,177	\$ 4,842,901	\$ 4,227,832
Investment department	<u>-</u>	<u>-</u>	<u>(253)</u>	<u>(928)</u>
Total operating segments	<u>\$ 43,782,512</u>	<u>\$ 37,409,177</u>	4,842,648	4,226,904
Other gains and losses			16,158	134,119
Share of gains (losses) of associates			459,309	(20,736)
Other income			160,864	136,008
Finance costs			<u>(2,053)</u>	<u>(3,031)</u>
Profit before tax			<u>\$ 5,476,926</u>	<u>\$ 4,473,264</u>

Segment revenue reported above was generated from external customers. There were no intersegment sales for the years ended December 31, 2016 and 2015.

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

b. Segment assets and liabilities

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

c. Revenue from major products and services

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

	<u>For the Year Ended December 31</u>	
	<u>2016</u>	<u>2015</u>
Disk-on-module, controller and application products	\$ 43,682,283	\$ 37,309,012
Services	<u>100,229</u>	<u>100,165</u>
	<u>\$ 43,782,512</u>	<u>\$ 37,409,177</u>

d. Geographical information

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

	<b>Revenue from External Customers</b>		<b>Non-Current Assets</b>	
	<b>For the Year Ended December 31</b>		<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Asia	\$ 22,372,435	\$ 21,089,583	\$ 2,660,073	\$ 1,839,399
America	15,741,311	10,761,158	-	-
Europe	5,348,709	5,068,340	-	-
Australia	318,926	489,176	-	-
Other	<u>1,131</u>	<u>920</u>	<u>-</u>	<u>-</u>
	<u>\$ 43,782,512</u>	<u>\$ 37,409,177</u>	<u>\$ 2,660,073</u>	<u>\$ 1,839,399</u>

Revenue was categorized depending on clients' locations.

e. Information about major customers

Included in revenue arising from disk-on-module, controller and application products of \$43,682,283 thousand and \$37,309,012 thousand in 2016 and 2015, respectively, is revenue of approximately \$6,525,939 thousand and \$4,679,719 thousand which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2016 and 2015.

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)

DECEMBER 31, 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	December 31, 2016				Note
				Shares (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	<u>Beneficiary certificates</u>							
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,307	\$ 103,164	-	\$ 103,164	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,139	92,984	-	92,984	Note 3
	UPAMC James Bond Money Market Fund	-	Financial assets at fair value through profit or loss - current	12,254	202,901	-	202,901	Note 3
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,995	91,515	-	91,515	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	14,847	151,926	-	151,926	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,130	50,558	-	50,558	Note 3
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	13,767	201,951	-	201,951	Note 3
	Taishin Ta-Chong Market Fund	-	Financial assets at fair value through profit or loss - current	3,594	50,571	-	50,571	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,119	100,755	-	100,755	Note 3
	<u>Common shares</u>							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at fair value through profit or loss - current	7,100	80,585	0.88	80,585	Note 4
	Aptos Technology Inc.	-	Financial assets measured at cost - non-current	2,647	13,409	1.84	13,409	Note 5
	Viva Baseball Co., Ltd.	-	Financial assets measured at cost - non-current	Note 7	266	8.33	261	Note 5
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets measured at cost - non-current	950	10,956	0.50	16,620	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets measured at cost - non-current	3,000	24,471	18.75	36,876	Note 5
	Zillians Inc.	-	Financial assets measured at cost - non-current	440	-	17.25	-	Note 5
	Adam Elements International Co., Ltd.	-	Financial assets measured at cost - non-current	1,710	13,373	19.00	19,569	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets measured at cost - non-current	900	25,399	0.67	25,399	Note 5
	THLight Co., Ltd.	-	Financial assets measured at cost - non-current	6,388	4,186	17.94	1,146	Note 5
	UD INFO Corp.	-	Financial assets measured at cost - non-current	570	5,569	19.00	7,665	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets measured at cost - non-current	15,000	150,000	11.11	140,284	Note 5
	bOMDIC Co., Ltd.	-	Financial assets measured at cost - non-current	322	6,770	9.46	2,727	Note 5
	Geothings, Inc.	-	Financial assets measured at cost - non-current	150	1,500	6.70	799	Note 5
	Ironyun Incorporated (preference shares)	-	Financial assets measured at cost - non-current	5,000	5,723	5.99	5,695	Note 5
	Vescir Ltd.	-	Financial assets measured at cost - non-current	63	16	6.59	16	Note 5
	Innorich Venture Capital Corp.	-	Financial assets measured at cost - non-current	3,000	30,000	5.61	28,966	Note 5
	Dawning Leading Technology Inc.	-	Financial assets measured at cost - non-current	10,335	108,419	2.82	108,419	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets measured at cost - non-current	11,966	101,130	15.94	102,892	Note 5
	Apacer Technology Inc.	-	Available-for-sale financial assets - non-current	10,050	372,051	9.96	372,051	Note 6

