Phison Electronics Corp. and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2017 and 2016 (Restated) and Independent Auditors' Review Report

INDEPENDENT AUDITORS' REVIEW REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

We have reviewed the financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") which comprises the consolidated balance sheets as of March 31, 2017 and 2016 (2016 restated) and the consolidated statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2017 and 2016 (2016 restated). These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

The financial statements of some insignificant subsidiaries included in the consolidated financial statements were not reviewed. As of March 31, 2017 and 2016 (2016 restated), the total assets of these subsidiaries were 7% (NT$2,183,452 thousand) and 6% (NT$2,027,308 thousand), respectively, and the total liabilities of these subsidiaries were 6% (NT$536,085 thousand) and 5% (NT$524,303 thousand), respectively, of the related consolidated amounts (2016 restated), of the consolidated comprehensive income and loss for the three months ended March 31, 2017 and 2016 (2016 restated), the subsidiaries' portions were (2%) (a loss of NT$19,955 thousand) and (7%) (a loss of NT$63,419 thousand), respectively. Furthermore, as stated in Note 14 to the consolidated financial statements, the investments accounted for by the equity method as of March 31, 2017 and 2016 (2016 restated) amounted to NT$1,356,439 thousand and NT$708,760 thousand, respectively, and the share of comprehensive profit of associates for the three months ended March 31, 2017 and 2016 (2016 restated) were NT$124,030 thousand and NT$21,475 thousand, respectively. As stated in Note 35 to the consolidated financial statements, these investment amounts and the related information of the investees disclosed in the notes to the consolidated financial statements were based on unreviewed financial statements for the same reporting periods as those of the Corporation.

Based on our reviews, except for the effects of any adjustments that might have been made had the consolidated financial statements of the subsidiaries and the investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements of Phison Electronics Corp. and its subsidiaries as of and for the three months ended March 31, 2017 and 2016 (2016 restated) referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Accounting Standard 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.

As stated in Note 26, as recorded in the minutes of meetings of the Corporation's board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the Chairman of the Corporation, 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.

As stated in Note 34, the Corporation is under statutory investigation for an alleged violation of the Securities and Exchange Act since August 5, 2016. The investigation was ongoing as of the date of this report.

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 11, 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
(In Thousands of New Taiwan Dollars)

	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed after Restated)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	$ 13,328,664	41	$ 14,958,331	47	$ 9,797,988	31
Financial assets at fair value through profit or loss - current (Notes 7 and 28)	1,221,089	4	1,227,729	4	2,300,243	7
Debt investments with no active market - current (Notes 8 and 31)	55,787	-	58,729	-	35,372	-
Notes and accounts receivable						
Third parties (Note 9)	4,123,507	13	4,442,409	14	4,460,731	14
Related parties (Notes 9 and 29)	354,932	1	358,250	1	390,130	1
Other receivables (Note 9)	479,452	1	389,357	1	746,667	3
Current tax assets	1,842	-	1,866	-	829	-
Inventories (Note 10)	7,153,077	22	5,222,336	17	9,243,308	30
Prepayments	130,475	-	68,115	-	114,309	-
Other current assets	29,159	-	28,222	-	141,430	1
Total current assets	26,877,984	82	26,755,344	84	27,231,007	87
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Note 11)	398,985	1	372,051	1	332,850	1
Financial assets measured at cost - non-current (Note 12)	773,923	3	712,890	2	753,721	2
Investments accounted for by the equity method (Note 14)	1,378,766	4	1,256,620	4	731,212	2
Property, plant and equipment (Note 15)	2,688,131	8	2,426,451	7	1,980,529	6
Intangible assets (Note 16)	203,499	1	222,297	1	187,405	1
Deferred tax assets	294,092	1	218,661	1	156,392	1
Guarantee deposits paid	10,931	-	11,325	-	12,041	-
Total non-current assets	5,748,327	18	5,220,295	16	4,154,150	13
TOTAL	$ 32,626,311	100	$ 31,975,639	100	$ 31,385,157	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	$ 333,630	1	$ 580,500	2	$ 547,145	2
Notes and accounts payable						
Third parties	1,141,822	4	1,737,560	5	1,165,861	4
Related parties (Note 29)	1,927,449	6	2,119,391	7	4,717,230	15
Other payables (Note 18)	3,305,983	10	3,152,524	10	2,322,891	7
Tax payable	994,232	3	732,348	2	795,890	3
Provisions (Note 19)	384,385	1	344,076	1	125,510	-
Other current liabilities	173,739	1	237,661	1	163,054	1
Total current liabilities	8,261,240	26	8,904,060	28	9,837,581	32
NON-CURRENT LIABILITIES						
Deferred tax liabilities	286	-	315	-	1,787	-
Net defined benefit liabilities - non-current	73,699	-	72,725	-	67,731	-
Guarantee deposits received	324	-	314	-	254	-
Total non-current liabilities	74,309	-	73,354	-	69,772	-
Total liabilities	8,335,549	26	8,977,414	28	9,907,353	32
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 21)						
Share stock						
Common shares	1,970,740	6	1,970,740	6	1,973,740	6
Capital surplus	6,652,449	20	6,652,449	21	6,514,569	21
Retained earnings						
Legal reserve	2,356,107	7	2,356,107	8	1,956,106	6
Special reserve	111,358	-	111,358	-	5,056	-
Unappropriated earnings	13,209,224	41	11,928,136	37	10,919,953	35
Total retained earnings	15,676,689	48	14,395,601	45	12,881,115	41
Other equity	(16,434)	-	(25,965)	-	(74,136)	-
Total equity attributable to owners of the Corporation	24,283,444	74	22,992,825	72	21,295,288	68
NON-CONTROLLING INTERESTS	7,318	-	5,400	-	182,516	-
Total equity	24,290,762	74	22,998,225	72	21,477,804	68
TOTAL	$ 32,626,311	100	$ 31,975,639	100	$ 31,385,157	100

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

(With Deloitte & Touche review report dated May 11, 2017)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	Three Months Ended March 31			
	2017		2016 (Restated)	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Note 29)				
Gross sales	$ 9,618,917	101	$ 9,979,855	101
Less: Sales returns and allowances	140,788	2	105,622	1
Net sales	9,478,129	99	9,874,233	100
Other operating revenue	77,738	1	32,153	-
Total operating revenue	9,555,867	100	9,906,386	100
OPERATING COSTS (Notes 10, 23 and 29)	6,623,082	69	7,982,591	81
GROSS PROFIT	2,932,785	31	1,923,795	19
OPERATING EXPENSES (Note 23)				
Marketing	120,067	1	111,708	1
General and administrative	126,372	1	106,466	1
Research and development	997,590	11	724,228	7
Total operating expenses	1,244,029	13	942,402	9
OPERATING INCOME	1,688,756	18	981,393	10
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 23)	(352,404)	(3)	(5,024)	-
Share of gains of associates	122,146	1	22,249	-
Other income (Note 23)	15,883	-	19,826	-
Financial costs	(2,223)	-	(815)	-
Total nonoperating income and expenses	(216,598)	(2)	36,236	-
PROFIT BEFORE INCOME TAX	1,472,158	16	1,017,629	10
INCOME TAX EXPENSE (Notes 4 and 22)	190,898	2	131,718	1
NET PROFIT FOR THE PERIOD	1,281,260	14	885,911	9

