

Phison Electronics Corp. and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2017 and 2016 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 comprise the consolidated balance sheets as of September 30, 2017 and 2016 and the consolidated statements of comprehensive income for the three months ended and the nine months ended September 30, 2017 and 2016, and the changes in equity and cash flows for the nine months ended September 30, 2017 and 2016. 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 that which is stated in the following paragraph, we conducted our reviews in accordance with the Statement of Auditing Standard No. 36 "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As stated in Note 13 in the consolidated financial statements, the financial statements of certain immaterial subsidiaries included in the consolidated financial statements were not reviewed. As of September 30, 2017 and 2016, the total assets of these subsidiaries were 6% (NT\$2,228,385 thousand) and 7% (NT\$2,052,131 thousand), respectively, and the total liabilities of these subsidiaries were 5% (NT\$572,950 thousand) and 7% (NT\$529,516 thousand), respectively, of the related consolidated amounts. Of the consolidated comprehensive income and loss for the three months ended and the nine months ended September 30, 2017 and 2016, the subsidiaries' portions were 0% (a gain of NT\$3,187 thousand), (2%) (a loss of NT\$22,976 thousand), 0% (a gain of NT\$1,995 thousand) and (3%) (a loss of NT\$108,600 thousand), respectively. Furthermore, as stated in Note 14 to the consolidated financial statements, the investments accounted for by the equity method as of September 30, 2017 and 2016 amounted to NT\$1,588,905 thousand and NT\$1,024,177 thousand, respectively, and the share of comprehensive profit of associates for the three months ended and the nine months ended September 30, 2017 and 2016 were NT\$68,352 thousand, NT\$137,996 thousand, NT\$332,286 thousand and NT\$226,740 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 the Group as of and for the nine months ended September 30, 2017 and 2016 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 No. 34 “Interim Financial Reporting” endorsed by the Financial Supervisory Commission of the Republic of China.

As stated in Note 26 to the consolidated financial statements, as recorded in the minutes of meetings of the Corporation’s board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the chairman of the Corporation, 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 a 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 Group’s consolidated financial statements as a controlled entity, and this event was accounted for as an equity transaction.

As stated in Note 34 to the consolidated financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutorial Office and concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutorial Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code, the prosecutor charged the chairman of the Corporation, Mr. Khein Seng Pua, and others culminating in either deferred prosecution or dropping the claim for further prosecution. As of the date of this report, Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration.

Deloitte & Touche
Taipei, Taiwan
Republic of China

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2017 (Reviewed)		December 31, 2016 (Audited)		September 30, 2016 (Reviewed)	
	Amount	%	Amount	%	Amount	%
CURRENT ASSETS						
Cash and cash equivalents (Note 6)	\$ 12,735,384	36	\$ 14,958,331	47	\$ 10,008,710	35
Financial assets at fair value through profit or loss - current (Notes 7 and 28)	1,263,008	3	1,227,729	4	1,236,642	4
Debt investments with no active market - current (Notes 8 and 31)	79,713	-	58,729	-	59,302	-
Notes and accounts receivable						
Third parties (Note 9)	5,036,105	14	4,442,409	14	5,781,863	20
Related parties (Notes 9 and 29)	230,861	1	358,250	1	424,347	2
Other receivables (Note 9)	375,489	1	389,357	1	439,555	2
Current tax assets	918	-	1,866	-	-	-
Inventories (Note 10)	9,425,395	27	5,222,336	17	6,057,775	21
Prepayments	50,289	-	68,115	-	73,808	-
Other current assets	38,927	-	28,222	-	34,018	-
Total current assets	29,236,089	82	26,755,344	84	24,116,020	84
NON-CURRENT ASSETS						
Available-for-sale financial assets - non-current (Note 11)	449,034	1	372,051	1	320,595	1
Financial assets measured at cost - non-current (Note 12)	854,915	2	712,890	2	758,743	2
Investments accounted for by the equity method (Note 14)	1,588,905	5	1,256,620	4	1,024,177	3
Property, plant and equipment (Note 15)	2,852,801	8	2,426,451	7	2,240,676	8
Intangible assets (Note 16)	200,022	1	222,297	1	183,424	1
Deferred tax assets	295,222	1	218,661	1	211,763	1
Guarantee deposits paid	4,550	-	11,325	-	11,196	-
Total non-current assets	6,245,449	18	5,220,295	16	4,750,574	16
TOTAL	\$ 35,481,538	100	\$ 31,975,639	100	\$ 28,866,594	100
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
Short-term borrowings (Note 17)	\$ 181,560	1	\$ 580,500	2	\$ -	-
Notes and accounts payable						
Third parties	1,539,498	4	1,737,560	5	1,022,302	3
Related parties (Note 29)	3,310,622	9	2,119,391	7	2,520,719	9
Other payables (Note 18)	3,911,848	11	3,152,524	10	2,799,287	10
Tax payable	1,015,846	3	732,348	2	513,590	2
Provisions (Note 19)	399,253	1	344,076	1	204,383	1
Other current liabilities	267,526	1	237,661	1	253,311	1
Total current liabilities	10,626,153	30	8,904,060	28	7,313,592	26
NON-CURRENT LIABILITIES						
Deferred tax liabilities	382	-	315	-	1,760	-
Net defined benefit liability - non-current	75,639	-	72,725	-	69,406	-
Guarantee deposits received	274	-	314	-	314	-
Total non-current liabilities	76,295	-	73,354	-	71,480	-
Total liabilities	10,702,448	30	8,977,414	28	7,385,072	26
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 21)						
Share capital						
Common shares	1,970,740	6	1,970,740	6	1,973,740	7
Capital surplus	6,649,763	19	6,652,449	21	6,661,944	23
Retained earnings						
Legal reserve	2,842,806	8	2,356,107	8	2,356,107	8
Special reserve	25,965	-	111,358	-	111,358	-
Unappropriated earnings	13,239,767	37	11,928,136	37	10,506,284	37
Total retained earnings	16,108,538	45	14,395,601	45	12,973,749	45
Other equity	50,049	-	(25,965)	-	(69,155)	(1)
Treasury shares	-	-	-	-	(64,722)	-
Total equity attributable to owners of the Corporation	24,779,090	70	22,992,825	72	21,475,556	74
NON-CONTROLLING INTERESTS						
Total equity	24,779,090	70	22,998,225	72	21,481,522	74
TOTAL	\$ 35,481,538	100	\$ 31,975,639	100	\$ 28,866,594	100

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

(With Deloitte & Touche review report dated November 13, 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 September 30				Nine Months Ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE (Note 29)								
Gross sales	\$ 11,295,121	101	\$ 12,475,632	101	\$ 31,454,349	101	\$ 32,952,958	101
Less: Sales returns and allowances	<u>154,983</u>	<u>1</u>	<u>172,251</u>	<u>1</u>	<u>369,554</u>	<u>1</u>	<u>342,131</u>	<u>1</u>
Net sales	11,140,138	100	12,303,381	100	31,084,795	100	32,610,827	100
Other operating revenue	<u>33,489</u>	<u>-</u>	<u>33,976</u>	<u>-</u>	<u>137,192</u>	<u>-</u>	<u>89,854</u>	<u>-</u>
Total operating revenue	11,173,627	100	12,337,357	100	31,221,987	100	32,700,681	100
OPERATING COSTS (Notes 10, 23 and 29)	<u>8,204,608</u>	<u>73</u>	<u>9,707,871</u>	<u>79</u>	<u>22,191,945</u>	<u>71</u>	<u>26,125,143</u>	<u>80</u>
GROSS PROFIT	<u>2,969,019</u>	<u>27</u>	<u>2,629,486</u>	<u>21</u>	<u>9,030,042</u>	<u>29</u>	<u>6,575,538</u>	<u>20</u>
OPERATING EXPENSES (Note 23)								
Marketing	111,730	1	169,718	1	376,531	1	407,009	1
General and administrative	143,350	1	155,824	1	413,653	1	371,421	1
Research and development	<u>936,509</u>	<u>9</u>	<u>806,663</u>	<u>7</u>	<u>2,864,886</u>	<u>9</u>	<u>2,232,172</u>	<u>7</u>
Total operating expenses	<u>1,191,589</u>	<u>11</u>	<u>1,132,205</u>	<u>9</u>	<u>3,655,070</u>	<u>11</u>	<u>3,010,602</u>	<u>9</u>
OPERATING INCOME	<u>1,777,430</u>	<u>16</u>	<u>1,497,281</u>	<u>12</u>	<u>5,374,972</u>	<u>18</u>	<u>3,564,936</u>	<u>11</u>
NONOPERATING INCOME AND EXPENSES								
Other gains and losses (Note 23)	(38,912)	-	(169,601)	(1)	(422,930)	(1)	(154,278)	(1)
Share of gains (losses) of associates	68,352	-	137,996	1	332,286	1	226,740	1
Other income (Note 23)	41,700	-	78,782	1	78,958	-	143,136	-
Financial costs	<u>(1,485)</u>	<u>-</u>	<u>(61)</u>	<u>-</u>	<u>(4,807)</u>	<u>-</u>	<u>(1,339)</u>	<u>-</u>
Total nonoperating income and expenses	<u>69,655</u>	<u>-</u>	<u>47,116</u>	<u>1</u>	<u>(16,493)</u>	<u>-</u>	<u>214,259</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	1,847,085	16	1,544,397	13	5,358,479	18	3,779,195	11
INCOME TAX EXPENSE (Notes 4 and 22)	<u>247,343</u>	<u>2</u>	<u>60,954</u>	<u>1</u>	<u>886,188</u>	<u>3</u>	<u>453,280</u>	<u>1</u>
NET PROFIT FOR THE PERIOD	<u>1,599,742</u>	<u>14</u>	<u>1,483,443</u>	<u>12</u>	<u>4,472,291</u>	<u>15</u>	<u>3,325,915</u>	<u>10</u>

