Phison Electronics Corp. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The companies required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2017 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements." Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA
Chairman

March 16, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

We have audited the financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") which comprises the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year 2017 are stated as follows:

Sales Revenue Recognition

The operating revenue, in New Taiwan dollars ("NT$"), of the Group amounted to NT$41,864,759 thousand. Sales failing to fulfill the criteria for revenue recognition may result in a significant impact on the Group's consolidated financial statements. Therefore, the recognition on sales revenue has been identified as a key audit matter.

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

1. Understood and tested the process of the design and implementation of relevant controls over recognition on sales revenue.

2. Sampled the original sales orders, shipping documents, export declarations and examined the process for the payments receiving to confirm that the sales revenue have met the conditions of revenue recognition.

3. Checked if there were any instances of simultaneous purchases from and sales to the same entity. If such situations presented, we further assessed the background of the entity and the goods purchased and sold in order to evaluate the reasonableness of the transactions and to confirm whether there were instances of repeated purchases and sales.

4. Sent out confirmation letter to top ten customers in order to verify the occurrence of sales revenue.

Impairment on Inventories

The Group actively stocked up on inventory in 2017 in order to cope with the foreseen shortage since it is expected that raw material would be short in supply. The management measured inventories at the lower of cost and net realizable value, which is primarily based on the management's estimation. Since whether the product will be unsaleable or obsolete is subject to the boom and innovation of industrial technology, impairment on inventories has been identified as a key audit matter. Refer to Note 5 and 10 to the accompanying consolidated financial statements for further information.

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

1. Understood and tested the inventory impairment assessment and the design and implementation of relevant internal controls.

2. Understood the assumption that the management used for the estimation of impairment on inventories and evaluated the reasonableness of the methodology.

3. Obtained the lower of inventory cost and net realizable value assessment data which is prepared by the management and verified the aging profile in order to evaluate whether it is consistent with the allowance for obsolete inventory. Checked whether the forecasted pricing data is consistent with the most recent sales data. Tested the accuracy of the allowance for inventory valuation and obsolescence loss by recalculation using the aforementioned assumption for inventory impairment estimation and the assessment data of the lower of cost and net realizable value.

4. Participated in year-end inventory count in order to assess the appropriateness of the allowance for inventory valuation and obsolescence loss.

Matter of Emphasis

As stated in Note 34 to the accompanying consolidated financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District 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. The Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Court Prosecutorial Office against the chairman of the Corporation, Mr. Khein Seng Pua, and others, the case is under re-investigation. As such, our opinion is not modified in respect of this matter.

Other Matter

We have also audited the parent company only financial statements of Phison Electronics Corp. as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion with emphasised matters.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2018

<u>*Notice to Readers*</u>

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 14,142,389	40	$ 14,958,331	47
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 28)	1,271,217	4	1,227,729	4
Debt investments with no active market - current (Notes 4, 8 and 31)	80,534	-	58,729	-
Notes and accounts receivable				
Third parties (Notes 4 and 9)	5,413,304	15	4,442,409	14
Related parties (Notes 4, 9 and 29)	318,151	1	358,250	1
Other receivables (Note 9)	288,599	1	389,357	1
Current tax assets (Notes 4 and 22)	9,237	-	1,866	-
Inventories (Notes 4 and 10)	7,192,346	21	5,222,336	17
Prepayments	28,720	-	68,115	-
Other current assets	65,190	-	28,222	-
Total current assets	28,809,687	82	26,755,344	84
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4 and 11)	434,763	1	372,051	1
Financial assets measured at cost - non-current (Notes 4 and 12)	817,627	2	712,890	2
Investments accounted for by the equity method (Notes 4 and 14)	1,709,711	5	1,256,620	4
Property, plant and equipment (Notes 4 and 15)	2,822,881	8	2,426,451	7
Intangible assets (Notes 4 and 16)	218,130	1	222,297	1
Deferred tax assets (Notes 4 and 22)	310,025	1	218,661	1
Guarantee deposits paid	3,780	-	11,325	-
Total non-current assets	6,316,917	18	5,220,295	16
TOTAL	$ 35,126,604	100	$ 31,975,639	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 17)	$ -	-	$ 580,500	2
Notes and accounts payable				
Third parties	1,086,707	3	1,737,560	5
Related parties (Note 29)	2,560,538	7	2,119,391	7
Other payables (Note 18)	3,736,777	11	3,152,524	10
Tax payable (Notes 4 and 22)	1,092,802	3	732,348	2
Provisions (Notes 4 and 19)	292,081	1	344,076	1
Other current liabilities	194,503	1	237,661	1
Total current liabilities	8,963,408	26	8,904,060	28
NON-CURRENT LIABILITIES				
Deferred tax liabilities (Notes 4 and 22)	-	-	315	-
Long-Term Deferred Revenue	19,710	-	-	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	84,897	-	72,725	-
Guarantee deposits received	274	-	314	-
Total non-current liabilities	104,881	-	73,354	-
Total liabilities	9,068,289	26	8,977,414	28
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 21)				
Share capital				
Common shares	1,970,740	6	1,970,740	6
Capital surplus	6,660,502	19	6,652,449	21
Retained earnings				
Legal reserve	2,842,806	8	2,356,107	8
Special reserve	25,965	-	111,358	-
Unappropriated earnings	14,521,886	41	11,928,136	37
Total retained earnings	17,390,657	49	14,395,601	45
Other equity	36,416	-	(25,965)	-
Total equity attributable to owners of the Corporation	26,058,315	74	22,992,825	72
NON-CONTROLLING INTERESTS	-	-	5,400	-
Total equity	26,058,315	74	22,998,225	72
TOTAL	$ 35,126,604	100	$ 31,975,639	100