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	Three Months Ended March 31			
	2017		2016 (Restated)	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	$ (19,221)	-	$ 5,197	-
Unrealized gain on available-for-sale financial assets	26,934	-	36,900	-
Income tax (expense) benefit relating to items that may be reclassified subsequently to profit or loss	3,564	-	(66)	-
Other comprehensive income for the period, net of income tax	11,277	-	42,031	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 1,292,537	14	$ 927,942	9
NET PROFIT (LOSS) ATTRIBUTED TO:				
Owners of the Corporation	$ 1,281,088	14	$ 929,737	9
Non-controlling interests	172	-	(43,826)	-
	$ 1,281,260	14	$ 885,911	9
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:				
Owners of the Corporation	$ 1,290,619	14	$ 966,959	10
Non-controlling interests	1,918	-	(39,017)	(1)
	$ 1,292,537	14	$ 927,942	9
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 24)				
Basic	$6.50		$4.71	
Diluted	$6.42		$4.66	

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

(With Deloitte & Touche review report dated May 11, 2017) (Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	Equity Attributable to Owners of the Corporation									
			Retained Earnings			Other Equity				
	Common Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016 (REVIEWED 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
Net profit (loss) for the three months ended March 31, 2016	-	-	-	-	929,737	-	-	929,737	(43,826)	885,911
Other comprehensive income for the three months ended March 31, 2016, net of income tax	-	-	-	-	-	322	36,900	37,222	4,809	42,031
BALANCE AT MARCH 31, 2016 (REVIEWED AFTER RESTATED)	$ 1,973,740	$ 6,514,569	$ 1,956,106	$ 5,056	$ 10,919,953	$ (26,286)	$ (47,850)	$ 21,295,288	$ 182,516	$ 21,477,804
BALANCE AT JANUARY 1, 2017	$ 1,970,740	$ 6,652,449	$ 2,356,107	$ 111,358	$ 11,928,136	$ (66,816)	$ 40,851	$ 22,992,825	$ 5,400	$ 22,998,225
Net profit for the three months ended March 31, 2017	-	-	-	-	1,281,088	-	-	1,281,088	172	1,281,260
Other comprehensive income for the three months ended March 31, 2017, net of income tax	-	-	-	-	-	(17,403)	26,934	9,531	1,746	11,277
BALANCE AT MARCH 31, 2017	$ 1,970,740	$ 6,652,449	$ 2,356,107	$ 111,358	$ 13,209,224	$ (84,219)	$ 67,785	$ 24,283,444	$ 7,318	$ 24,290,762

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

(With Deloitte & Touche review report dated May 11, 2017)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2017	2016 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 1,472,158	$ 1,017,629
Adjustments for:		
Net losses on foreign currency exchange	290,408	64,155
Share of gains of associates	(122,146)	(22,249)
Recognition of provisions	106,543	18,909
Write-down of inventories	53,792	8,598
Depreciation	37,235	28,870
Amortization	34,058	34,599
Interest income	(8,704)	(10,182)
Net losses (gains) on fair value change of financial assets designated as at fair value through loss or profit	5,654	(11,851)
Allowance for (reversal of) bad debts	(2,553)	2,093
Financial costs	2,223	815
Dividend income	-	(3,802)
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	-	(61,588)
Notes and accounts receivable	243,795	(539,451)
Other receivables	(85,848)	(369,631)
Inventories	(1,984,558)	(4,000,547)
Prepayments	(62,968)	(55,319)
Other current assets	(937)	(102,072)
Notes and accounts payable	(763,724)	1,731,514
Other payables	154,829	(9,341)
Provisions	(66,234)	(43,251)
Other current liabilities	(58,015)	(43,283)
Net defined benefit liability	974	830
Cash used in operations	(754,018)	(2,364,555)
Interest paid	(2,451)	(594)
Income tax paid	(1,150)	(827)
Net cash used in operating activities	(757,619)	(2,365,976)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for property, plant and equipment	(305,313)	(373,874)
Purchase of financial assets carried at cost	(61,580)	(148,502)
Payment of intangible assets	(15,524)	(23,231)
Interest received	7,727	10,111
Decrease (increase) in debt investments with no active market	2,942	(14,964)
Decrease (increase) in refundable deposits	394	(8,660)
Dividends received	-	3,802
Net cash used in investing activities	(371,354)	(555,318)

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2017	2016 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term borrowings	$ (240,690)	$ 368,267
Increase in guarantee deposits	10	-
Net cash (used in) generated from financing activities	(240,680)	368,267
EFFECT OF EXCHANGE RATE CHANGES	(260,014)	(54,581)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,629,667)	(2,607,608)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	14,958,331	12,405,596
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,328,664	$ 9,797,988

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

(With Deloitte & Touche review report dated May 11, 2017) (Concluded)

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 May 11, 2017.

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

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

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

   <u>Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers</u>

   The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include 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, 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 relationship with whom the Group has significant transaction. If the transaction or balance with a specific related party is 10% or more of the Group's respective total transaction or balance, such transaction should be separately disclosed by the name of each related party.

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

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and impairment of goodwill are enhanced. Refer to Note 29 for related disclosures.

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

The Group has not applied the following IFRSs issued by the IASB but not yet endorsed and issued into effect by the FSC.

The FSC announced that amendments to IFRS 4 (only the overlay approach can be applied), IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other New IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendments to IFRS 4“Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
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 IFRS15 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 is recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since 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) Amendments 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

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

The Cause and Effect of the Restatement of 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, 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 acknowledgement 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 through 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 interest, and the income (loss) and other comprehensive income (loss) of Everspeed Technology Group is entirely reported as a non-controlling interest.

The Corporation has applied the consolidation basis mentioned above to restate its financial statements for three months ended March 31, 2016. The impact of the restatement on the consolidated financial statements was as follows:

The Effect on Assets, Liabilities, and Equity	Amount Before Restatement	Amount Affected	Amount After Restatement
March 31, 2016			
Assets			
Current assets	$ 26,635,699	$ 595,308	$ 27,231,007
Non-current assets	4,120,136	34,014	4,154,150
Total assets	$ 30,755,835	$ 629,322	$ 31,385,157
Liabilities			
Current liabilities	$ 9,365,375	$ 472,206	$ 9,837,581
Non-current liabilities	68,940	832	69,772
Total liabilities	$ 9,434,315	$ 473,038	$ 9,907,353
Equity			
Attributed to owners of the Corporation	$ 21,295,288	$ -	$ 21,295,288
Attributed to non-controlling interests	26,232	156,284	182,516
Total equity	$ 21,321,520	$ 156,284	$ 21,477,804