(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 September 30				Nine Months Ended September 30			
	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF INCOME TAX								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translating foreign operations	\$ 7,916	-	\$ (27,650)	-	\$ 740	-	\$ (38,600)	-
Unrealized gains on available-for-sale financial assets	904	-	18,645	-	76,983	-	74,145	-
Income tax (expense) benefit relating to items that may be reclassified subsequently to profit or loss	(1,345)	-	4,049	-	199	-	6,543	-
Other comprehensive income (loss) for the period, net of income tax	7,475	-	(4,956)	-	77,922	-	42,088	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>\$ 1,607,217</u>	<u>14</u>	<u>\$ 1,478,487</u>	<u>12</u>	<u>\$ 4,550,213</u>	<u>15</u>	<u>\$ 3,368,003</u>	<u>10</u>
NET PROFIT (LOSS) ATTRIBUTED TO:								
Owners of the Corporation	\$ 1,599,742	14	\$ 1,500,519	12	\$ 4,471,973	15	\$ 3,390,859	10
Non-controlling interests	-	-	(17,076)	-	318	-	(64,944)	-
	<u>\$ 1,599,742</u>	<u>14</u>	<u>\$ 1,483,443</u>	<u>12</u>	<u>\$ 4,472,291</u>	<u>15</u>	<u>\$ 3,325,915</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTED TO:								
Owners of the Corporation	\$ 1,607,217	14	\$ 1,499,397	12	\$ 4,547,987	15	\$ 3,433,062	10
Non-controlling interests	-	-	(20,910)	-	2,226	-	(65,059)	-
	<u>\$ 1,607,217</u>	<u>14</u>	<u>\$ 1,478,487</u>	<u>12</u>	<u>\$ 4,550,213</u>	<u>15</u>	<u>\$ 3,368,003</u>	<u>10</u>
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 24)								
Basic	<u>\$8.12</u>		<u>\$7.61</u>		<u>\$22.69</u>		<u>\$17.18</u>	
Diluted	<u>\$8.05</u>		<u>\$7.54</u>		<u>\$22.43</u>		<u>\$16.98</u>	

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

(With Deloitte & Touche review report dated November 13, 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										Total Equity
	Common Shares	Capital Surplus	Retained Earnings			Other Equity		Treasury Shares	Total	Non-controlling Interests	
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets				
BALANCE AT JANUARY 1, 2016 (AUDITED AFTER RESTATED)	\$ 1,973,740	\$ 6,514,569	\$ 1,956,106	\$ 5,056	\$ 9,990,216	\$ (26,608)	\$ (84,750)	\$ -	\$ 20,328,329	\$ 221,533	\$ 20,549,862
Appropriation of the 2015 earnings											
Legal reserve	-	-	400,001	-	(400,001)	-	-	-	-	-	-
Special reserve	-	-	-	106,302	(106,302)	-	-	-	-	-	-
Cash dividends - NT\$12 per share	-	-	-	-	(2,368,488)	-	-	-	(2,368,488)	-	(2,368,488)
Non-controlling interests	-	-	-	-	-	-	-	-	-	4,577	4,577
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	-	-	(7,710)	(7,710)
Actual disposal or acquisition of interests in subsidiaries	-	147,375	-	-	-	-	-	-	147,375	(147,375)	-
Treasury shares	-	-	-	-	-	-	-	(64,722)	(64,722)	-	(64,722)
Net profit (loss) for the nine months ended September 30, 2016	-	-	-	-	3,390,859	-	-	-	3,390,859	(64,944)	3,325,915
Other comprehensive income (loss) for the nine months ended September 30, 2016, net of income tax	-	-	-	-	-	(31,942)	74,145	-	42,203	(115)	42,088
BALANCE AT SEPTEMBER 30, 2016	\$ 1,973,740	\$ 6,661,944	\$ 2,356,107	\$ 111,358	\$ 10,506,284	\$ (58,550)	\$ (10,605)	\$ (64,722)	\$ 21,475,556	\$ 5,966	\$ 21,481,522
BALANCE AT JANUARY 1, 2017	\$ 1,970,740	\$ 6,652,449	\$ 2,356,107	\$ 111,358	\$ 11,928,136	\$ (66,816)	\$ 40,851	\$ -	\$ 22,992,825	\$ 5,400	\$ 22,998,225
Appropriation of the 2016 earnings											
Legal reserve	-	-	486,699	-	(486,699)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(85,393)	85,393	-	-	-	-	-	-
Cash dividends - NT\$14 per share	-	-	-	-	(2,759,036)	-	-	-	(2,759,036)	-	(2,759,036)
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)	-	(2,686)
Non-controlling interests	-	-	-	-	-	-	-	-	-	(7,626)	(7,626)
Net profit for the nine months ended September 30, 2017	-	-	-	-	4,471,973	-	-	-	4,471,973	318	4,472,291
Other comprehensive income (loss) for the nine months ended September 30, 2017, net of income tax	-	-	-	-	-	(969)	76,983	-	76,014	1,908	77,922
BALANCE AT SEPTEMBER 30, 2017	\$ 1,970,740	\$ 6,649,763	\$ 2,842,806	\$ 25,965	\$ 13,239,767	\$ (67,785)	\$ 117,834	\$ -	\$ 24,779,090	\$ -	\$ 24,779,090

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

(With Deloitte & Touche review report dated November 13, 2017)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 5,358,479	\$ 3,779,195
Adjustments for:		
Share of gains of associates	(332,286)	(226,740)
Net losses on foreign currency exchange	273,528	238,927
Recognition of provisions	247,843	185,474
Depreciation	123,327	89,366
Amortization	117,271	92,095
Impairment losses recognized on financial assets	92,112	-
Write-downs of inventories	56,605	8,598
Dividend income	(29,149)	(38,768)
Interest income	(28,913)	(25,183)
Net losses (gains) on fair value changes of financial assets designated as at fair value through loss or profit	12,300	(11,902)
Allowance for (reversal of) bad debts	(9,486)	34,196
Financial costs	4,807	1,339
Other non-cash items	1,163	-
Gain on deconsolidation of subsidiaries	-	(45,649)
Impairment losses recognized on intangible assets	-	23,640
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	2,024	1,001,740
Notes and accounts receivable	(433,866)	(1,856,211)
Other receivables	14,312	(57,413)
Inventories	(4,259,703)	(816,084)
Prepayments	17,476	(12,377)
Other current assets	(10,705)	4,329
Notes and accounts payable	985,664	(699,681)
Other payables	766,046	486,806
Provisions	(192,666)	(130,943)
Other current liabilities	25,178	16,562
Net defined benefit liability	<u>2,914</u>	<u>2,505</u>
Cash generated from operations	2,804,275	2,043,821
Interest paid	(5,119)	(1,399)
Income tax paid	<u>(678,559)</u>	<u>(658,056)</u>
Net cash generated from operating activities	<u>2,120,597</u>	<u>1,384,366</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets designated as at fair value through loss or profit	(49,675)	-
Payments for property, plant and equipment	(545,706)	(663,739)
Purchase of financial assets measured at cost	(234,659)	(153,524)
Payments for intangible assets	(95,031)	(107,834)

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Nine Months Ended September 30	
	2017	2016
Dividends received	\$ 29,149	\$ 38,768
Interest received	28,138	25,520
Increase in debt investments with no active market	(20,984)	(38,894)
Decrease (increase) in refundable deposits	6,775	(8,257)
Proceeds from the capital reduction of available-for-sale financial assets	-	49,500
Purchase of investments accounted for by the equity method	-	(31,772)
Net cash outflow from deconsolidation of subsidiaries	<u>-</u>	<u>(25,297)</u>
Net cash used in investing activities	<u>(881,993)</u>	<u>(915,529)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(399,099)	(196,950)
(Decrease) increase in non-controlling interests	(10,312)	4,577
(Decrease) increase in guarantee deposits	(40)	60
Cash dividends paid	(2,759,036)	(2,368,488)
Purchase of treasury shares	<u>-</u>	<u>(64,722)</u>
Net cash used in financing activities	<u>(3,168,487)</u>	<u>(2,625,523)</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>(293,064)</u>	<u>(240,200)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,222,947)	(2,396,886)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>14,958,331</u>	<u>12,405,596</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 12,735,384</u>	<u>\$ 10,008,710</u>

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

(With Deloitte & Touche review report dated November 13, 2017)

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. GENERAL INFORMATION

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

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

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

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation’s board of directors on November 13, 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) (collectively, the “IFRSs”) endorsed and issued into effect by the FSC

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

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed 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 an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

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

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

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

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed by the FSC for application starting from 2018

New, Revised or Amended Standards and Interpretations (“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” and related amendment	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”	January 1, 2018
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.