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

(With Deloitte & Touche auditors' report dated March 16, 2018)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4 and 29)				
Gross sales	$ 42,115,942	101	$ 44,270,298	101
Less: Sales returns and allowances	425,229	1	588,015	1
Net sales	41,690,713	100	43,682,283	100
Other operating revenue	174,046	-	100,229	-
Total operating revenue	41,864,759	100	43,782,512	100
OPERATING COSTS (Notes 4, 10, 23 and 29)	30,365,137	73	34,518,774	79
GROSS PROFIT	11,499,622	27	9,263,738	21
OPERATING EXPENSES (Notes 23 and 29)				
Marketing	531,728	1	684,999	2
General and administrative	522,373	1	517,908	1
Research and development	3,713,829	9	3,218,183	7
Total operating expenses	4,767,930	11	4,421,090	10
OPERATING INCOME	6,731,692	16	4,842,648	11
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 23)	(571,886)	(1)	16,158	-
Share of gains of associates (Note 14)	442,368	1	459,309	1
Other income (Note 23)	120,677	-	160,864	1
Financial costs	(4,981)	-	(2,053)	-
Total nonoperating income and expenses	(13,822)	-	634,278	2
PROFIT BEFORE INCOME TAX	6,717,870	16	5,476,926	13
INCOME TAX EXPENSE (Notes 4 and 22)	956,580	2	675,083	2
NET PROFIT FOR THE YEAR	5,761,290	14	4,801,843	11
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plan	(8,288)	-	(2,475)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 22)	1,408	-	421	-

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	$ 1,516	-	$ (48,919)	-
Unrealized gain on available-for-sale financial assets	62,712	-	125,601	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 22)	61	-	8,235	-
Other comprehensive income for the year, net of income tax	57,409	-	82,863	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 5,818,699	14	$ 4,884,706	11
NET PROFIT (LOSS) ATTRIBUTED TO:				
Owners of the Corporation	$ 5,760,972	14	$ 4,866,992	11
Non-controlling interests	318	-	(65,149)	-
	$ 5,761,290	14	$ 4,801,843	11
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTED TO:				
Owners of the Corporation	$ 5,816,473	14	$ 4,950,331	11
Non-controlling interests	2,226	-	(65,625)	-
	$ 5,818,699	14	$ 4,884,706	11
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 24)				
Basic	$ 29.23		$ 24.67	
Diluted	$ 28.83		$ 24.35	

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

(With Deloitte & Touche auditors' report dated March 16, 2018) (Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to the Corporation										
			Retained Earnings			Other Equity					
	Common Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares	Total	Non-controlling Interests	Total Equity
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)
Cancelation of treasury shares	(3,000)	(9,495)	-	-	(52,227)	-	-	64,722	-	-	-
Net profit (loss) for the year ended December 31, 2016	-	-	-	-	4,866,992	-	-	-	4,866,992	(65,149)	4,801,843
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(2,054)	(40,208)	125,601	-	83,339	(476)	82,863
BALANCE AT DECEMBER 31, 2016	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 from special reserve	-	-	-	(85,393)	85,393	-	-	-	-	-	-
Cash dividends - NT$14 per share	-	-	-	-	(2,759,036)	-	-	-	(2,759,036)	-	(2,759,036)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	10,739	-	-	-	-	-	-	10,739	-	10,739
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 year ended December 31, 2017	-	-	-	-	5,760,972	-	-	-	5,760,972	318	5,761,290
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,880)	(331)	62,712	-	55,501	1,908	57,409
BALANCE AT DECEMBER 31, 2017	$ 1,970,740	$ 6,660,502	$ 2,842,806	$ 25,965	$ 14,521,886	$ (67,147)	$ 103,563	$ -	$ 26,058,315	$ -	$ 26,058,315