Impact on Total Comprehensive Incomes	Amount Before Restatement	Amount Affected	Amount After Restatement
For the three months ended March 31, 2016			
Operating revenue	$ 9,906,386	$ -	$ 9,906,386
Operating costs	7,982,591	-	7,982,591
Gross profit	1,923,795	-	1,923,795
Operating expenses	939,146	3,256	942,402
Operating income	984,649	(3,256)	981,393
Non-operating income and expenses	74,043	(37,807)	36,236
Profit before income tax	1,058,692	(41,063)	1,017,629
Income tax expense	131,718	-	131,718
Net profit for the period	926,974	(41,063)	885,911
Other comprehensive income (loss) for the period	37,881	4,150	42,031
Total comprehensive income for the period	$ 964,855	$ (36,913)	$ 927,942
Net profit (loss) attributed to:			
Owners of the Corporation	$ 929,737	$ -	$ 929,737
Non-controlling interests	(2,763)	(41,063)	(43,826)
	$ 926,974	$ (41,063)	$ 885,911
Total comprehensive income (loss) attributed to:			
Owners of the Corporation	$ 966,959	$ -	$ 966,959
Non-controlling interests	(2,104)	(36,913)	(39,017)
	$ 964,855	$ (36,913)	$ 927,942

The Group 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.

Basis of Consolidation

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).

Other Significant Accounting Policies

Except for the following, the accounting policies applied in these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended December 31, 2016. For the summary of other significant accounting policies, please refer to the consolidated financial statements for the year ended December 31, 2016.

a. Retirement benefits

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

b. Taxation

   Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of trade receivables

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

	March 31, 2017	December 31, 2016	March 31, 2016
Cash on hand	$ 95	$ 99	$ 182
Checking accounts and demand deposits	9,431,822	11,709,953	6,067,326
Cash equivalents			
Time deposits with original maturities of less than 3 months	3,896,747	3,248,279	3,730,480
	$ 13,328,664	$ 14,958,331	$ 9,797,988

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

	March 31, 2017	December 31, 2016	March 31, 2016
Beneficiary certificates - open-end funds	$ 1,147,249	$ 1,147,144	$ 2,214,113
Domestic quoted shares	73,840	80,585	86,130
	$ 1,221,089	$ 1,227,729	$ 2,300,243

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

	March 31, 2017	December 31, 2016	March 31, 2016
Certificates of deposit	$ 55,787	$ 57,439	$ 35,372
Time deposits with original maturities of more than 3 months	-	1,290	-
	$ 55,787	$ 58,729	$ 35,372

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

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	March 31, 2017	December 31, 2016	March 31, 2016
Notes and accounts receivable - trade			
Operating			
Third parties	$ 4,283,323	$ 4,604,089	$ 4,596,522
Related parties	354,932	358,250	390,130
Non-operating			
Third parties	64	-	-
	4,638,319	4,962,339	4,986,652
Less: Allowance for doubtful accounts	159,880	161,680	135,791
Notes and accounts receivable, net	$ 4,478,439	$ 4,800,659	$ 4,850,861
Other receivables			
Income tax refund receivable	$ 305,693	$ 164,028	$ 381,288
Factored accounts receivable	149,667	201,744	333,140
Others	24,092	23,585	32,239
Other receivables	$ 479,452	$ 389,357	$ 746,667

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:

	March 31, 2017	December 31, 2016	March 31, 2016
Not past due	$ 4,296,007	$ 4,405,250	$ 4,299,646
1-60 days	246,480	515,772	438,725
61-90 days	51,109	319	17,029
91-120 days	43,520	40,293	1,169
More than 120 days	1,203	705	230,083
	$ 4,638,319	$ 4,962,339	$ 4,986,652

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

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

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	$ 83,522	$ 50,176	$ 133,698
Add: Impairment losses recognized on receivables	-	2,093	2,093
Balance at March 31, 2016	$ 83,522	$ 52,269	$ 135,791
Balance at January 1, 2017	$ -	$ 161,680	$ 161,680
Less: Impairment losses reversed	-	(2,553)	(2,553)
Exchange differences	-	753	753
Balance at March 31, 2017	$ -	$ 159,880	$ 159,880

The Group individually recognized impairment losses on trade receivables of $0 thousand, $0 thousand and $83,522 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The Group had no collateral for these receivables.

The factored accounts receivable were as follows:

(In Thousands)

Factor	Factor Amount	Collected Amount	Prepayments	Discount Rate (%)	Factor Limit
For the three months ended March 31, 2017					
HSBC Bank	US$ 15,781	US$ 9,748	$ -	-	US$ 19,200
For the three months ended March 31, 2016					
HSBC Bank	US$ 26,404	US$ 16,053	-	-	US$ 14,500

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

	March 31, 2017	December 31, 2016	March 31, 2016
Raw materials	$ 4,122,506	$ 3,299,881	$ 5,985,161
Work-in-process	1,913,560	925,394	2,161,483
Semifinished products	1,052,784	909,398	1,037,125
Finished goods	64,182	87,663	59,539
Merchandise	45	-	-
	$ 7,153,077	$ 5,222,336	$ 9,243,308

The costs of inventories recognized as cost of goods sold for the three months ended March 31, 2017 and 2016 were $6,623,082 thousand and $7,982,591 thousand, respectively.

The cost of goods sold for the three months ended March 31, 2017 and 2016 included inventory write-downs of $53,792 thousand and $8,598 thousand, respectively.

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

	March 31, 2017	December 31, 2016	March 31, 2016
Private equity			
Domestic listed, common shares	$ 398,985	$ 372,051	$ 332,850

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

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	March 31, 2017	December 31, 2016	March 31, 2016
Domestic unlisted common shares	$ 495,218	$ 435,218	$ 450,647
Overseas unlisted common shares	278,705	277,672	303,074
	$ 773,923	$ 712,890	$ 753,721
Classified according to categories			
Available-for-sale	$ 773,923	$ 712,890	$ 753,721

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.

13. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial report

The main structure of consolidated financial statement prepared as follows:

			Investment Percentage			
Investor	**Investee**	**Main Businesses and Products**	**March 31, 2017**	**December 31, 2016**	**March 31, 2016**	**Note**
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	100.00	Remark 2
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	100.00	Remark 2
	Emtops Electronics Corp.	Sales of flash memory controllers and peripheral system applications products	100.00	100.00	100.00	Remark 2
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	87.00	87.00	87.00	Remark 2
	Global Flash Limited	Investment and trade	100.00	100.00	100.00	Remark 2
	Power Flash (Samoa) Limited	Investment and trade	100.00	100.00	100.00	Remark 2
	Epostar Electronics (BVI) Corporation	Investment	44.21	44.21	60.00	Refer to Note 25
	Everspeed Technology Limited	Trade of electronic components	100.00	100.00	-	Remark 1
Global Flash Limited	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	100.00	100.00	100.00	Remark 2
	Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	100.00	Remark 2
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.	100.00	100.00	100.00	Remark 2
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	100.00	100.00	100.00	Remark 2
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100.00	100.00	100.00	Remark 2
Epostar Electronics (BVI) Corporation	Epostar Electronics Corporation	Design, production and sale of flash memory controllers and peripheral system applications	100.00	100.00	100.00	Remark 2
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100.00	100.00	100.00	Remark 2
Everspeed Technology Limited	Memoryexchange Corporation	Design and sale of flash memory related products	100.00	100.00	94.00	Remarks 1 and 3
	Cloud Solution Global Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1
	Fast Choice Global Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1

Remark 1: Refer to Note 4 for the more information on the reasons for restatement.