- 1) IFRS 9 “Financial Instruments” and related amendment

Recognition, measurement and impairment 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 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 gains or losses previously recognized in other comprehensive income are 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.

Based on an analysis of the Group's financial assets as at September 30, 2017 on the basis of the facts and circumstances that exist at that date, the Group has performed a preliminary assessment of the impact of IFRS 9 to the classification and measurement of financial assets as follows:

- a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be classified as at fair value through profit or loss.

Besides those, unlisted shares measured at cost will be measured at fair value instead.

- b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires that impairment loss on financial assets is recognized by using the "Expected Credit Losses Model". The loss allowance is required for financial assets measured at amortized cost, investments in debt instruments 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.

The Group has performed a preliminary assessment that the Group will apply the simplified approach to recognize lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to the debt instrument investments and the financial guarantee contracts, the Group will assess whether there has been a significant increase in the credit risk to determine whether to recognize 12-month or lifetime expected credit losses. In general, the Group anticipates that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for financial assets.

The Group elects not to restate prior periods when applying the requirements for the recognition, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9. Furthermore, the Group will provide disclosure of the differences in amounts if the Group continued to apply the existing accounting treatments in 2018.

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.

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019
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 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

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.

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 and issued into effect by the FSC. Disclosure information included in these interim consolidated financial statements is less than the disclosure information required in a complete set of annual financial statements.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis, except for financial instruments 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 6 and 7 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, 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 from the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

- 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

a. Estimated impairment of 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. Provision 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

	September 30, 2017	December 31, 2016	September 30, 2016
Cash on hand	\$ 99	\$ 99	\$ 147
Checking accounts and demand deposits	8,630,007	11,709,953	6,920,718
Cash equivalents			
Time deposits with original maturities of less than 3 months	<u>4,105,278</u>	<u>3,248,279</u>	<u>3,087,845</u>
	<u>\$ 12,735,384</u>	<u>\$ 14,958,331</u>	<u>\$ 10,008,710</u>

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

	September 30, 2017	December 31, 2016	September 30, 2016
Beneficiary certificates - open-end funds	\$ 1,148,581	\$ 1,147,144	\$ 1,147,182
Domestic quoted shares	64,752	80,585	89,460
Convertible bonds	<u>49,675</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,263,008</u>	<u>\$ 1,227,729</u>	<u>\$ 1,236,642</u>

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

	September 30, 2017	December 31, 2016	September 30, 2016
Certificates of deposit	\$ 79,713	\$ 57,439	\$ 59,302
Time deposits with original maturities of more than 3 months	<u>-</u>	<u>1,290</u>	<u>-</u>
	<u>\$ 79,713</u>	<u>\$ 58,729</u>	<u>\$ 59,302</u>

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

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Notes and accounts receivable - trade</u>			
Operating			
Third parties	\$ 5,189,052	\$ 4,604,089	\$ 5,949,710
Related parties	<u>230,861</u>	<u>358,250</u>	<u>424,347</u>
	5,419,913	4,962,339	6,374,057
Less: Allowance for doubtful accounts	<u>152,947</u>	<u>161,680</u>	<u>167,847</u>
Notes and accounts receivable, net	<u>\$ 5,266,966</u>	<u>\$ 4,800,659</u>	<u>\$ 6,206,210</u>
<u>Other receivables</u>			
Income tax refund receivable	\$ 260,734	\$ 164,028	\$ 255,476
Factored accounts receivable	90,485	201,744	152,412
Others	<u>24,270</u>	<u>23,585</u>	<u>31,667</u>
Other receivables	<u>\$ 375,489</u>	<u>\$ 389,357</u>	<u>\$ 439,555</u>

Accounts Receivable - Trade

For the balances of trade receivables that were past due at the end of the reporting period, the Group had not recognized an allowance for impaired trade receivables because there has been no significant change in credit quality, and the amounts were still considered recoverable. The Group did not hold any collateral or other credit enhancements for these balances nor did it have a legal right to make offsets against any amounts owed by the Group to the counterparty.

The aging of receivables was as follows:

	September 30, 2017	December 31, 2016	September 30, 2016
Not past due	\$ 5,120,860	\$ 4,405,250	\$ 5,954,819
1-60 days	242,779	515,772	187,186
61-90 days	85	319	3,790
91-120 days	41,428	40,293	19,188
More than 120 days	<u>14,761</u>	<u>705</u>	<u>209,074</u>
	<u>\$ 5,419,913</u>	<u>\$ 4,962,339</u>	<u>\$ 6,374,057</u>

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

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

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	\$ 83,522	\$ 50,176	\$ 133,698
Add: Impairment losses recognized on receivables	17,132	17,064	34,196
Exchange differences	<u>-</u>	<u>(47)</u>	<u>(47)</u>
Balance at September 30, 2016	<u>\$ 100,654</u>	<u>\$ 67,193</u>	<u>\$ 167,847</u>
Balance at January 1, 2017	\$ -	\$ 161,680	\$ 161,680
Less: Impairment losses reversed on receivables	-	(9,486)	(9,486)
Exchange differences	<u>-</u>	<u>753</u>	<u>753</u>
Balance at September 30, 2017	<u>\$ -</u>	<u>\$ 152,947</u>	<u>\$ 152,947</u>

The Group individually recognized impairment losses on trade receivables of \$0, \$0 and \$100,654 thousand as of September 30, 2017, December 31, 2016 and September 30, 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 of U.S. Dollars)

Factor	Factored Amount	Collected Amount	Prepayments	Discount Rate (%)	Factor Limit
<u>For the nine months ended September 30, 2017</u>					
HSBC Bank	US\$ 29,757	US\$ 26,320	\$ -	-	US\$ 12,350
<u>For the nine months ended September 30, 2016</u>					
HSBC Bank	US\$ 75,403	US\$ 66,739	-	-	US\$ 13,900

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

	September 30, 2017	December 31, 2016	September 30, 2016
Raw materials	\$ 5,439,821	\$ 3,299,881	\$ 3,206,499
Work in process	2,172,004	925,394	1,839,683
Semifinished products	1,725,228	909,398	937,424
Finished goods	<u>88,342</u>	<u>87,663</u>	<u>74,169</u>
	<u>\$ 9,425,395</u>	<u>\$ 5,222,336</u>	<u>\$ 6,057,775</u>

The costs of inventories recognized as cost of goods sold for the three months and nine months ended September 30, 2017 and 2016 were \$8,204,608 thousand, \$9,707,871 thousand, \$22,191,945 thousand and \$26,125,143 thousand, respectively.

The costs of goods sold for the three months and nine months ended September 30, 2017 and 2016 included inventory write-downs of \$2,864 thousand, \$0, \$56,605 thousand and \$8,598 thousand, respectively.

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

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Private equity</u>			
Domestic listed, common shares	<u>\$ 449,034</u>	<u>\$ 372,051</u>	<u>\$ 320,595</u>

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

The Group received a cash refund of \$49,500 thousand due to the capital reduction from Apacer Technology Inc. in the three months ended September 30, 2016.

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	September 30, 2017	December 31, 2016	September 30, 2016
Domestic unlisted common shares	\$ 377,524	\$ 435,218	\$ 451,147
Overseas unlisted common shares	417,391	277,672	307,596
Domestic private equity funds	<u>60,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 854,915</u>	<u>\$ 712,890</u>	<u>\$ 758,743</u>
Classified according to categories			
Available-for-sale	<u>\$ 854,915</u>	<u>\$ 712,890</u>	<u>\$ 758,743</u>

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

13. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The main structure of consolidated financial statement prepared as follows:

Investor	Investee	Main Businesses and Products	Investment Percentage (%)			Note
			September 30, 2017	December 31, 2016	September 30, 2016	
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	100.00	Remark 1
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	100.00	Remark 1
	Entops Electronics Corp.	Sales of flash memory controllers and peripheral system applications products	100.00	100.00	100.00	Remark 1
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	100.00	87.00	87.00	Remarks 1 and 2
	Global Flash Limited	Investment and trade	100.00	100.00	100.00	Remark 1
Global Flash Limited	Power Flash (Samoa) Limited	Investment and trade	100.00	100.00	100.00	Remark 1
	Everspeed Technology Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1
	Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	100.00	100.00	100.00	Remark 1
	Core Storage Electronic (Samoa) Limited	Investment and trade	100.00	100.00	100.00	Remark 1
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services	100.00	100.00	100.00	Remark 1
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	100.00	100.00	100.00	Remark 1
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100.00	100.00	100.00	Remark 1
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100.00	100.00	100.00	Remark 1
Everspeed Technology Limited	Memoryexchange Corporation	Design and sale of flash memory related products	100.00	100.00	100.00	Remark 1
	Cloud Solution Global Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1
	Fast Choice Global Limited	Trade of electronic components	100.00	100.00	100.00	Remark 1

Remark 1: The corresponding immaterial subsidiaries have not been reviewed.