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

(With Deloitte & Touche auditors' report dated March 16, 2018)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 6,717,870	$ 5,476,926
Adjustments for:		
Share of gains of associates	(442,368)	(459,309)
Net losses (gains) on foreign currency exchange	369,978	(27,876)
Recognition of provisions	238,449	408,268
Impairment loss recognized on financial assets	169,512	112,475
Depreciation	169,364	123,689
Amortization	166,091	122,584
Interest income	(42,511)	(35,189)
Dividend income	(29,947)	(40,825)
Allowance for bad debts	22,958	123,552
Inventory write-downs	19,361	8,649
Gains on disposal of financial assets measured at cost	(7,545)	-
Financial costs	4,981	2,053
Other non-cash items	1,163	-
Gains on deconsolidation of subsidiaries	-	(45,649)
Impairment loss recognized on Intangible assets	-	23,640
Gains on sale of property, plant and equipment	-	(41)
Net changes related to operating assets and liabilities		
Financial assets held for trading	4,585	(3,972)
Notes and accounts receivable	(1,005,072)	(425,880)
Other receivables	98,188	(1,228)
Inventories	(1,989,417)	19,320
Prepayments	38,239	(11,456)
Other current assets	(36,968)	10,125
Notes and accounts payable	(185,891)	(420,224)
Other payables	594,250	837,677
Provisions	(290,444)	(214,044)
Unearned Revenue	19,710	-
Other current liabilities	(44,250)	29,768
Net defined benefit liability	12,172	5,824
Cash generated from operations	4,572,458	5,618,857
Interest paid	(5,385)	(1,709)
Income tax paid	(694,831)	(664,846)
Net cash generated from operating activities	3,872,242	4,952,302
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for property, plant and equipment	(565,320)	(913,778)
Purchase of financial assets measured at cost	(281,538)	(220,146)
Payments for intangible assets	(161,956)	(177,408)
(Purchase) disposal of financial assets designated as at fair value through profit or loss	(47,635)	1,001,740
Interest received	41,876	34,979

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PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
Dividends received	$ 29,947	$ 40,825
Increase in debt investments with no active market	(21,805)	(38,321)
Decrease (increase) in refundable deposits	7,545	(8,386)
Proceeds from sale of financial assets measured at cost	14,315	-
Proceeds of the capital reduction of available-for-sale financial assets	-	49,500
Purchase of investments accounted for by the equity method	-	(31,771)
Net cash outflow from deconsolidation of subsidiaries	-	(25,297)
Proceeds from disposal of property, plant and equipment	-	41
Net cash used in investing activities	(984,571)	(288,022)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(2,759,036)	(2,368,488)
(Decrease) increase in short-term borrowings	(580,500)	380,386
(Decrease) increase in non-controlling interests	(10,312)	4,577
(Decrease) increase in guarantee deposits	(40)	60
Purchase of treasury shares	-	(64,722)
Net cash used in financing activities	(3,349,888)	(2,048,187)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(353,725)	(63,358)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(815,942)	2,552,735
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	14,958,331	12,405,596
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 14,142,389	$ 14,958,331

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

(With Deloitte & Touche auditors' report dated March 16, 2018) (Concluded)

1. GENERAL INFORMATION

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

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

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

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors on March 16, 2018.

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:

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include 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

Classification, 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.

The Group analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on 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 an 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 classification, 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.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

Impact on assets, liabilities and equity	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Current assets			
Financial assets measured at amortized cost	$ -	$ 80,534	$ 80,534
Debt investments with no active market	80,534	(80,534)	-
Non- current assets			
Financial assets at fair value through other comprehensive income	-	860,915	860,915
Financial assets at fair value through profit or loss	-	434,763	434,763
Financial assets measured at cost	817,627	(817,627)	-
Available-for-sale financial assets	434,763	(434,763)	-
Total effect on assets	$ 1,332,924	$ 43,288	$ 1,376,212
Equity			
Retained earnings	$ 14,521,886	$ 543,867	$ 15,065,753
Other equity	36,416	(500,579)	(464,163)
Total effect on equity	$ 14,558,302	$ 43,288	$ 14,601,590

2) IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations.

When applying IFRS 15, the Group recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Group satisfies a performance obligation.

The Group elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018.

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 as of January 1, 2018 is detailed below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Impact on assets, liabilities and equity			
Current Liabilities			
Provisions - current	$ 292,081	$ (292,081)	$ -
Refund liability	-	292,081	292,081
Total effect on liabilities	$ 292,081	$ -	$ 292,081

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Group shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

IFRS 16 "Leases"

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

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

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

Basis of Preparation

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

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

a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

c. Level 3 inputs are unobservable inputs for the asset or liability.