Remark 2: Above immaterial subsidiaries have not been reviewed.

Remark 3: 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 are entirely written off.

14. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments in Associates	March 31, 2017	December 31, 2016	March 31, 2016
Unlisted shares			
Material associates			
Kingston Solutions Inc.	$ 1,277,573	$ 1,149,415	$ 704,274
Associates that are not individually material			
Epostar Electronics (BVI) Corporation	74,577	79,732	-
Microtops Design Corporation (“Microtops”)	22,327	24,211	22,452
PMS Technology Corporation	4,289	2,199	2,220
Flexmedia Electronics Corporation	-	1,063	1,065
Manutius IP, Inc.	-	-	1,201
	$ 1,378,766	$ 1,256,620	$ 731,212

Material Joint Ventures

Name of Associate	March 31, 2017	December 31, 2016	March 31, 2016
Kingston Solutions Inc.	32.91%	32.91%	32.91%

In April 2014, Emtops Electronics Corporation and Fast Choice Global Limited invested in Manutius IP, Inc. at 19% and 48% of its shares, respectively. The Corporation 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 local USA government on July 8, 2016.

The Group did not proportionally subscribe for the new issue of common shares for cash of Epostar Electronics (BVI) Corporation on August 25, 2016. As a result, the Corporation’s ownership percentage decreased from 60% to 44.21%. 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.

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 calculation of the investments accounted for by the equity method, the Group’s share of profit or loss, and other comprehensive income of those investments for the three months ended March 31, 2017 and 2016 were based on financial statements that have not been reviewed, except those of Microtops Design Corporation.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
Cost								
Balance at January 1, 2016	$ 547,014	$ 28,685	$ 1,060,552	$ 268,973	$ 47,706	$ 17,427	$ -	$ 1,970,357
Additions	266,724	-	3,500	13,086	3,507	5,042	78,000	369,859
Disposals	-	-	-	(17,243)	(19,709)	-	-	(36,952)
Effects of foreign currency exchange difference	-	-	-	172	73	6	-	251
Reclassification	-	-	1,500	593	-	-	-	2,093
Balance at March 31, 2016	$ 813,738	$ 28,685	$ 1,065,552	$ 265,581	$ 31,577	$ 22,475	$ 78,000	$ 2,305,608
Accumulated depreciation								
Balance at January 1, 2016	$ -	$ 13,570	$ 156,534	$ 122,348	$ 30,204	$ 10,306	$ -	$ 332,962
Disposals	-	-	-	(17,243)	(19,709)	-	-	(36,952)
Depreciation	-	918	7,292	16,837	2,869	954	-	28,870
Effects of foreign currency exchange difference	-	-	-	104	64	31	-	199
Balance at March 31, 2016	$ -	$ 14,488	$ 163,826	$ 122,046	$ 13,428	$ 11,291	$ -	$ 325,079
Balance at March 31, 2016, net	$ 813,738	$ 14,197	$ 901,726	$ 143,535	$ 18,149	$ 11,184	$ 78,000	$ 1,980,529
Cost								
Balance at January 1, 2017	$ 813,738	$ 28,775	$ 1,142,341	$ 334,472	$ 40,787	$ 46,484	$ 390,000	$ 2,796,597
Additions	-	-	140	23,803	2,171	296	273,000	299,410
Disposals	-	-	-	(10,419)	(410)	-	-	(10,829)
Effects of foreign currency exchange difference	-	-	-	(1,329)	(519)	(537)	-	(2,385)
Reclassification	-	-	-	25,425	(373)	(24,179)	-	873
Balance at March 31, 2017	$ 813,738	$ 28,775	$ 1,142,481	$ 371,952	$ 41,656	$ 22,064	$ 663,000	$ 3,083,666
Accumulated depreciation								
Balance at January 1, 2017	$ -	$ 17,242	$ 187,260	$ 133,845	$ 19,078	$ 12,721	$ -	$ 370,146
Disposals	-	-	-	(10,419)	(410)	-	-	(10,829)
Depreciation	-	920	8,376	25,284	2,407	248	-	37,235
Effects of foreign currency exchange difference	-	-	-	(615)	(355)	(47)	-	(1,017)
Balance at March 31, 2017	$ -	$ 18,162	$ 195,636	$ 148,095	$ 20,720	$ 12,922	$ -	$ 395,535
Balance at March 31, 2017, net	$ 813,738	$ 10,613	$ 946,845	$ 223,857	$ 20,936	$ 9,142	$ 663,000	$ 2,688,131

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

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

16. INTANGIBLE ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Computer software	$ 125,618	$ 131,413	$ 69,871
Technology license fees	77,881	90,884	23,640
Patents	-	-	93,894
	$ 203,499	$ 222,297	$ 187,405

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.

Except for the above description and the amortization recognized, the Group had no significant addition to, disposal of, and impairment of intangible assets for the three months ended and three months ended March 31, 2017 and 2016.

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

Computer software	1-3 years
Technology license fees	1-8 years

17. BORROWINGS

Short-term Borrowings

	March 31, 2017	December 31, 2016	March 31, 2016
Unsecured borrowings			
Bank loans	$ 333,630	$ 580,500	$ 547,145
Interest rate (%)	1.13%-1.723%	0.94-1.33	0.88-1.03
Due date	2017.5.15	2017.3.1	2016.5.30

18. OTHER PAYABLES

	March 31, 2017	December 31, 2016	March 31, 2016
Other payables			
Salaries payable and bonuses payable	$ 2,158,513	$ 2,052,764	$ 1,312,330
Others	1,147,470	1,099,760	1,010,561
	$ 3,305,983	$ 3,152,524	$ 2,322,891

19. PROVISIONS - CURRENT

	March 31, 2017	December 31, 2016	March 31, 2016
Sales returns and allowances	$ 384,385	$ 344,076	$ 125,510

	For the Three Months Ended March 31	
	2017	2016
Balance, January 1	$ 344,076	$ 149,852
Additional provisions recognized	106,543	18,909
Usage	(66,234)	(43,251)
Balance, March 31	$ 384,385	$ 125,510

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

Employee benefit expenses of the three months ended March 31, 2017 and 2016 in respect of the Group's defined benefit retirement plans were $1,441 thousand and $1,310 thousand, respectively, and were calculated the actuarially determined pension cost discount rate as of December 31, 2016 and 2015.