Remark 2: On June 20, 2017, the Corporation acquired the remaining shares of Phisontech Electronics (Malaysia) Sdn. Bhd. which increased its shareholding to 100%.

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	September 30, 2017	December 31, 2016	September 30, 2016
<u>Unlisted shares</u>			
Material associates			
Kingston Solutions Inc.	\$ 1,492,758	\$ 1,149,415	\$ 915,431
Associates that are not individually material			
EpoStar Electronics (BVI) Corporation	53,581	79,732	83,571
Microtops Design Corporation (“Microtops”)	26,132	24,211	21,616
PMS Technology Corporation	16,434	2,199	2,497
Flexmedia Electronics Corporation	<u>-</u>	<u>1,063</u>	<u>1,062</u>
	<u>\$ 1,588,905</u>	<u>\$ 1,256,620</u>	<u>\$ 1,024,177</u>

Proportion of Ownership of Material Associates

Associate	September 30, 2017	December 31, 2016	September 30, 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.

Refer to Table 6 “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 nine months ended September 30, 2017 and 2016 were based on financial statements that have not been reviewed.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>								
Balance, January 1, 2016	\$ 547,014	\$ 28,685	\$ 1,060,552	\$ 268,973	\$ 47,706	\$ 17,427	\$ -	\$ 1,970,357
Additions	266,724	-	69,230	92,487	13,123	15,290	234,000	690,854
Disposals	-	-	-	(37,914)	(20,729)	(2,683)	-	(61,326)
Gains on deconsolidation of subsidiaries	-	-	-	(2,331)	-	(1,783)	-	(4,114)
Effects of foreign currency exchange differences	-	-	-	(180)	(310)	(405)	-	(895)
Reclassification	<u>-</u>	<u>-</u>	<u>2,859</u>	<u>2,198</u>	<u>905</u>	<u>-</u>	<u>-</u>	<u>5,962</u>
Balance at September 30, 2016	<u>\$ 813,738</u>	<u>\$ 28,685</u>	<u>\$ 1,132,641</u>	<u>\$ 323,233</u>	<u>\$ 40,695</u>	<u>\$ 27,846</u>	<u>\$ 234,000</u>	<u>\$ 2,600,838</u>

(Continued)

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
Accumulated depreciation								
Balance at January 1, 2016	\$ -	\$ 13,570	\$ 156,534	\$ 122,348	\$ 30,204	\$ 10,306	\$ -	\$ 332,962
Disposals	-	-	-	(37,914)	(20,729)	(2,683)	-	(61,326)
Depreciation	-	2,751	22,465	52,784	7,522	3,844	-	89,366
Gains on deconsolidation of subsidiaries	-	-	-	(507)	-	(186)	-	(693)
Effects of foreign currency exchange differences	-	-	-	(51)	(68)	(47)	-	(166)
Reclassification	-	-	-	-	19	-	-	19
Balance at September 30, 2016	<u>\$ -</u>	<u>\$ 16,321</u>	<u>\$ 178,999</u>	<u>\$ 136,660</u>	<u>\$ 16,948</u>	<u>\$ 11,234</u>	<u>\$ -</u>	<u>\$ 360,162</u>
Balance at September 30, 2016, net	<u>\$ 813,738</u>	<u>\$ 12,364</u>	<u>\$ 953,642</u>	<u>\$ 186,573</u>	<u>\$ 23,747</u>	<u>\$ 16,612</u>	<u>\$ 234,000</u>	<u>\$ 2,240,676</u>
Cost								
Balance at January 1, 2017	\$ 813,738	\$ 28,775	\$ 1,142,341	\$ 334,472	\$ 40,787	\$ 46,484	\$ 390,000	\$ 2,796,597
Additions	-	-	82,635	90,035	13,816	12,907	351,000	550,393
Disposals	-	-	-	(28,491)	(8,167)	(6,080)	-	(42,738)
Effects of foreign currency exchange differences	-	-	-	390	(78)	(672)	-	(360)
Reclassification	-	-	741,000	24,059	(370)	(23,980)	(741,000)	(291)
Balance at September 30, 2017	<u>\$ 813,738</u>	<u>\$ 28,775</u>	<u>\$ 1,965,976</u>	<u>\$ 420,465</u>	<u>\$ 45,988</u>	<u>\$ 28,659</u>	<u>\$ -</u>	<u>\$ 3,303,601</u>
Accumulated depreciation								
Balance at January 1, 2017	\$ -	\$ 17,242	\$ 187,260	\$ 133,845	\$ 19,078	\$ 12,721	\$ -	\$ 370,146
Disposals	-	-	-	(28,491)	(8,167)	(6,080)	-	(42,738)
Depreciation	-	2,763	32,062	76,125	9,426	2,951	-	123,327
Effects of foreign currency exchange differences	-	-	-	106	(17)	(24)	-	65
Balance at September 30, 2017	<u>\$ -</u>	<u>\$ 20,005</u>	<u>\$ 219,322</u>	<u>\$ 181,585</u>	<u>\$ 20,320</u>	<u>\$ 9,568</u>	<u>\$ -</u>	<u>\$ 450,800</u>
Balance at September 30, 2017, net	<u>\$ 813,738</u>	<u>\$ 8,770</u>	<u>\$ 1,746,654</u>	<u>\$ 238,880</u>	<u>\$ 25,668</u>	<u>\$ 19,091</u>	<u>\$ -</u>	<u>\$ 2,852,801</u>

(Concluded)

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

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

16. INTANGIBLE ASSETS

	September 30, 2017	December 31, 2016	September 30, 2016
Computer software	\$ 133,556	\$ 131,413	\$ 92,031
Technology license fees	<u>66,466</u>	<u>90,884</u>	<u>91,393</u>
	<u>\$ 200,022</u>	<u>\$ 222,297</u>	<u>\$ 183,424</u>

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

A subsidiary held a patent for a multimedia digital picture frame. As of December 31, 2016, the related products were no longer produced; therefore, the Group assessed that the future economic benefits of the patent cannot be determined. Also there was no information about the net realizable value which could be used as a basis for valuation. As a result, the Group recognized an impairment loss for the entire amount of the patent in the current period.

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

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Unsecured borrowings</u>			
Bank loans	\$ 181,560	\$ 580,500	\$ -
Interest rate (%)	1.58	0.94-1.33	-
Due date	2017.11.7	2017.3.1	-

18. OTHER PAYABLES

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Other payables</u>			
Salaries and bonuses payable	\$ 2,750,188	\$ 2,052,764	\$ 1,805,005
Others	<u>1,161,660</u>	<u>1,099,760</u>	<u>994,282</u>
	\$ 3,911,848	\$ 3,152,524	\$ 2,799,287

19. PROVISIONS - CURRENT

	September 30, 2017	December 31, 2016	September 30, 2016
Sales returns and allowances	\$ 399,253	\$ 344,076	\$ 204,383
		For the Nine Months Ended	
		September 30	
		2017	2016
Balance, January 1		\$ 344,076	\$ 149,852
Additional provisions recognized		247,843	185,474
Usage		<u>(192,666)</u>	<u>(130,943)</u>
Balance, September 30		\$ 399,253	\$ 204,383

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 benefits expense for the three months and nine months ended September 30, 2017 and 2016 in respect of the Group's defined benefit retirement plans were \$1,441 thousand, \$1,310 thousand, \$4,324 thousand and \$3,930 thousand, respectively, and were calculated using the respective year's actuarially determined pension cost discount rates as of December 31, 2016 and 2015.