Classification of Current and Non-current Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

b. Assets expected to be realized within 12 months after the reporting period; and

c. Cash and equivalents, unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

b. Liabilities due to be settled within 12 months after the reporting period; and

c. Liabilities for which the Group does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

When the Group loses control of a subsidiary, the difference between the following is recognized in disposal gains and losses: (1) the total amount of the fair value of the consideration received and the fair value of the remaining investment in the former subsidiary on the date control was lost, and (2) the total amount of assets, including goodwill, and liabilities from former subsidiaries, and the carrying amount of non-controlling interests on the date control was lost. The basis of compliance should be the same between the accounting for all the amounts recognized in other comprehensive income related to a subsidiary and the accounting for the related assets and liabilities disposed of directly by the Group.

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

See Note 13 and Tables 6 and 7 following the Notes to Consolidated Financial Statements for detailed information on subsidiaries (including the percentage of ownership and main businesses).

Foreign Currencies

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

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

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

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

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

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

Inventories

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

Investment in Associates

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

Intangible Assets

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

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

Financial Instruments

Financial assets and financial liabilities are recognized when a Group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

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

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, available-for-sale financial assets, and loans and receivables.

a. Financial assets at fair value through profit or loss

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

   Financial assets at fair value through profit or loss are stated at their fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend or interest earned on financial assets. Refer to Note 28 for related disclosures.

b. Available-for-sale financial assets

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

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

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

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

c. Loans and receivables

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

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

d. Impairment of financial assets

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

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

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

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

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

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

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

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

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

e. Derecognition of financial assets

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

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

Provisions

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

Revenue Recognition

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

a. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

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

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

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

b. Rendering service income

Service income is recognized when services are provided.

c. Royalties

Royalty revenue is recognized on an accrual basis in accordance with the substance of the relevant agreement and provided that it is probable that the economic benefits will flow to the Group and that the amount of revenue can be measured reliably. Royalty arrangements that are based on production, sales and other measures are recognized by reference to the underlying arrangement.

d. Dividend and interest income

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

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

Leasing

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

a. The Group as lessor

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

b. The Group as lessee

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Termination benefits

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

Share-based Payment Arrangements - Employee Share Options

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

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

Taxation

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

a. Current tax

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

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

b. Deferred tax

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

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

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

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

c. Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying 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

	December 31	
	2017	**2016**
Cash on hand	$ 102	$ 99
Checking accounts and demand deposits	9,638,350	11,709,953
Cash equivalents		
Time deposits with original maturities of less than 3 months	4,503,937	3,248,279
	$ 14,142,389	$ 14,958,331

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

	December 31	
	2017	**2016**
Beneficiary certificates - open-end funds	$ 1,150,400	$ 1,147,144
Domestic quoted shares	67,095	80,585
Convertible bonds	53,722	-
	$ 1,271,217	$ 1,227,729

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

	December 31	
	2017	2016
Certificates of deposit	$ 80,534	$ 57,439
Time deposits with original maturities of more than 3 months	-	1,290
	$ 80,534	$ 58,729

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

Refer to Note 31 for information relating to debt investments with no active market pledged as security.

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2017	2016
Notes receivable		
Operating	$ 4	$ -
Accounts receivable - trade		
Operating		
Third parties	$ 5,598,693	$ 4,604,089
Related parties	318,151	358,250
	5,916,844	4,962,339
Less: Allowance for doubtful accounts	185,393	161,680
	$ 5,731,451	$ 4,800,659
Other receivables		
Income tax refund receivable	$ 116,866	$ 164,028
Factored accounts receivable	147,526	201,744
Others	24,207	23,585
	$ 288,599	$ 389,357

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:

	December 31	
	2017	2016
Not past due	$ 5,457,310	$ 4,405,250
1-60 days	406,230	515,772
61-90 days	429	319
91-120 days	38,566	40,293
More than 120 days	14,309	705
	$ 5,916,844	$ 4,962,339

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	11,910	111,642	123,552
Less: Amounts written off during the year as uncollectable	(95,432)	-	(95,432)
Foreign exchange translation losses	-	(138)	(138)
Balance at December 31, 2016	-	161,680	161,680
Add: Impairment losses recognized on receivables	-	22,958	22,958
Foreign exchange translation losses	-	755	755
Balance at December 31, 2017	$ -	$ 185,393	$ 185,393

The Group recognized an impairment loss on trade receivables amounting to $0 thousand as of both December 31, 2017 and 2016. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The Group had no collaterals for these receivables.

The factored accounts receivable were as follows:

(In Thousands)

Factor	Factor Amount	Collected Amount	Prepayments	Discount Rate (%)	Factor Limit
For the year ended December 31, 2017					
HSBC Bank	US$ 41,383	US$ 35,711	$ -	-	US$ 12,800
For the year ended December 31, 2016					
HSBC Bank	US$ 93,776	US$ 85,525	-	-	US$ 16,500

Note: Recorded under other receivables

The limit above was used on a revolving basis.