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment Corporation	<u>Beneficiary certificates</u>							
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,986	\$ 30,085	-	\$ 30,085	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,424	30,082	-	30,082	Note 3
	<u>Common shares</u>							
	United Power Research Technology Corp.	-	Financial assets measured at cost - non-current	5,616	45,702	16.12	69,853	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,250	2,169	2.33	2,169	Note 5
	Translink Capital Partners III, L.P.	-	Financial assets measured at cost - non-current	870	27,121	1.18	28,668	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets measured at cost - non-current	708	79,123	4.68	(412)	Note 5
	Weltronics Corp., Ltd.	-	Financial assets measured at cost - non-current	700	1,537	19.44	1,537	Note 5
	UMBO CV Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,626	16,860	5.10	1,652	Note 5
Omni Media International Incorporation	-	Financial assets measured at cost - non-current	1,714	30,000	15.99	20,010	Note 5	
Emtops Electronics Corporation	<u>Beneficiary certificates</u>							
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	815	10,111	-	10,111	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	988	10,115	-	10,115	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	<u>Beneficiary certificates</u>							
	United Cash Fund	-	Financial assets at fair value through profit or loss - current	2,945	20,426	-	20,426	Note 3
Everspeed Technology Limited	<u>Common shares</u>							
	Peripheral Devices & Products System Inc.	-	Financial assets measured at cost - non-current	20	-	1.00	(976)	Note 5
	Zillians Inc.	-	Financial assets measured at cost - non-current	500	-	19.61	-	Note 5
Cloud Solution Global Limited	<u>Common shares</u>							
	My Digital Discount, Inc.	-	Financial assets measured at cost - non-current	-	9,191	19.00	877	Note 5

Note 1: The marketable securities listed refer to the types of financial instruments applying International Accounting Standard 39 "Financial Instruments Recognition and Measurement".

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

Note 3: The calculation of the market value was based on the net asset value as of December 31, 2016.

Note 4: The calculation of the market value was based on the closing price as of December 31, 2016.

Note 5: The calculation of the net asset value was based on the investee's unreviewed financial statements as of December 31, 2016.

Note 6: Refer to Note 28(b)-3 for market value information.

Note 7: The company is not limited by shares.

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

(Concluded)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 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	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Toshiba Electronics Components Taiwan Corporation	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	\$ 18,853,531	55	Net 30 days after monthly closing	None	None	\$ (1,697,597)	(44)	-
	Toshiba America Electronic Components, Inc.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	2,677,826	8	Net 30 days after receipt	None	None	(123,821)	(3)	-
	Kingston Solutions Inc.	Equity method investee	Purchase	317,917	1	Net 30 days after monthly closing	None	None	(79,059)	(2)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,914,034	6	Net 15 days after monthly closing	None	None	(86,286)	(2)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	1,125,257	3	Net 45 days after monthly closing	None	None	(132,628)	(3)	-
	Toshiba International Procurement Hong Kong Ltd.	Subsidiary of a corporate member of the Corporation's board of directors	Sale	(260,542)	(1)	Net 60 days after monthly closing	None	None	30,722	1	-
	Toshiba Corporation, Japan	Corporation's board of directors	Sale	(1,763,069)	(4)	Net 60 days after monthly closing	None	None	324,910	6	-