21. EQUITY

a. Share capital

Common shares

	September 30, 2017	December 31, 2016	September 30, 2016
Number of shares authorized (in thousands)	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>
Capital authorized	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>
Number of shares issued and fully paid (in thousands)	<u>197,074</u>	<u>197,074</u>	<u>197,374</u>
Capital issued	<u>\$ 1,970,740</u>	<u>\$ 1,970,740</u>	<u>\$ 1,973,740</u>

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

b. Capital surplus

	September 30, 2017	December 31, 2016	September 30, 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	148,758	151,444	151,444
<u>May only be used to offset a deficit</u>			
Expired share options	227	227	227
<u>May not be used for any purpose</u>			
Share of changes in capital surplus of associates or joint ventures	<u>263,344</u>	<u>263,344</u>	<u>263,344</u>
	<u>\$ 6,649,763</u>	<u>\$ 6,652,449</u>	<u>\$ 6,661,944</u>

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

c. Retained earnings and dividend policy

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 were approved in the shareholders' meeting on June 13, 2017 and June 15, 2016, respectively, were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For Year 2016</u>	<u>For Year 2015</u>	<u>For Year 2016</u>	<u>For Year 2015</u>
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

d. Others equity items

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

	<u>For the Nine Months Ended September 30</u>	
	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ (66,816)	\$ (26,608)
Exchange differences on translating foreign operations	(1,168)	(38,485)
Related income tax	<u>199</u>	<u>6,543</u>
Balance at September 30	<u>\$ (67,785)</u>	<u>\$ (58,550)</u>

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

	<u>For the Nine Months Ended September 30</u>	
	<u>2017</u>	<u>2016</u>
Balance at January 1	\$ 40,851	\$ (84,750)
Unrealized gain arising on revaluation of available-for-sale financial assets	<u>76,983</u>	<u>74,145</u>
Balance at September 30	<u>\$ 117,834</u>	<u>\$ (10,605)</u>

e. Non-controlling interests

	For the Nine Months Ended September 30	
	2017	2016
Balance at January 1	\$ 5,400	\$ 221,533
Acquisition of non-controlling interests in subsidiaries of Phisontech Electronics (Malaysia) Sdn. Bhd. (Note 26)	(7,626)	-
Non-controlling interest reduction in Everspeed Technology Limited (Note 26)	-	(147,375)
Non-proportional investment in Epostar Electronics (BVI) Corporation (Note 25)	-	(7,710)
Others	-	4,577
Attributable to non-controlling interests:		
Share of gains (losses) for the period	318	(64,944)
Exchange difference on translating foreign operations	<u>1,908</u>	<u>(115)</u>
Balance at September 30	<u>\$ -</u>	<u>\$ 5,966</u>

22. INCOME TAXES

a. Income tax recognized in profit or loss

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Current tax				
In respect of the current period	\$ 256,274	\$ 205,796	\$ 789,449	\$ 500,650
Adjustments for prior periods	4,069	(100,419)	2,514	(100,419)
Income tax expense of unappropriated earnings	<u>-</u>	<u>-</u>	<u>170,460</u>	<u>112,522</u>
	<u>260,343</u>	<u>105,377</u>	<u>962,423</u>	<u>512,753</u>
Deferred tax				
In respect of the current period	<u>(13,000)</u>	<u>(44,423)</u>	<u>(76,235)</u>	<u>(59,473)</u>
Income tax expense recognized in profit or loss	<u>\$ 247,343</u>	<u>\$ 60,954</u>	<u>\$ 886,188</u>	<u>\$ 453,280</u>

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
<u>Deferred income tax</u>				
Recognized in other comprehensive income or loss				
Translation of foreign operations	<u>\$ (1,345)</u>	<u>\$ 4,049</u>	<u>\$ 199</u>	<u>\$ 6,543</u>

c. Income tax exemptions

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

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

d. Integrated income tax information of the Corporation

	September 30, 2017	December 31, 2016	September 30, 2016
Unappropriated retained earnings			
Unappropriated retained earnings generated on and after January 1, 1998	<u>\$ 13,239,767</u>	<u>\$ 11,928,136</u>	<u>\$ 10,506,284</u>
Balance of imputation credits account (ICA)	<u>\$ 1,775,420</u>	<u>\$ 1,341,629</u>	<u>\$ 1,099,004</u>
		<u>December 31</u>	
		2016	2015
The creditable ratios for the distribution of earnings		14.78%	14.61%

e. Income tax assessments

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

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 September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Foreign exchange gains (losses), net	\$ 1,067	\$ (191,042)	\$ (318,021)	\$ (183,853)
Impairment losses recognized on available-for-sale financial assets	(48,248)	-	(92,112)	-
Gains (losses) on financial assets held for trading	8,231	3,770	(12,300)	11,902
Gains on deconsolidation of subsidiaries	-	45,649	-	45,649
Impairment losses recognized on intangible assets	-	(23,640)	-	(23,640)
Others	<u>38</u>	<u>(4,338)</u>	<u>(497)</u>	<u>(4,336)</u>
	<u>\$ (38,912)</u>	<u>\$ (169,601)</u>	<u>\$ (422,930)</u>	<u>\$ (154,278)</u>

b. Other income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Interest income				
Bank deposits	\$ 8,884	\$ 6,139	\$ 28,913	\$ 25,183
Dividend income	27,350	33,009	29,149	38,768
Rental income	627	620	1,902	1,816
Others	<u>4,839</u>	<u>39,014</u>	<u>18,994</u>	<u>77,369</u>
	<u>\$ 41,700</u>	<u>\$ 78,782</u>	<u>\$ 78,958</u>	<u>\$ 143,136</u>

c. Depreciation and amortization

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Property, plant and equipment	\$ 45,780	\$ 31,564	\$ 123,327	\$ 89,366
Intangible assets	<u>43,192</u>	<u>26,500</u>	<u>117,271</u>	<u>92,095</u>
	<u>\$ 88,972</u>	<u>\$ 58,064</u>	<u>\$ 240,598</u>	<u>\$ 181,461</u>

(Continued)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
An analysis of depreciation by function				
Operating costs	\$ 11,958	\$ 5,566	\$ 25,739	\$ 17,368
Operating expenses	<u>33,822</u>	<u>25,998</u>	<u>97,588</u>	<u>71,998</u>
	<u>\$ 45,780</u>	<u>\$ 31,564</u>	<u>\$ 123,327</u>	<u>\$ 89,366</u>
An analysis of amortization by function				
General and administrative	\$ 2,241	\$ 1,840	\$ 6,292	\$ 5,152
Research and development expenses	<u>40,951</u>	<u>24,660</u>	<u>110,979</u>	<u>86,943</u>
	<u>\$ 43,192</u>	<u>\$ 26,500</u>	<u>\$ 117,271</u>	<u>\$ 92,095</u>

(Concluded)

d. Employee benefits expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Short-term employee benefits	<u>\$ 902,855</u>	<u>\$ 834,787</u>	<u>\$ 2,725,828</u>	<u>\$ 2,121,591</u>
Post-employment benefits				
Defined contribution plan	17,368	15,805	50,805	46,173
Defined benefit plan	<u>1,441</u>	<u>1,310</u>	<u>4,324</u>	<u>3,930</u>
	<u>18,809</u>	<u>17,115</u>	<u>55,129</u>	<u>50,103</u>
Other employee benefits				
Employee welfare	14,452	16,173	40,656	43,045
Food stipend	<u>9,228</u>	<u>8,619</u>	<u>27,188</u>	<u>25,048</u>
	<u>23,680</u>	<u>24,792</u>	<u>67,844</u>	<u>68,093</u>
	<u>\$ 945,344</u>	<u>\$ 876,694</u>	<u>\$ 2,848,801</u>	<u>\$ 2,239,787</u>
Employee benefits				
Recognized in operating costs	\$ 49,856	\$ 44,974	\$ 143,710	\$ 132,754
Recognized in operating expenses	<u>895,488</u>	<u>831,720</u>	<u>2,705,091</u>	<u>2,107,033</u>
	<u>\$ 945,344</u>	<u>\$ 876,694</u>	<u>\$ 2,848,801</u>	<u>\$ 2,239,787</u>

e. Employees' compensation and remuneration of directors and supervisors

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 and nine months ended September 30, 2017 and 2016, the employees' compensation and the remuneration of directors and supervisors were as follows

Expected rate

	For the Nine Months Ended September 30	
	2017	2016
Employees' compensation	10.18%	9.77%
Remuneration of directors and supervisors	1.02%	0.99%

Amount

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Employees' compensation	<u>\$ 211,815</u>	<u>\$ 173,950</u>	<u>\$ 613,111</u>	<u>\$ 420,717</u>
Remuneration of directors and supervisors	<u>\$ 21,181</u>	<u>\$ 17,395</u>	<u>\$ 61,311</u>	<u>\$ 42,572</u>

If there is a change in the amounts after the annual consolidated financial statements are 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, which were approved by 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	Share Dividends	Cash Dividends	Share Dividends
Bonus to employees	\$ 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 consolidated financial statements for the years 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 September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Foreign exchange gains	\$ 62,749	\$ 135,788	\$ 349,727	\$ 483,398
Foreign exchange losses	<u>(61,682)</u>	<u>(326,830)</u>	<u>(667,748)</u>	<u>(667,251)</u>
Net (loss) gain	<u>\$ 1,067</u>	<u>\$ (191,042)</u>	<u>\$ (318,021)</u>	<u>\$ (183,853)</u>