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

10. INVENTORIES

	December 31	
	2017	2016
Raw materials	$ 3,941,530	$ 3,299,881
Work-in-process	1,295,526	925,394
Semifinished products	1,883,751	909,398
Finished goods	71,539	87,663
	$ 7,192,346	$ 5,222,336

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was $30,365,137 thousand and $34,518,774 thousand, respectively.

The cost of goods sold for the years ended December 31, 2017 and 2016 included inventory write-downs of $19,361 thousand and $8,649 thousand, respectively.

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

	December 31	
	2017	2016
Private equity		
Domestic listed, common shares	$ 434,763	$ 372,051

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

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

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	December 31	
	2017	2016
Domestic unlisted common shares	$ 362,838	$ 435,218
Overseas unlisted common shares	394,789	277,672
Domestic private equity funds	60,000	-
	$ 817,627	$ 712,890
Classified according to financial asset measurement categories		
Available-for-sale	$ 817,627	$ 712,890

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

The Group disposed of certain financial assets measured at cost with carrying amounts of $6,770 thousand during 2017, recognizing a disposal gain of $7,545 thousand.

The Group recognized impairment losses of $169,512 thousand in 2017 and $112,475 thousand in 2016 on domestic and overseas unlisted common shares.

13. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The consolidated financial statement prepared in the main as follows:

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

* On June 20, 2017, the Corporation acquired the remaining shares of Phisontech Electronics (Malaysia) Sdn. Bhd. which increased its shareholdings 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 were entirely written off.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

Investments in Associates	December 31 2017	December 31 2016
Unlisted shares		
Material associates		
Kingston Solutions Inc.	$ 1,623,790	$ 1,149,415
Associates that are not individually material		
Epostar Electronics (BVI) Corporation (Note 25)	47,741	79,732
Microtops Design Corporation (“Microtops”)	21,563	24,211
PMS Technology Corporation	16,617	2,199
Flexmedia Electronics Corporation	-	1,063
	$ 1,709,711	$ 1,256,620

a. Material associate

Name of Associate	Proportion of Ownership and Voting Rights December 31 2017	Proportion of Ownership and Voting Rights December 31 2016
Kingston Solutions Inc.	32.91%	32.91%

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

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

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

Kingston Solutions Inc.

	December 31 2017	December 31 2016
Current assets	$ 6,703,051	$ 7,227,726
Non-current assets	149,930	167,420
Current liabilities	(1,250,947)	(3,589,797)
Non-current liabilities	(668,003)	(312,749)
Equity	$ 4,934,031	$ 3,492,600
Equity attributable to the Corporation	$ 1,623,790	$ 1,149,415

	For the Year Ended December 31	
	2017	2016
Operating revenue	$ 20,205,762	$ 17,458,278
Net profit for the year	$ 1,441,523	$ 1,492,011
Other comprehensive loss	(92)	(400)
Total comprehensive income for the year	$ 1,441,431	$ 1,491,611

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2017	2016
The Group's share of:		
Net loss for the year	$ (32,037)	$ (31,580)
Other comprehensive income	14	-
Total comprehensive loss for the year	$ (32,023)	$ (31,580)

The fiscal year end date for Microtops is March 31. For the purpose of applying the equity method of accounting, the consolidated financial statements of Microtops as of March 31, 2017 and 2016 have been used as the Corporation considers that it is impracticable for Microtops to prepare a separate set of financial statements as of December 31. Appropriate adjustments have been made accordingly for the effects of significant transactions between those dates and December 31, 2017 and 2016.

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

	For the Year Ended December 31	
	2017	2016
Unrecognized share of losses of associates for the year	$ (1,280)	$ (15)
Accumulated unrecognized share of losses of associates	$ (1,295)	$ (15)