21. EQUITY

a. Share capital

Common shares

	March 31, 2017	December 31, 2016	March 31, 2016
Number of shares authorized (in thousands)	230,000	230,000	230,000
Capital authorized	$ 2,300,000	$ 2,300,000	$ 2,300,000
Number of shares issued and fully paid (in thousands)	197,074	197,074	197,374
Capital issued	$ 1,970,740	$ 1,970,740	$ 1,973,740

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 and will take effect starting from November 27, 2015. 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

	March 31, 2017	December 31, 2016	March 31, 2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*			
Issuance of ordinary share	$ 6,237,434	$ 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	151,444	4,069
May only be used to offset a deficit only			
Expired share options	227	227	227
May not be used for any purpose			
Share of changes in capital surplus of associates or joint ventures	263,344	263,344	263,344
	$ 6,652,449	$ 6,652,449	$ 6,514,569

* 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 (e) "employees' compensation and remuneration of directors and supervisors".

The Corporation's dividend distribution policy takes into consideration the current and future investment environment, capital requirements, domestic and international competition, capital budget plans, shareholders' interests, the balance between retained earnings and dividends, and the Corporation's long-term financial plans. In accordance with the laws and regulations, the board of directors propose a distribution plan on an annual basis, which should be resolved in the shareholder's meeting. 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 2016 and 2015 have been approved in the Corporation's board of directors on March 20, 2017 and the shareholders' meeting on June 15, 2016, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Year 2016	**For Year 2015**	**For Year 2016**	**For Year 2015**
Legal reserve	$ 486,699	$ 400,001		
Appropriation to (reversal from) special reserve	(85,393)	106,302		
Cash dividends	2,759,036	2,368,488	$14	$12

The appropriations of earnings for 2016 are anticipated to be presented for approval 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

	For the Three Months Ended March 31	
	2017	**2016**
Balance at January 1	$ (66,816)	$ (26,608)
Exchange differences arising on translating the financial statements of foreign operations	(20,967)	388
Related income tax	3,564	(66)
Balance at March 31	$ (84,219)	$ (26,286)

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

	For the Three Months Ended March 31	
	2017	**2016**
Balance at January 1	$ 40,851	$ (84,750)
Unrealized gain arising on revaluation of available-for-sale financial assets	26,934	36,900
Balance at March 31	$ 67,785	$ (47,850)

e. Non-controlling interests

	For the Three Months Ended March 31	
	2017	**2016**
Balance at January 1	$ 5,400	$ 221,533
Attributable to non-controlling interests:		
Share of gains (losses) for the year	172	(43,826)
Exchange difference arising on translating the financial statements of foreign operations	1,746	4,809
Balance at March 31	$ 7,318	$ 182,516

22. INCOME TAXES

a. Income tax recognized in profit or loss:

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

	For the Three Months Ended March 31	
	2017	**2016**
Current tax		
In respect of the current period	$ 262,732	$ 142,429
Deferred tax		
In respect of the current period	(71,834)	(10,711)
Income tax expense recognized in profit or loss	$ 190,898	$ 131,718

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

	For the Three Months Ended March 31	
	2017	**2016**
Deferred income tax		
Recognized in other comprehensive income		
Translation of foreign operations	$ 3,564	$ (66)

c. Income tax exemptions

The Corporation net operating income generated from the following expansion projects is exempt from income taxes:

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

d. Integrated income tax information of the Corporation:

	March 31, 2017	December 31, 2016	March 31, 2016
Unappropriated retained earning			
Unappropriated retained earnings generated on and after January 1, 1998	$ 13,209,224	$ 11,928,136	$ 10,919,953
Balance of imputation credit account (ICA)	$ 1,338,726	$ 1,338,726	$ 1,111,195

	December 31	
	2016 (Expected Ratio)	2015 (Actual Ratio)
The creditable ratios for the distribution of earnings	11.22%	14.61%

e. Income tax assessments

Associate	For the Year Ended
Phison Electronics Corp.	2014
Lian Xu Dong Investment Corporation	2015
Emtops Electronics Corp.	2015
Ostek Corporation	2015
Phisontech Electronics Taiwan Corp.	2015
Memoryexchange Corporation	2013

23. NET PROFIT AND OTHER COMPREHENSIVE INCOME

The following items were included in the net profit:

a. Other gains and losses

	For the Three Months Ended March 31	
	2017	2016
Gains (losses) on financial assets held for trading	$ (5,654)	$ 11,851
Foreign exchange losses, net	(346,764)	(16,871)
Others	14	(4)
	$ (352,404)	$ (5,024)

b. Other income

	For the Three Months Ended March 31	
	2017	2016
Interest income		
Bank deposits	$ 8,704	$ 10,182
Rental income	633	582
Dividend income	-	3,802
Others	6,546	5,260
	$ 15,883	$ 19,826

c. Depreciation and amortization

	For the Three Months Ended March 31	
	2017	2016
Property, plant and equipment	$ 37,235	$ 28,870
Intangible assets	34,058	34,599
	$ 71,293	$ 63,469
An analysis of depreciation by function		
Operating costs	$ 6,381	$ 6,407
Operating expenses	30,854	22,463
	$ 37,235	$ 28,870
An analysis of amortization by function		
General and administrative	$ 2,025	$ 1,647
Research and development expense	32,033	32,952
	$ 34,058	$ 34,599

d. Employee benefits expense

	For the Three Months Ended March 31	
	2017	2016
Short-term employee benefits	$ 872,271	$ 610,930
Post-employment benefits		
Defined contribution plan	16,570	14,803
Defined benefit plan	1,441	1,310
	18,011	16,113
Termination benefits	-	-
Other employee benefits		
Employee welfare	12,552	13,205
Food stipend	8,863	8,025
	21,415	21,230
	$ 911,697	$ 648,273

(Continued)

	For the Three Months Ended March 31	
	2017	2016
Employee benefits		
Recognized in operating costs	$ 46,514	$ 44,104
Recognized in operating expenses	865,183	604,169
	$ 911,697	$ 648,273

(Concluded)

e. Employees' compensation and remuneration of directors and supervisors

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. For the three month ended March 31, 2017 and 2016, the employees' compensation and the remuneration of directors and supervisors were as follows:

Expected rate

	For the Three Months Ended March 31	
	2017	2016
Employees' compensation	10.28%	9.90%
Remuneration of directors and supervisors	1.03%	0.99%

Amount

	For the Three Months Ended March 31	
	2017	2016
Employees' compensation	$ 170,162	$ 117,970
Remuneration of directors and supervisors	$ 17,016	$ 11,797

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

The employees' compensation and the remuneration to directors and supervisors for 2016 and 2015 were approved in the Corporation's board of directors on March 20, 2017 and March 22, 2016, respectively were as follows:

	For the Year Ended 2016		For the Year Ended 2015	
	Cash Dividends	Stock Dividends	Cash Dividends	Stock Dividends
Employees' compensation	$ 550,000	$ -	$ 500,000	$ -
Remuneration of directors and supervisors	55,000	-	38,000	-

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

f. Gains or losses on foreign currency exchange

	For the Three Months Ended March 31	
	2017	**2016**
Foreign exchange gains	$ 180,948	$ 310,042
Foreign exchange losses	(527,712)	(326,913)
Net loss	$ (346,764)	$ (16,871)