24. EARNINGS PER SHARE

(In New Taiwan Dollars)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Basic earnings per share	<u>\$ 8.12</u>	<u>\$ 7.61</u>	<u>\$ 22.69</u>	<u>\$ 17.18</u>
Diluted earnings per share	<u>\$ 8.05</u>	<u>\$ 7.54</u>	<u>\$ 22.43</u>	<u>\$ 16.98</u>

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

Net Profit for the Period

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Earnings used in the computation of basic earnings per share Profit for the period attributable to owners of the Corporation	<u>\$ 1,599,742</u>	<u>\$ 1,500,519</u>	<u>\$ 4,471,973</u>	<u>\$ 3,390,859</u>
Earnings used in the computation of diluted earnings per share Profit for the period attributable to owners of the Corporation	<u>\$ 1,599,742</u>	<u>\$ 1,500,519</u>	<u>\$ 4,471,973</u>	<u>\$ 3,390,859</u>

Shares

(In Thousands of Shares)

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
Weighted-average number of common shares in computation of basic earnings per share	197,074	197,204	197,074	197,317
Effect of potential dilutive common shares:				
Employees' compensation	<u>1,703</u>	<u>1,768</u>	<u>2,333</u>	<u>2,359</u>
Weighted-average number of common shares used in the computation of diluted earnings per share	<u>198,777</u>	<u>198,972</u>	<u>199,407</u>	<u>199,676</u>

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

25. DISPOSAL OF SUBSIDIARIES

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

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

August 24, 2016

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

b. Gain on disposal of subsidiary

**For the Eight
Months 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	<u>(7,710)</u>	
Gain on disposal		<u>\$ 45,649</u>

c. Net cash inflow on disposal of subsidiary

August 25, 2016

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

26. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

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, 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 of the chairman and should be considered as 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 an equity interest in Everspeed Technology Group. Therefore, for the long-term development and enhancement of the integrity of the operating structure, the Corporation's board of directors held a meeting on September 21, 2016 and decided to acquire from the shareholders of Everspeed Technology Limited, the parent company of Everspeed Technology Group, 100% equity interest of Everspeed Technology Group for NT\$1 on September 30, 2016. Then the Corporation included Everspeed Technology Group in the consolidated financial statements as a controlled entity and accounted for the acquisition as an equity transaction.

	Phisontech Electronics (Malaysia) Sdn. Bhd.	Everspeed Technology Limited
Cash consideration received (paid)	\$ (9,651)	\$ -
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to (from) non-controlling interests	7,626	147,375
Reattribution of other equity to non-controlling interests		
Exchange differences on translating foreign operations	<u>(661)</u>	<u>-</u>
Differences recognized from equity transactions	<u>\$ (2,686)</u>	<u>\$ 147,375</u>
<u>Line items adjusted for equity transactions</u>		
Capital surplus- changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	<u>\$ (2,686)</u>	<u>\$ 147,375</u>

27. CAPITAL MANAGEMENT

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

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

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

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

28. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

a. Fair value of financial instruments 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

September 30, 2017

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

December 31, 2016

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

September 30, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	\$ 89,460	\$ -	\$ -	\$ 89,460
Beneficiary certificates - open-end funds	<u>1,147,182</u>	<u>-</u>	<u>-</u>	<u>1,147,182</u>
	<u>\$ 1,236,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,236,642</u>
Available-for-sale financial assets				
Unlisted debt securities - ROC	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 320,595</u>	<u>\$ 320,595</u>

There were no transfers between Levels 1 and 2 for the nine months ended September 30, 2017 and 2016.

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

	For the Nine Months Ended September 30	
	2017	2016
<u>Available-for-sale equity instruments</u>		
Balance at January 1	\$ 372,051	\$ 295,950
Capital reduction by cash		(49,500)
Recognized in other comprehensive income		
Available-for-sale financial assets		
Unrealized gain (loss)	<u>76,983</u>	<u>74,145</u>
Balance at September 30	<u>\$ 449,034</u>	<u>\$ 320,595</u>

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

September 30, 2017

Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Quantitative Information	Relevance between Inputs and Fair Value	Sensitivity Analysis of Relation between Inputs and Fair Values
Available-for-sale shares	Market approach (price-earnings ratio and price-to-book ratio method)	Lack of liquidity discount	8.06%	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 \$44,903 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.

September 30, 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	17.16%	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 \$32,060 thousand.

Categories of Financial Instruments

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Financial assets</u>			
Fair value through profit or loss (FVTPL)			
Held for trading	\$ 1,263,008	\$ 1,227,729	\$ 1,236,642
Loans and receivables (Note 1)	18,457,552	20,207,076	16,713,777
Available-for-sale financial assets (Note 2)	1,303,949	1,084,941	1,079,338

Financial liabilities

Financial liabilities at amortized cost (Note 3)	5,031,680	4,437,451	3,543,021
--	-----------	-----------	-----------

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

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

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

Financial Risk Management Objectives and Policies

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

a. Market risk

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

1) Foreign currency risk

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

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

Sensitivity analysis

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

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

	Impact of USD	
	For the Nine Months Ended	
	September 30	
	2017	2016
Profit or loss	\$ 264,998	\$ 572,592

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:

	September 30, 2017	December 31, 2016	September 30, 2016
Fair value interest rate risk			
Financial assets	\$ 4,184,991	\$ 3,307,008	\$ 3,147,147
Financial liabilities	-	-	-
Cash flow interest rate risk			
Financial assets	8,630,007	11,709,953	6,920,718
Financial liabilities	181,560	580,500	-

Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the nine months ended September 30, 2017 and 2016 would have increase by \$634 thousand and \$519 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 nine months ended September 30, 2017 and 2016 would have increased/decreased by \$12,630 thousand and \$12,366 thousand, respectively. The pre-tax other comprehensive income for the nine months ended September 30, 2017 and 2016 would increase/decrease by \$4,490 thousand and \$3,206 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 September 30, 2017, December 31, 2016 and September 30, 2016, the Group had available unutilized overdraft and short-term bank loan facilities of approximately \$6,629,940 thousand, \$2,907,500 thousand and \$3,307,134 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.

	September 30, 2017				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 3,394,930	\$ 3,169,503	\$ 3,213,381	\$ -	\$ -
Variable interest rate instruments	<u>151,300</u>	<u>30,260</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,546,230</u>	<u>\$ 3,199,763</u>	<u>\$ 3,213,381</u>	<u>\$ -</u>	<u>\$ -</u>

	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
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 2,225,637	\$ 2,478,340	\$ 3,037,846	\$ -	\$ -
Variable interest rate instruments	<u>354,750</u>	<u>225,750</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,580,387</u>	<u>\$ 2,704,090</u>	<u>\$ 3,037,846</u>	<u>\$ -</u>	<u>\$ -</u>
	September 30, 2016				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
<u>Non-derivative financial liabilities</u>					
Non-interest bearing	\$ 1,671,388	\$ 2,772,517	\$ 2,411,993	\$ -	\$ -
Variable interest rate instruments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,671,388</u>	<u>\$ 2,772,517</u>	<u>\$ 2,411,993</u>	<u>\$ -</u>	<u>\$ -</u>

Information on Transfers of Financial Assets

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

29. RELATED PARTY TRANSACTIONS

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

a. Related-party and its relationship

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

b. Operating revenue

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
<u>Related-party categories</u>				
Associates	\$ 1,332	\$ 14,214	\$ 12,174	\$ 30,180
Other related parties (Note 1)	<u>359,290</u>	<u>579,117</u>	<u>1,401,349</u>	<u>1,538,074</u>
	<u>\$ 360,622</u>	<u>\$ 593,331</u>	<u>\$ 1,413,523</u>	<u>\$ 1,568,254</u>

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

c. Operating costs

1) Purchases of goods

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
<u>Related-party categories</u>				
Associates	\$ 95,002	\$ 72,744	\$ 268,592	\$ 231,299
Other related parties (Note 1)				
Toshiba Electronic Components Taiwan Corporation	4,028,574	3,877,638	12,335,626	15,804,768
Toshiba America Electronic Components, Inc.	1,276,345	747,686	2,795,015	1,737,284
Others	<u>8,758</u>	<u>102</u>	<u>18,921</u>	<u>102</u>
	<u>\$ 5,408,679</u>	<u>\$ 4,698,170</u>	<u>\$ 15,418,154</u>	<u>\$ 17,773,453</u>

2) Processing cost

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2017	2016	2017	2016
<u>Related-party categories</u>				
Associates	\$ 71	\$ -	\$ 649	\$ -
Other related parties (Note 2)	<u>377,201</u>	<u>826,550</u>	<u>1,092,242</u>	<u>2,563,532</u>
	<u>\$ 377,272</u>	<u>\$ 826,550</u>	<u>\$ 1,092,891</u>	<u>\$ 2,563,532</u>

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

d. Receivables from related parties

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Related-party types</u>			
Associates	\$ 830	\$ 1,039	\$ 14,184
Other related parties (Note 1)	<u>230,031</u>	<u>357,211</u>	<u>410,163</u>
	<u>\$ 230,861</u>	<u>\$ 358,250</u>	<u>\$ 424,347</u>

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

e. Payables to related parties

	September 30, 2017	December 31, 2016	September 30, 2016
<u>Related-party categories</u>			
Associates	\$ 52,743	\$ 79,059	\$ 38,981
Other related parties (Note 1)			
Toshiba Electronic Components Taiwan Corporation	2,511,797	1,697,597	1,794,345
Toshiba America Electronic Components, Inc.	592,391	123,821	305,968
Others	<u>153,691</u>	<u>218,914</u>	<u>381,425</u>
	<u>\$ 3,310,622</u>	<u>\$ 2,119,391</u>	<u>\$ 2,520,719</u>

The outstanding trade payables from related parties are unsecured.