Except for Manutius IP Inc., Asadhya Enterprises Private Limited and Flexmedia Electronics Corporation, investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. Management believes there is no material impact on the equity method accounting or the calculation of the share of profit or loss and other comprehensive income from the financial statements of the aforementioned associates which have not been audited.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
Cost								
Balance at January 1, 2016	$ 547,014	$ 28,685	$ 1,060,552	$ 268,973	$ 47,706	$ 17,427	$ -	$ 1,970,357
Additions	266,724	90	78,930	127,878	13,559	34,846	390,000	912,027
Disposals	-	-	-	(61,838)	(20,964)	(2,679)	-	(85,481)
Gains on deconsolidation of subsidiaries	-	-	-	(2,331)	-	(1,783)	-	(4,114)
Effects of foreign currency exchange difference	-	-	-	(408)	(419)	(1,327)	-	(2,154)
Reclassification	-	-	2,859	2,198	905	-	-	5,962
Balance at December 31, 2016	$ 813,738	$ 28,775	$ 1,142,341	$ 334,472	$ 40,787	$ 46,484	$ 390,000	$ 2,796,597
Accumulated depreciation								
Balance at January 1, 2016	$ -	$ 13,570	$ 156,534	$ 122,348	$ 30,204	$ 10,306	$ -	$ 332,962
Disposals	-	-	-	(61,838)	(20,964)	(2,679)	-	(85,481)
Depreciation	-	3,672	30,726	73,988	9,932	5,371	-	123,689
Gains on deconsolidation of subsidiaries	-	-	-	(507)	-	(186)	-	(693)
Effects of foreign currency exchange difference	-	-	-	(146)	(113)	(91)	-	(350)
Reclassification	-	-	-	-	19	-	-	19
Balance at December 31, 2016	$ -	$ 17,242	$ 187,260	$ 133,845	$ 19,078	$ 12,721	$ -	$ 370,146
Balance at December 31, 2016, net	$ 813,738	$ 11,533	$ 955,081	$ 200,627	$ 21,709	$ 33,763	$ 390,000	$ 2,426,451
Cost								
Balance at January 1, 2017	$ 813,738	$ 28,775	$ 1,142,341	$ 334,472	$ 40,787	$ 46,484	$ 390,000	$ 2,796,597
Additions	-	-	82,635	103,215	15,027	14,535	351,000	566,412
Disposals	-	-	-	(47,548)	(8,708)	(6,080)	-	(62,336)
Effects of foreign currency exchange difference	-	-	-	428	(49)	(558)	-	(179)
Reclassification	-	-	741,000	24,140	(372)	(24,059)	(741,000)	(291)
Balance at December 31, 2017	$ 813,738	$ 28,775	$ 1,965,976	$ 414,707	$ 46,685	$ 30,322	$ -	$ 3,300,203
Accumulated depreciation								
Balance at January 1, 2017	$ -	$ 17,242	$ 187,260	$ 133,845	$ 19,078	$ 12,721	$ -	$ 370,146
Disposals	-	-	-	(47,548)	(8,708)	(6,080)	-	(62,336)
Depreciation	-	3,684	45,814	102,040	13,173	4,653	-	169,364
Effects of foreign currency exchange difference	-	-	-	155	-	(7)	-	148
Balance at December 31, 2017	$ -	$ 20,926	$ 233,074	$ 188,492	$ 23,543	$ 11,287	$ -	$ 477,322
Balance at December 31, 2017, net	$ 813,738	$ 7,849	$ 1,732,902	$ 226,215	$ 23,142	$ 19,035	$ -	$ 2,822,881

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

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

16. INTANGIBLE ASSETS

	Computer Software	Technology License Fees	Patents	Total
Balance at January 1, 2016	$ 69,751	$ 105,232	$ 23,640	$ 198,623
Additions	143,845	33,563	-	177,408
Amortization	(74,763)	(47,911)	-	(122,584)
Impairment losses recognized	-	-	(23,640)	(23,640)
Gains on deconsolidation of subsidiaries	(5,526)	-	-	(5,526)

(Continued)

	Computer Software	Technology License Fees	Patents	Total
Reclassification	$ (1,757)	$ -	$ -	$ (1,757)
Effects of foreign currency exchange differences	(227)	-	-	(227)
Balance at December 31, 2016	$ 131,413	$ 90,884	$ -	$ 222,297
Balance at January 1, 2017	$ 131,413	$ 90,884	$ -	$ 222,297
Additions	127,129	34,827	-	161,956
Amortization	(104,999)	(61,092)	-	(166,091)
Effects of foreign currency exchange differences	(32)	-	-	(32)
Balance at December 31, 2017	$ 153,511	$ 64,619	$ -	$ 218,130

(Concluded)

The Group's patents with indefinite useful lives were tested for impairment at least annually and whenever there is an indication that it may be impaired.

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

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

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

17. SHORT-TERM BORROWINGS

Short-term Borrowings

	December 31	
	2017	2016
Unsecured borrowings		
Bank loans	$ -	$ 580,500
Interest rate (%)	-	0.94-1.33
Due date	-	2017.3.1

18. OTHER PAYABLES

	December 31	
	2017	2016
Other payables		
Salaries and bonuses payable	$ 2,598,177	$ 2,052,764
Others	1,138,600	1,099,760
	$ 3,736,777	$ 3,152,524

19. PROVISIONS - CURRENT

	December 31	
	2017	2016
Sales returns and allowances	$ 292,081	$ 344,076

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 344,076	$ 149,852
Additional provisions recognized	238,449	408,268
Usage	(290,444)	(214,044)
Balance at December 31	$ 292,081	$ 344,076