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

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

**DECEMBER 31, 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	\$ 324,910	6.04	\$ -	-	\$ 324,910	\$ -

Note: As of February 28, 2017

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

DECEMBER 31, 2016

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

Number	Company Name	Counterparty	Flow of Transaction	Transaction Details			Percentage of Transaction Amount to Consolidated Operating Revenue or Total Assets (%)
				Account	Amount	Transaction Terms	
0	Phison Electronics Corp.	Hefei Core Storage Electronic Limited	1	Sales revenues	\$ 472,764	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Research and development expense	24,289	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Sales revenues	17,425	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Accounts receivable	3,533	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	4,330	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expense	22,106	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expense	7,511	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other accounts payable	2,491	Based on regular terms	-
		Emtops Electronics Corp.	1	Sales revenue	4,409	Based on regular terms	-
		Emtops Electronics Corp.	1	Accounts receivable	1,105	Based on regular terms	-
		EpoStar Electronics Corp.	1	Sales revenues	1,687	Based on regular terms	-
1	Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	2	Sales revenues	480,098	Based on regular terms	1
		Power Flash (HK) Limited	2	Accounts receivable	74,418	Based on regular terms	-

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

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

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

**INFORMATION OF INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(In Thousands of New Taiwan Dollars)**

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2016			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2016	December 31, 2015	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phison Electronics Corp.	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	\$ 106,050	\$ 106,050	10,605,000	32.91	\$ 1,149,415	\$ 1,492,011	\$ 490,889	Equity-method investee
	Emtops Electronics Corporation	Taiwan	Sale of flash memory controllers and peripheral system applications	95,000	95,000	9,500,000	100.00	73,952	(1,883)	(1,883)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	400,000	400,000	40,000,000	100.00	373,018	(60,609)	(60,609)	Subsidiary
	Flexmedia Electronics Corporation	Taiwan	R&D, sales and production of high-tech multimedia design	8,077	8,077	482,142	21.43	1,063	(1,005)	(215)	Equity-method investee
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	24,211	5,169	2,533	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	28,982	28,982	900	100.00	9,805	(2,280)	(2,280)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	635,696	635,696	20,000,000	100.00	585,179	12,523	12,523	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	81,771	81,771	8,700,000	87.00	36,142	(1,650)	(1,434)	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	102,216	10,600,000	44.21	79,732	(57,267)	(31,055)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	-	3,200,000	100.00	104,961	1,526	1,526	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	156,992	(41,282)	8,930	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	62,028	(15,463)	-	Sub-subsiidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	2,199	222	-	Equity-method investee
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Taiwan	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	10,000	10,000	1,000,000	100.00	31,807	308	-	Sub-subsiidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	546,690	17,152	-	Sub-subsiidiary

(Continued)



Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2016			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2016	December 31, 2015	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	\$ 98,754	\$ -	3,000,000	100.00	\$ 98,542	\$ 1,793	\$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Design and sale of flash memory related products	391,986	59,286	40,950,000	100.00	13,518	(2,568)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,900	(24,794)	-	Sub-subsidiary
Cloud Solution Global Limited	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	-	5,950,440	100.00	21,488	26,983	-	Sub-subsidiary
	Manutius IP, Inc.	U.S.A.	Patent management and authorization	87,036	87,036	1,440,000	48.00	-	(2,841)	-	Note
Cloud Solution Global Limited	Asadhya Enterprises Private Limited	India	Trade of electronic products	611	611	122,255	49.00	-	(15)	-	Equity-method investee
Emtops Electronics Corporation	Manutius IP, Inc.	U.S.A.	Patent management and authorization	34,468	34,468	570,000	19.00	-	(2,841)	-	Note

Note: The entity was approved for dissolution by the local government on July 8, 2016.

(Concluded)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
 FOR THE YEAR ENDED DECEMBER 31, 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 December 31, 2016	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 23,006	Note 2	\$ 23,006	\$ -	\$ -	\$ 23,006	100.00	\$ (2,645)	\$ 133	\$ -
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.	576,780	Note 2	576,780	-	-	576,780	100.00	17,227	545,498	-

Accumulated Investments in Mainland China as of December 31, 2016	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investments (Note 3)
\$ 599,786 (US\$ 18,790)	\$ 599,786 (US\$ 18,790)	\$ 13,798,935

Note 1: Indirectly invested in a China-based company through a third-region company, Global Flash Limited and subsidiaries.

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

Note 3: The limit of investments in mainland China, which is based on Regulations Governing the Approval of Investments on Technical Corporation in Mainland China, is 60% of the net asset value, which is \$22,998,225 x 60% or \$13,798,935.

## 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 YEAR ENDED DECEMBER 31, 2016  
 (In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Hefei Core Storage Electronic Limited	Sub-subsiary	Sale	\$ 472,764	1	Net 30 days after monthly closing	None	None	\$ 114	-	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiaries	Sale	480,098	86	Net 30 days after monthly closing	None	None	74,418	99	-