Note 1: Other related parties are the parent company (Toshiba Corporation Japan) of the Corporation's legal entity board of directors, and its subsidiaries.

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

f. Compensation of key management personnel

	<u>For the Three Months Ended September 30</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Short-term employee benefits	\$ 126,171	\$ 110,721	\$ 247,348	\$ 197,738
Post-employment benefits	376	365	1,085	1,081
Other employee benefits	<u>2,030</u>	<u>2,556</u>	<u>4,011</u>	<u>4,745</u>
	<u>\$ 128,577</u>	<u>\$ 113,642</u>	<u>\$ 252,444</u>	<u>\$ 203,564</u>

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

30. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

The Group's lease contracts for a factory and an office expire on September 30, 2022.

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

	September 30, 2017	December 31, 2016	September 30, 2016
Not later than 1 year	\$ 17,558	\$ 11,457	\$ 11,053
Later than 1 year and not later than 5 years	<u>38,068</u>	<u>892</u>	<u>1,431</u>
	<u>\$ 55,626</u>	<u>\$ 12,349</u>	<u>\$ 12,484</u>

b. The Group as lessor

Operating leases all relate to 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:

	September 30, 2017	December 31, 2016	September 30, 2016
Not later than 1 year	<u>\$ 905</u>	<u>\$ 2,488</u>	<u>\$ 628</u>

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	September 30, 2017	December 31, 2016	September 30, 2016
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	<u>\$ 79,713</u>	<u>\$ 57,439</u>	<u>\$ 59,302</u>

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of September 30, 2017, December 31, 2016 and September 30, 2016 were as follows:

Significant Commitments

	September 30, 2017	December 31, 2016	September 30, 2016
Unused letters of credit	<u>\$ 2,093,000</u>	<u>\$ 2,020,000</u>	<u>\$ 2,020,946</u>

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

In Thousands of New Taiwan Dollars and Foreign Currencies

	September 30, 2017		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD	\$ 283,787	30.260	\$ 8,587,408
CNY	64,097	4.551	291,703
<u>Financial liabilities</u>			
Monetary			
USD	137,831	30.260	4,170,768
	December 31, 2016		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD	\$ 308,979	32.250	\$ 9,964,583
CNY	46,020	4.617	212,475
<u>Financial liabilities</u>			
Monetary			
USD	110,731	32.250	3,571,076
	September 30, 2016		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
<u>Financial assets</u>			
Monetary			
USD	\$ 387,232	31.360	\$ 12,143,589
CNY	53,187	4.693	249,608
<u>Financial liabilities</u>			
Monetary			
USD	82,921	31.360	2,600,400

For the three months and nine months ended September 30, 2017 and 2016, (realized and unrealized) net foreign exchange gains and losses were gains of \$1,067 thousand, losses of \$191,042 thousand, losses of \$318,021 thousand and losses of \$183,853 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

Beginning 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 (formerly Twinson Electronics Corporation), Memoryexchange Corporation and Everspeed Technology Group. The investigation was conducted by the Taiwan Hsinchu District Prosecutorial Office and concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutorial Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code, the prosecutor charged the chairman of the Corporation, Mr. Khein Seng Pua, and others culminating in either deferred prosecution or dropping the claim for further prosecution. As of the date of the report, Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. The aforementioned events have not affected the Corporation's financial condition and business operations.

35. ADDITIONAL DISCLOSURES

a. Information about significant transactions and investees:

- 1) Financing provided to others. (None)
- 2) Endorsement/guarantee provided. (None)
- 3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures). (Table 1)
- 4) Marketable securities acquired and disposed 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. (Table 2)
- 6) Disposal of individual real estate at prices of at least NT\$300 million or 20% of the paid-in capital. (None)
- 7) Total purchases from or sales to related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 3)
- 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital. (Table 4)
- 9) Trading in derivative instruments. (None)
- 10) Other: Intercompany relationships and significant intercompany transactions. (Table 5)
- 11) Information of investees. (Table 6)

b. Information on investments in mainland China:

- 1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 7)
- 2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses. (Table 8)
 - a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.
 - b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.
 - c) The amount of property transactions and the amount of the resultant gains or losses.
 - d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes.
 - e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.
 - f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

36. SEGMENT INFORMATION

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

a. Segment revenue and results

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

	<u>Segment Revenue</u>		<u>Segment Profits</u>	
	<u>For the Three Months Ended September 30</u>		<u>For the Three Months Ended September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Department that designs and sells flash memory controllers	\$ 11,173,627	\$ 12,337,357	\$ 1,777,462	\$ 1,497,297
Investment department	<u>-</u>	<u>-</u>	<u>(32)</u>	<u>(16)</u>
Total operating segments	<u>\$ 11,173,627</u>	<u>\$ 12,337,357</u>	1,777,430	1,497,281

(Continued)

	<u>Segment Revenue</u>		<u>Segment Profits</u>	
	<u>For the Three Months Ended</u>		<u>For the Three Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Other gains and losses			\$ (38,912)	\$ (169,601)
Share of gains (losses) of associates			68,352	137,996
Other income			41,700	78,782
Financial costs			<u>(1,485)</u>	<u>(61)</u>
Income before income tax			<u>\$ 1,847,085</u>	<u>\$ 1,544,397</u> (Concluded)

	<u>Segment Revenue</u>		<u>Segment Profits</u>	
	<u>For the Nine Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September 30</u>		<u>September 30</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Department that designs and sells flash memory controllers	\$ 31,221,987	\$ 32,700,681	\$ 5,375,728	\$ 3,565,118
Investment department	<u>-</u>	<u>-</u>	<u>(756)</u>	<u>(182)</u>
Total operating segments	<u>\$ 31,221,987</u>	<u>\$ 32,700,681</u>	5,374,972	3,564,936
Other gains and losses			(422,930)	(154,278)
Share of gains of associates			332,286	226,740
Other income			78,958	143,136
Financial costs			<u>(4,807)</u>	<u>(1,339)</u>
Income before income tax			<u>\$ 5,358,479</u>	<u>\$ 3,779,195</u>

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

SEPTEMBER 30, 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	September 30, 2017				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	<u>Beneficiary certificates</u>							
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,307	\$ 103,442	-	\$ 103,442	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,139	93,250	-	93,250	Note 3
	UPAMC James Bond Money Market Fund	-	Financial assets at fair value through profit or loss - current	12,254	203,409	-	203,409	Note 3
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,995	91,750	-	91,750	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	14,847	152,356	-	152,356	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,130	50,687	-	50,687	Note 3
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	13,767	202,532	-	202,532	Note 3
	Taishin Ta-Chong Market Fund	-	Financial assets at fair value through profit or loss - current	3,594	50,706	-	50,706	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,119	101,025	-	101,025	Note 3
	<u>Convertible bonds</u>							
	Ubitus Inc.	-	Financial assets at fair value through profit or loss - current	-	49,675	-	49,675	Note 12
	<u>Common shares</u>							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at fair value through profit or loss - current	7,100	64,752	0.88	64,752	Note 4
	Aptos Technology Inc.	-	Financial assets measured at cost - non-current	1,059	-	1.86	10,736	Note 11
	Viva Baseball Co., Ltd.	-	Financial assets measured at cost - non-current	Note 7	266	8.33	259	Note 5
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets measured at cost - non-current	1,000	12,536	0.50	12,671	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets measured at cost - non-current	3,000	24,471	18.75	28,664	Note 5
	Zillians Inc.	-	Financial assets measured at cost - non-current	440	-	17.25	-	Note 10
	Adam Elements International Co., Ltd.	-	Financial assets measured at cost - non-current	1,710	13,373	19.00	16,852	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets measured at cost - non-current	900	19,901	0.67	19,901	Note 5
	THLight Co., Ltd.	-	Financial assets measured at cost - non-current	6,388	4,186	17.94	1,404	Note 5
	UD INFO Corp.	-	Financial assets measured at cost - non-current	570	5,569	18.51	8,957	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets measured at cost - non-current	15,000	150,000	11.11	141,601	Note 5
	bOMDIC Co., Ltd.	-	Financial assets measured at cost - non-current	322	6,770	9.46	1,173	Note 5
	GeoThings, Inc.	-	Financial assets measured at cost - non-current	150	1,500	6.70	602	Note 5
	Ironyun Incorporated (preference shares)	-	Financial assets measured at cost - non-current	5,000	1,652	5.99	1,652	Note 5
	Vescir Ltd.	-	Financial assets measured at cost - non-current	63	16	5.26	468	Note 5
	Innorich Venture Capital Corp.	-	Financial assets measured at cost - non-current	3,000	30,000	5.61	28,130	Note 5
	Dawning Leading Technology Inc.	-	Financial assets measured at cost - non-current	10,335	65,671	2.82	65,671	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets measured at cost - non-current	11,966	81,253	15.94	81,253	Note 5
	Apacer Technology Inc.	-	Available-for-sale financial assets - non-current	10,050	449,034	9.96	449,034	Note 6