24. EARNINGS PER SHARE

(New Taiwan Dollars)

	For the Three Months Ended March 31	
	2017	**2016**
Basic earnings per share	$ 6.50	$ 4.71
Diluted earnings per share	$ 6.42	$ 4.66

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

Net Profit for the Period

	For the Three Months Ended March 31	
	2017	**2016**
Earnings used in the computation of basic earnings per share		
Profit for the period attributable to owners of the Corporation	$ 1,281,088	$ 929,737
Earnings used in the computation of diluted earnings per share		
Profit for the period attributable to owners of the Corporation	$ 1,281,088	$ 929,737

Shares

(In Thousands of Shares)

	For the Three Months Ended March 31	
	2017	**2016**
Weighted-average number of common shares in computation of basic earnings per share	197,074	197,374
Effect of potential dilutive common shares:		
Employees' compensation	2,436	2,171
Weighted-average number of common shares used in the computation of dilutive earnings per share	199,510	199,545

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

The Group did not proportionally subscribe for the new issued common shares for cash replenishment of Epostar Electronics (BVI) Corporation on August 25, 2016. As a result, the Corporation's ownership percentage decreased from 60% to 44.21%. The Corporation's less than 50% voting rights had no power to govern the financial and operating policies of Epostar Electronics (BVI) Corporation. Therefore the Corporation has lost control over Epostar Electronics (BVI) Corporation on August 25, 2016.

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

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

b. Gain on disposal of subsidiary

		For the Eight Months Ended at 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	(7,710)	
Gain on disposal		$ 45,649

c. Net cash inflow on disposal of subsidiary

	August 25, 2016
Cash and cash equivalent balances disposed of	$ 25,297

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. In addition, 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. 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.

	Everspeed Technology Limited	Phisontech Electronics (Malaysia) Sdn. Bhd.
Cash consideration received (paid)	$ -	$ 11,830
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests	147,375	(7,761)
Differences recognized from equity transactions	$ 147,375	$ 4,069

(Continued)

Line items adjusted for equity transactions	Everspeed Technology Limited	Phisontech Electronics (Malaysia) Sdn. Bhd.
Capital surplus- changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	$ 147,375	$ 4,069

(Concluded)

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 Information

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

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

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

1) Fair value hierarchy

March 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	$ 73,840	$ -	$ -	$ 73,840
Beneficiary certificates - open-end funds	1,147,249	-	-	1,147,249
	$ 1,221,089	$ -	$ -	$ 1,221,089

(Continued)

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Unlisted debt securities - ROC	$ -	$ -	$ 398,985	$ 398,985

(Concluded)

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	1,147,144	-	-	1,147,144
	$ 1,227,729	$ -	$ -	$ 1,227,729
Available-for-sale financial assets				
Unlisted debt securities - ROC	$ -	$ -	$ 372,051	$ 372,051

March 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	$ 86,130	$ -	$ -	$ 86,130
Beneficiary certificates - open-end funds	2,214,113	-	-	2,214,113
	$ 2,300,243	$ -	$ -	$ 2,300,243
Available-for-sale financial assets				
Unlisted debt securities - ROC	$ -	$ -	$ 332,850	$ 332,850

There were no transfers between Levels 1 and 2 for the three months ended March 31, 2017 and 2016.

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

Available-for-sale Equity Instruments	2017	2016
Balance at January 1, 2017	$ 372,051	$ 295,950
Recognized in other comprehensive income		
Available-for-sale financial assets		
Unrealized gain (loss)	26,934	36,900
Balance at March 31, 2017	$ 398,985	$ 332,850

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

March 31, 2017

Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Quantitative Information	Relevance between Inputs and Fair Value	Sensitivity Analysis of Relation between Inputs and Fair Values
Available-for-sale shares	Market approach (price-earnings ratio and price-to-book ratio method)	Lack of liquidity discount	13.34%	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 decrease/increase by $39,899 thousand.

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 decrease/increase by $37,205 thousand.

March 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	23.42%	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 decrease/increase by $33,285 thousand.

Categories of Financial Instruments

	March 31, 2017	December 31, 2016	March 31, 2016
Financial assets			
Fair value through profit or loss (FVTPL)			
Held for trading	$ 1,221,089	$ 1,227,729	$ 2,300,243
Loans and receivables (Note 1)	18,342,342	20,207,076	15,430,888
Available-for-sale financial assets (Note 2)	1,172,908	1,084,941	1,086,571
Financial liabilities			
Financial liabilities at amortized cost (Note 3)	3,402,901	4,437,451	6,430,236

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.

<u>Sensitivity analysis</u>

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

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

	Impact of USD	
	For the Three Months Ended March 31	
	2017	**2016**
Profit or loss	$ 300,747	$ 166,974

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:

	March 31, 2017	December 31, 2016	March 31, 2016
Fair value interest rate risk			
Financial assets	$ 3,952,534	$ 3,307,008	$ 3,765,852
Financial liabilities	60,660	-	354,035
Cash flow interest rate risk			
Financial assets	9,431,822	11,709,953	6,067,326
Financial liabilities	272,970	580,500	193,110

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 three months ended March 31, 2017 and 2016 would have increase by $229 thousand and $147 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 three months ended March 31, 2017 and 2016 would have increased/decreased by $12,211 thousand and $23,002 thousand, respectively. The pre-tax other comprehensive income for the three months ended March 31, 2017 and 2016 would increase/decrease by $3,990 thousand and $3,329 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 March 31, 2017, December 31, 2016 and March 31, 2016, the Group had available unutilized overdraft and short-term bank loan facilities of approximately $3,547,610 thousand, $2,907,500 thousand and $3,987,480 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.

	March 31, 2017				
	On Demand or Less Than 1 Month	**1-3 Months**	**3 Months to 1 Year**	**1-5 Years**	**More Than 5 Years**
Non-derivative financial liabilities					
Non-interest bearing	$ 1,500,791	$ 4,238,842	$ 1,629,853	$ -	$ -
Fixed interest rate liabilities	60,660	-	-	-	-
Variable interest rate instruments	151,650	121,320	-	-	-
	$ 1,713,101	$ 4,360,162	$ 1,629,853	$ -	$ -

	December 31, 2016				
	On Demand or Less Than 1 Month	**1-3 Months**	**3 Months to 1 Year**	**1-5 Years**	**More Than 5 Years**
Non-derivative financial liabilities					
Non-interest bearing	$ 2,225,637	$ 2,478,340	$ 3,037,846	$ -	$ -
Variable interest rate instruments	354,750	225,750	-	-	-
	$ 2,580,387	$ 2,704,090	$ 3,037,846	$ -	$ -

	March 31, 2016				
	On Demand or Less Than 1 Month	**1-3 Months**	**3 Months to 1 Year**	**1-5 Years**	**More Than 5 Years**
Non-derivative financial liabilities					
Non-interest bearing	$ 2,946,803	$ 4,018,552	$ 2,036,517	$ -	$ -
Fixed interest rate instruments	193,110	160,925	-	-	-
Variable interest rate instruments	193,110	-	-	-	-
	$ 3,333,023	$ 4,179,477	$ 2,036,517	$ -	$ -