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	September 30, 2017				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment Corporation	<u>Private equity fund</u> Fuh Hwa Smart Energy Fund	-	Financial assets measured at cost - non-current	6,000	\$ 60,000	3.81	\$ 59,231	Note 3
	<u>Beneficiary certificates</u> FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,986	30,171	-	30,171	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,424	30,163	-	30,163	Note 3
	<u>Common shares</u> United Power Research Technology Corp.	-	Financial assets measured at cost - non-current	5,616	45,702	16.12	66,896	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,250	2,169	2.23	4,309	Note 5
	Translink Capital Partners III, L.P.	-	Financial assets measured at cost - non-current	1,095	33,905	1.18	34,526	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets measured at cost - non-current	2,111	230,118	10.92	24,960	Note 5
	Weltronics Corp., Ltd.	-	Financial assets measured at cost - non-current	700	-	19.44	(1,229)	Note 5
	UMBO CV Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,626	16,860	3.58	5,692	Note 5
	Omni Media International Incorporation	-	Financial assets measured at cost - non-current	1,714	30,000	13.84	20,247	Note 5
RENIAC, INC. (preference shares)	-	Financial assets measured at cost - non-current	302	15,300	3.46	535	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	10,138	-	10,138	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	988	10,144	-	10,144	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	<u>Beneficiary certificates</u> United Cash Fund	-	Financial assets at fair value through profit or loss - current	2,710	18,808	-	18,808	Note 3
Everspeed Technology Limited	<u>Common shares</u> Peripheral Devices & Products System Inc.	-	Financial assets measured at cost - non-current	20	-	1.00	(1,103)	Note 9
	Zillians Inc.	-	Financial assets measured at cost - non-current	500	-	19.61	-	Note 10
Cloud Solution Global Limited	<u>Common shares</u> My Digital Discount, Inc.	-	Financial assets measured at cost - non-current	-	3,697	19.00	3,697	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 September 30, 2017.

Note 4: The calculation of the market value was based on the closing price as of September 30, 2017.

Note 5: The calculation of the net asset value was based on the investee's unreviewed financial statements as of September 30, 2017.

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

(Continued)

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.

Note 9: The calculation of the net asset value was based on the investee's unreviewed financial statements as of August 31, 2017.

Note 10: The calculation of the net asset value was based on the investee's unreviewed financial statements as of December 31, 2016.

Note 11: The calculation of the net asset value was based on the investee's reviewed financial statements as of June 30, 2017.

Note 12: The calculation of the market value was based on the purchase price as of September 15, 2017.

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(In Thousands of New Taiwan Dollars)**

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty and Purpose	Relationship	Information on Previous Title Transfer If Counterparty is a Related Party				Pricing Reference	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Phison Electronics Corp.	Zhunan third phase factory	2016.1.22 (Note)	\$ 780,000	Fully paid	Build on its land (main contractor: Ruentex Engineering & Construction Co., Ltd.)	-	-	-	-	\$ -	-	Operating	-

Note: The commissioned construction project was for building on the counterparty's land and was approved by the Corporation's board of directors. The construction will be transferred to the Corporation's property, plant and equipment after the acceptance of work is completed.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 Electronic Components Taiwan Corporation	Sub-subsiary of parent company of the Corporation's legal entity board of directors	Purchase	\$ 12,335,626	52	Net 30 days after monthly closing	None	None	\$ (2,511,797)	(52)	-
	Toshiba America Electronic Components, Inc.	Subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	2,795,015	12	Net 30 days after receipt date	None	None	(592,391)	(12)	-
	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	268,592	1	Net 30 days after monthly closing	None	None	(52,743)	(1)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	812,945	4	Net 15 days after monthly closing	None	None	(112,285)	(2)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	279,297	1	Net 45 days after monthly closing	None	None	(39,261)	(1)	-
	Toshiba Corporation ("Toshiba-JP-SS")	Parent company of the Corporation's legal entity board of directors	Sale	(485,013)	(2)	Net 60 days after monthly closing	None	None	-	-	-
	Toshiba International Procurement Hong Kong Ltd. ("Toshiba-TIPH")	Subsidiary of parent company of the Corporation's legal entity board of directors	Sale	(168,643)	(1)	Net 60 days after monthly closing	None	None	33,120	1	-
	Toshiba Memory Corporation	The Corporation's legal entity board of directors	Sale	(700,839)	(2)	Net 60 days after monthly closing	None	None	156,703	3	-
	Hefei Core Storage Electronic Limited	Sub-subsiary	Sale	(400,562)	(1)	Net 30 days after monthly closing	None	None	51,848	1	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiary	Sale	(271,142)	(52)	Net 30 days after monthly closing	None	None	-	-	-

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

SEPTEMBER 30, 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 Memory Corporation	The Corporation's legal entity board of directors	\$ 156,703	11.93	\$ -	-	\$ 77,223	\$ -

Note: As of October 31, 2017.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

SEPTEMBER 30, 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	1	Sales revenue	\$ 400,562	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Accounts receivable	51,848	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Research and development expenses	67,749	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Other payables	21,838	Based on regular terms	-
		Ostek Corporation	1	Purchases	2,388	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	5,402	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	18,634	Based on regular terms	-
		Ostek Corporation	1	Other payables	1,490	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expense	5,888	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other payables	1,695	Based on regular terms	-
		Emtops Electronics Corp.	1	Purchases	19,152	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Purchases	12,157	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Sales revenue	11,637	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Accounts receivable	11,211	Based on regular terms	-
1	Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	2	Sales revenue	271,142	Based on regular terms	1

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

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

TABLE 6

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEEES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 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	\$ 1,492,758	\$ 1,043,280	\$ 343,343	Equity-method investee
	Emtops Electronics Corporation	Taiwan	Sale of flash memory controllers and peripheral system applications	95,000	95,000	9,500,000	100.00	70,840	(3,112)	(3,112)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	400,000	65,000,000	100.00	627,919	4,900	4,900	Subsidiary
	Flexmedia Electronics Corporation	Taiwan	R&D, sales and production of high-tech multimedia design	8,077	8,077	482,142	21.43	-	(10,900)	(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	26,132	3,921	1,921	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	28,982	28,982	900	100.00	5,078	(4,559)	(4,559)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	665,823	635,696	21,000,000	100.00	621,065	12,572	12,572	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	91,422	81,771	10,000,000	100.00	63,034	6,883	6,565	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	44.21	53,581	(59,154)	(26,152)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	99,676	806	806	Subsidiary
Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	139,960	(15,573)	(15,573)	Subsidiary	
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	56,036	(5,992)	-	Sub-subsubsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	16,434	42,711	-	Equity-method investee
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Taiwan	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	10,000	10,000	1,000,000	100.00	39,697	7,890	-	Sub-subsubsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	553,950	14,862	-	Sub-subsubsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				September 30, 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	\$ 93,649	\$ 1,198	\$ -	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	9,268	(4,250)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,680	(41)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	15,171	(5,037)	-	Sub-subsidiary
Cloud Solution Global Limited	Asadhya Enterprises Private Limited	India	Trade of electronic products	611	611	122,255	49.00	-	4	-	Equity-method investee

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 September 30, 2017	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of September 30, 2017	Accumulated Inward Remittance of Earnings as of September 30, 2017
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 53,096	2	\$ 23,006	\$ 30,090	\$ -	\$ 53,096	100.00	\$ (2,676)	\$ 28,334	\$ -
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	14,964	552,861	-

Accumulated Investments in Mainland China as of September 30, 2017	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investments (Note 3)
\$ 629,876 (US\$ 19,790)	\$ 629,876 (US\$ 19,790)	\$ 14,867,454

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

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

Note 3: The limit of investments in mainland China, which is based on Regulations Governing the Approval of Investments on Technical Corporation in Mainland China, is 60% of the Group's net asset value, which is \$24,779,090 x 60% = \$14,867,454.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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	Subsidiary	Sale	\$ 400,562	1	Net 30 days after monthly closing	None	None	\$ 51,848	1	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiaries	Sale	271,142	52	Net 30 days after monthly closing	None	None	-	-	-