Information on Transfers of Financial Assets

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

29. RELATED PARTY TRANSACTIONS

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

a. Related-party and its relationship

Related Party	Relationship
Toshiba International Procurement Hong Kong, Ltd.	Other related parties
Toshiba Singapore Pte Ltd	Other related parties
Toshiba Corporation, Japan	Other related parties
Toshiba Client Solutions ANZ Pty Limited	Other related parties
TOSHIBA ELECTRONICS (CHINA) CO., LTD.	Other related parties
Toshiba America Electronic, Components, Inc.	Other related parties
Toshiba Electronics Components Taiwan Corporation	Other related parties
Orient Semiconductor Electronics Ltd.	Other related parties
Dawning Leading Technology Inc.	Other related parties
Kingston Solutions Inc.	Associates
PMS Technology Corporation	Associates
Microtops Design Corporation	Associates
Epostar Electronics Corporation	Associates

b. Operating revenue

Related-party Categories	For the Three Months Ended March 31 2017	2016
Associates	$ 8,929	$ 4,831
Other related parties (Note 1)	531,370	551,482
	$ 540,299	$ 556,313

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

c. Operating costs

1) Purchase of goods

Related-party Categories	For the Three Months Ended March 31 2017	2016
Associates	$ 63,642	$ 97,850
Other related parties (Note 1)		
Toshiba Electronics Components Taiwan Corporation	3,983,466	8,348,192
Others	563,022	497,618
	$ 4,610,130	$ 8,943,660

2) Processing cost

Related-party Categories	For the Three Months Ended March 31 2017	2016
Associates	$ 317	$ -
Other related parties (Note 2)	358,749	895,838
	$ 359,066	$ 895,838

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

d. Receivables from related parties

Related-party Types	March 31, 2017	December 31, 2016	March 31, 2016
Associates	$ 8,677	$ 1,039	$ 4,683
Other related parties (Note 1)	346,255	357,211	385,447
	$ 354,932	$ 358,250	$ 390,130

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

e. Payables to related parties

Related-party Categories	March 31, 2017	December 31, 2016	March 31, 2016
Associates	$ 18,291	$ 79,059	$ 27,464
Other related parties (Note 1)			
Toshiba Electronics Components Taiwan Corporation	1,548,981	1,697,597	4,029,704
Others	360,177	342,735	660,062
	$ 1,927,449	$ 2,119,391	$ 4,717,230

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 Corporation is member of the related party’s board of directors.

f. Compensation of key management personnel

	For the Three Months Ended March 31	
	2017	**2016**
Short-term employee benefits	$ 69,045	$ 40,686
Post-employment benefits	354	345
Other employee benefits	1,210	1,056
	$ 70,609	$ 42,087

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:

Period/Year	Amount
2017 (from April to December)	$ 6,909
2018	838
	$ 7,747

b. The Group as lessor

Operating leases all relate to the property owned by the Group, and such leases will expire on March 15, 2018.

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

Period/Year	Amount
2017 (from April to December)	$ 1,897
2018	9
	$ 1,906

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	March 31, 2017	December 31, 2016	March 31, 2016
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	$ 55,787	$ 57,439	$ 35,372

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of March 31, 2017, December 31, 2016 and March 31, 2016 were as follows:

Significant Commitments

	March 31, 2017	December 31, 2016	March 31, 2016
Unused letters of credit	$ 2,203,000	$ 2,020,000	$ 720,000

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

	March 31, 2017		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
Financial assets			
Monetary			
USD	$ 264,527	30.330	$ 8,023,115
CNY	47,227	4.407	208,127
Financial liabilities			
Monetary			
USD	99,263	30.330	3,010,646

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

	March 31, 2016		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
Financial assets			
Monetary			
USD	$ 252,282	32.185	$ 8,119,682
CNY	41,469	4.972	206,182
Financial liabilities			
Monetary			
USD	165,816	32.185	5,336,776

For the three months ended March 31, 2017 and 2016, (realized and unrealized) net foreign exchange losses were $346,764 thousand and $16,871 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:

	Segment Revenue For the Three Months Ended March 31		Segment Profits For the Three Months Ended March 31	
	2017	**2016**	**2017**	**2016**
Department that designs and sells flash memory controllers	$ 9,555,867	$ 9,906,386	$ 1,688,884	$ 981,448
Investment department	-	-	(128)	(55)
Total operating segments	$ 9,555,867	$ 9,906,386	1,688,756	981,393
Other gains and losses			(352,404)	(5,024)
Share of gains (losses) of associates			122,146	22,249
Other income			15,883	19,826
Financial costs			(2,223)	(815)
Income before income tax			$ 1,472,158	$ 1,017,629

Segment revenue reported above was generated from external customers. There were no intersegment sales for the three months ended March 31, 2017 and 2016.

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.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)
MARCH 31, 2017
(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	March 31, 2017				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	Beneficiary certificates							
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,307	$ 103,245	-	$ 103,245	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,139	93,066	-	93,066	Note 3
	UPAMC James Bond Money Market Fund	-	Financial assets at fair value through profit or loss - current	12,254	203,059	-	203,059	Note 3
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,995	91,588	-	91,588	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	14,847	152,054	-	152,054	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,130	50,598	-	50,598	Note 3
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	13,767	202,128	-	202,128	Note 3
	Taishin Ta-Chong Market Fund	-	Financial assets at fair value through profit or loss - current	3,594	50,611	-	50,611	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,119	100,837	-	100,837	Note 3
	Common share							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at fair value through profit or loss - current	7,100	73,840	0.88	73,840	Note 4
	Aptos Technology Inc.	-	Financial assets measured at cost - non-current	2,647	13,409	1.84	13,669	Note 9
	Viva Baseball Co., Ltd.	-	Financial assets measured at cost - non-current	Note 7	266	8.33	260	Note 5
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets measured at cost - non-current	1,000	12,536	0.50	16,305	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets measured at cost - non-current	3,000	24,471	18.75	33,626	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	17,982	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets measured at cost - non-current	900	25,399	0.67	25,864	Note 5
	THLight Co., Ltd.	-	Financial assets measured at cost - non-current	6,388	4,186	17.94	1,093	Note 5
	UD INFO Corp.	-	Financial assets measured at cost - non-current	570	5,569	19.00	7,589	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets measured at cost - non-current	15,000	150,000	11.11	139,288	Note 5
	bOMDIC Co., Ltd.	-	Financial assets measured at cost - non-current	322	6,770	9.46	2,144	Note 5
	GeoThings, Inc.	-	Financial assets measured at cost - non-current	150	1,500	6.70	647	Note 5
	Ironyun Incorporated (preference shares)	-	Financial assets measured at cost - non-current	5,000	5,723	5.99	4,168	Note 5
	Vescir Ltd.	-	Financial assets measured at cost - non-current	63	16	6.59	(59)	Note 5
	Innorich Venture Capital Corp.	-	Financial assets measured at cost - non-current	3,000	30,000	5.61	28,499	Note 5
	Dawning Leading Technology Inc.	-	Financial assets measured at cost - non-current	10,335	108,419	2.82	93,043	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets measured at cost - non-current	11,966	101,130	15.94	94,397	Note 5
	Fuh Hwa Smart Energy Fund		Financial assets measured at cost - non-current	6,000	60,000	3.81	59,997	Note 3
	Apacer Technology Inc.	-	Available-for-sale financial assets - non-current	10,050	398,985	9.96	398,985	Note 6

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	March 31, 2017				Note
				Shares or Units (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	$ 30,111	-	$ 30,111	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,424	30,107	-	30,107	Note 3
	<u>Common shares</u>							
	United Power Research Technology Corp.	-	Financial assets measured at cost - non-current	5,616	45,702	16.12	69,019	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,250	2,169	2.29	3,013	Note 5
	Translink Capital Partners III, L.P.	-	Financial assets measured at cost - non-current	870	27,121	1.18	28,031	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets measured at cost - non-current	708	79,123	4.10	4,754	Note 5
	Weltronics Corp., Ltd.	-	Financial assets measured at cost - non-current	700	1,537	19.44	190	Note 5
	UMBO CV Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,626	16,860	5.10	325	Note 5
	Omni Media International Incorporation	-	Financial assets measured at cost - non-current	1,714	30,000	14.84	20,027	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	10,119	-	10,119	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	988	10,124	-	10,124	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	<u>Beneficiary certificates</u>							
	United Cash Fund	-	Financial assets at fair value through profit or loss - current	2,966	19,602	-	19,602	Note 3
Everspeed Technology Limited	<u>Common share</u>							
	Peripheral Devices & Products System Inc.	-	Financial assets measured at cost - non-current	20	-	1.00	(754)	Note 10
	Zillians Inc.	-	Financial assets measured at cost - non-current	500	-	19.61	-	Note 11
Cloud Solution Global Limited	<u>Common share</u>							
	My Digital Discount, Inc.	-	Financial assets measured at cost - non-current	-	8,644	19.00	1,293	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 March 31, 2017.

Note 4: The calculation of the market value was based on the closing price as of March 31, 2017.

Note 5: The calculation of the net asset value was based on the investee’s unreviewed financial statements as of March 31, 2017.

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.

(Continued)

Note 9: The calculation of the net asset value was based on the investee’s audited financial statements as of December 31, 2016.

Note 10: The calculation of the net asset value was based on the investee’s unreviewed financial statements as of February 28, 2017.

Note 11: The calculation of the net asset value was based on the investee’s unreviewed financial statements as of December 31, 2016.

(Concluded)

TABLE 2

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 THREE MONTHS ENDED MARCH 31, 2017
(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	$ 3,983,466	47	Net 30 days after monthly closing	None	None	$ (1,548,981)	(51)	-
	Toshiba America Electronic Components, Inc.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	560,058	7	Net 30 days after receipt date	None	None	(182,908)	(6)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	253,204	3	Net 15 days after monthly closing	None	None	(118,753)	(4)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	105,545	1	Net 45 days after monthly closing	None	None	(56,320)	(2)	-
	Toshiba Corporation, Japan	Corporation's board of directors	Sale	(484,969)	(5)	Net 60 days after monthly closing	None	None	311,436	7	-

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2017
(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	$ 311,436	6.10	$ -	-	$ 162,189	$ -

Note: As of April 30, 2017.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
MARCH 31, 2017
(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	a	Sales revenues	$ 144,594	Based on regular terms	2
		Hefei Core Storage Electronic Limited	a	Accounts receivable	100,630	Based on regular terms	-
		Hefei Core Storage Electronic Limited	a	Research and development expense	24,188	Based on regular terms	-
		Hefei Core Storage Electronic Limited	a	Other accounts payable	24,188	Based on regular terms	-
		Ostek Corporation	a	Purchase	2,287	Based on regular terms	-
		Ostek Corporation	a	Accounts payable	2,424	Based on regular terms	-
		Ostek Corporation	a	Manufacturing expense	4,565	Based on regular terms	-
		Phison Electronics Japan Corp.	a	Sales expense	1,801	Based on regular terms	-
		Phison Electronics Japan Corp.	a	Other accounts payable	1,804	Based on regular terms	-
		Emtops Electronics Corp.	a	Purchase	19,099	Based on regular terms	-
1	Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	b	Sales revenues	106,934	Based on regular terms	1
		Power Flash (HK) Limited	b	Accounts receivable	104,595	Based on regular terms	-

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEES
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				March 31, 2017	December 31, 2016	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	$ 1,277,573	$ 389,419	$ 128,158	Equity-method investee
	Emtops Electronics Corporation	Taiwan	Sale of flash memory controllers and peripheral system applications	95,000	95,000	9,500,000	100.00	71,075	(2,877)	(2,877)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	400,000	65,000,000	100.00	618,980	(4,039)	(4,039)	Subsidiary
	Flexmedia Electronics Corporation	Taiwan	R&D, sales and production of high-tech multimedia design	8,077	8,077	482,142	21.43	-	(4,970)	(1,063)	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	22,327	(3,845)	(1,884)	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	28,982	28,982	900	100.00	8,972	(686)	(686)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	635,696	635,696	20,000,000	100.00	571,603	11,592	11,592	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	48,973	1,326	1,154	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	44.21	74,577	(11,661)	(5,155)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	99,189	106	106	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	149,385	(6,155)	(6,155)	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	56,828	(5,200)	-	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	4,289	6,273	-	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	34,281	2,474	-	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	531,716	10,112	-	Sub-subsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				March 31, 2017	December 31, 2016	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	$ 98,754	$ 98,754	3,000,000	100.00	$ 93,152	$ 489	$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Design and sale of flash memory related products	391,986	391,986	40,950,000	100.00	13,411	(107)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,686	(43)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	20,209	1	-	Sub-subsidiary
Cloud Solution Global Limited	Asadhya Enterprises Private Limited	India	Trade of electronic products	611	611	122,255	49.00	-	(29)	-	Equity-method investee

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(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, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2017	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of March 31, 2017	Accumulated Inward Remittance of Earnings as of March 31, 2017
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	$ 23,006	2	$ 23,006	$ -	$ -	$ 23,006	100.00	$ 2,800	$ 2,851	$ -
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.	576,780	2	576,780	-	-	576,780	100.00	10,183	530,595	-

Accumulated Investments in Mainland China as of March 31, 2017	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investments (Note 3)
$ 599,786 (US$ 18,790)	$ 599,786 (US$ 18,790)	$ 14,574,457

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 unaudited 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 $24,290,762 × 60% or $14,574,457.

TABLE 7

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES
FOR THE THREE MONTHS ENDED MARCH 31, 2017
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	$ 144,594	2	Net 30 days after monthly closing	None	None	$ 100,630	2	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiaries	Sale	106,934	78	Net 30 days after monthly closing	None	None	104,595	81	-