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

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

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

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

	December 31	
	2017	2016
Present value of defined benefit obligation	$ 116,566	$ 102,213
Fair value of plan assets	(31,669)	(29,488)
Net defined benefit liability	$ 84,897	$ 72,725

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2016	$ 94,249	$ (27,348)	$ 66,901
Service costs			
Current service costs	4,103	-	4,103
Net interest expense (income)	1,602	(465)	1,137
Recognized in profit or loss	5,705	(465)	5,240
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	216	216
Actuarial loss - changes in financial assumptions	(2,038)	-	(2,038)
Actuarial loss - experience adjustments	4,297	-	4,297
Recognized in other comprehensive income	2,259	216	2,475
Contributions from the employer	-	(1,891)	(1,891)
Balance at December 31, 2016	$ 102,213	$ (29,488)	$ 72,725
Balance at January 1, 2017	$ 102,213	$ (29,488)	$ 72,725
Service costs			
Current service costs	4,456	-	4,456
Net interest expense (income)	1,840	(531)	1,309
Recognized in profit or loss	6,296	(531)	5,765
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	231	231
Actuarial loss - changes in financial assumptions	8,786	-	8,786
Actuarial loss - experience adjustments	(729)	-	(729)
Recognized in other comprehensive income	8,057	231	8,288
Contributions from the employer	-	(1,881)	(1,881)
Balance at December 31, 2017	$ 116,566	$ (31,669)	$ 84,897

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

	For the Year Ended December 31	
	2017	**2016**
Operating costs	$ 723	$ 711
Marketing expenses	685	694
Administrative expenses	1,561	1,396
Research and development expenses	2,796	2,439
	$ 5,765	$ 5,240

Recognized in other comprehensive income was an actuarial loss of $6,880 thousand in 2017 and an actuarial loss of $2,054 thousand in 2016. The cumulative amount of actuarial loss recognized in other comprehensive income as of December 31, 2017 and 2016 was $39,597 thousand and $32,717 thousand, respectively.

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

1) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	December 31	
	2017	**2016**
Discount rate	1.40%	1.80%
Expected rate of salary increase	4.00%	4.00%

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

	December 31	
	2017	**2016**
Discount rate		
0.25% increase	$ (5,582)	$ (4,902)
0.25% decrease	$ 5,902	$ 5,182
Expected rate of salary increase		
0.25% increase	$ 5,443	$ 4,800
0.25% decrease	$ (5,191)	$ (4,577)

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

	December 31	
	2017	**2016**
The expected contributions to the plan for the next year	$ 1,888	$ 1,853
The average duration of the defined benefit obligation	20 years	21 years

21. EQUITY

a. Share capital

Common shares

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

On November 10, 2016, 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. 1050049740 and will take effect starting from December 6, 2016. 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 2016, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities. The employee share options were not issued because a very high cost of issuance would be incurred. The employee share options cannot be issued after December 5, 2017.

On November 13, 2017, an employee share option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in the FSC's issued document No. 1060047052 and will take effect starting from December 5, 2017. 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 2017, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities.

Fully paid common shares, which have a par value of NT$10, carry one vote per share and carry a right to dividends.

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

b. Capital surplus

	December 31	
	2017	**2016**
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*		
Issuance of ordinary shares	$ 6,237,434	$ 6,237,434
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	151,444
May only be used to offset a deficit		
Expired share options	227	227
May not be used for any purpose		
Share of changes in capital surplus of associates or joint ventures	274,083	263,344
	$ 6,660,502	$ 6,652,449

* 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 the annual 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 of 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 approved in the shareholders' meetings on June 13, 2017 and June 15, 2016, respectively, were as follows:

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

The appropriation of earnings for 2017 had been proposed by the Corporation's board of directors on March 16, 2018. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 576,097	
Reversal from special reserve	(25,965)	
Cash dividends	3,350,258	$17

The appropriation of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held on June 8, 2018.

d. Other equity items

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

	For the Year Ended December 31	
	2017	**2016**
Balance at January 1	$ (66,816)	$ (26,608)
Exchange differences arising on translating the financial statements of foreign operations	(392)	(48,443)
Related income tax	61	8,235
Balance at December 31	$ (67,147)	$ (66,816)

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

	For the Year Ended December 31	
	2017	**2016**
Balance at January 1	$ 40,851	$ (84,750)
Unrealized gain arising on revaluation of available-for-sale financial assets	62,712	125,601
Balance at December 31	$ 103,563	$ 40,851

e. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 5,400	$ 221,533
Acquisition of non-controlling interest in subsidiaries of Phisontech Electronics (Malaysia) Sdn. Bhd. (Note 26)	(7,626)	-
Non-controlling interest reduction from 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 profit (loss) for the year	318	(65,149)
Exchange difference arising on translation of foreign entities	1,908	(476)
Balance at December 31	$ -	$ 5,400

f. Treasury shares

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

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

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as the rights to receive dividends and to vote. Under Article 28-2, paragraphs 4 of the Securities and Exchange Act, companies that buy back shares in order to maintain company credit and shareholders' equity, and reduce the shares subsequently must apply for an amendment of registration of share capital within six months after the buy-back. The Corporation completed the procedures for the change of capital registration on December 5, 2016.

22. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2017	**2016**
Current tax		
In respect of the current year	$ 976,422	$ 722,500
Income tax on unappropriated earnings	170,486	118,722
Adjustments for prior periods	(100,245)	(100,417)
	1,046,663	740,805
Deferred tax		
In respect of the current period	(90,083)	(65,722)
Income tax expense recognized in profit or loss	$ 956,580	$ 675,083

A reconciliation of accounting profit and income tax expense for 2017 and 2016 is as follows:

	For the Year Ended December 31	
	2017	**2016**
Profit before tax from continuing operations	$ 6,717,870	$ 5,476,926
Income tax expense calculated at the statutory rate	$ 1,142,671	$ 927,843
Nondeductible expenses in determining taxable income	93	-
Unrecognized deductible temporary differences	(4,837)	8,358
Tax-exempt income	(255,057)	(284,765)
Income tax on unappropriated earnings	170,486	118,722
Unrecognized loss carryforwards	-	1,509
Effect of different tax rate of group entitles operating in other jurisdictions	3,469	3,833
Adjustments for prior years' tax	(100,245)	(100,417)
Income tax expense recognized in profit or loss	$ 956,580	$ 675,083

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

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 are expected to be adjusted and would increase by $54,710 thousand in 2018.

The appropriation of the 2018 earnings is uncertain and is subject to approval at the shareholders' meeting; thus, the potential consequences of income tax on the 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred income tax		
Recognized in other comprehensive income		
Actuarial gains and losses on defined benefit plan	$ 1,408	$ 421
Translation of foreign operations	61	8,235
Total income tax recognized in other comprehensive income	$ 1,469	$ 8,656

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax assets		
Tax refund receivable	$ 9,237	$ 1,866
Current tax liabilities		
Income tax payable	$ 1,092,802	$ 732,348

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Doubtful accounts	$ 19,107	$ 2,507	$ -	$ (6)	$ 21,608
Inventory write-downs	49,277	3,284	-	6	52,567
Unearned revenue	-	4,865	-	63	4,928
Provisions	58,493	(8,839)	-	-	49,654
Defined benefit obligation	12,363	662	1,408	-	14,433
Unrealized exchange losses	17,767	59,577	-	131	77,475
Impairment loss on financial assets	23,899	20,576	-	-	44,475
Exchange differences on translating foreign operations	13,685	-	61	-	13,746
Share of losses of subsidiaries and associates	22,107	7,117	-	-	29,224
Property, plant and equipment	1,963	(48)	-	-	1,915
	$ 218,661	$ 89,701	$ 1,469	$ 194	$ 310,025
Deferred tax liabilities					
Unrealized exchange gains	$ 315	$ (382)	$ -	$ 67	$ -

For the year ended December 31, 2016

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

e. Integrated income tax information

	December 31 2017	December 31 2016
Unappropriated retained earnings		
Generated on and after January 1, 1998	$ 14,521,886 Note	$ 11,928,136
Balance of imputed credits account	$ 1,555,590 Note	$ 1,341,629

	December 31 2017 (Expected)	December 31 2016 (Actual)
Creditable ratios for distribution of earnings	Note	14.78%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

f. Income tax assessments

Associate	For the Year Ended
Phison Electronics Corp.	2015
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 for 2017 and 2016:

a. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Impairment loss recognized on financial assets	$ (169,512)	$ (112,475)
Net foreign exchange (losses) gains, net	(404,573)	106,951
Gains on deconsolidation of subsidiaries	-	45,649
Impairment loss recognized on intangible assets	-	(23,640)
(Losses) gains arising on financial assets classified as held for trading	(4,585)	3,972
Net gain on disposal of financial assets measured at cost	7,545	-
Others	(761)	(4,299)
	$ (571,886)	$ 16,158

b. Other income

	For the Year Ended December 31	
	2017	2016
Interest income		
Bank deposits	$ 42,511	$ 35,189
Rental income	2,530	2,444
Dividend income	29,947	40,825
Others	45,689	82,406
	$ 120,677	$ 160,864

c. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 169,364	$ 123,689
Intangible assets	166,091	122,584
	$ 335,455	$ 246,273
An analysis of depreciation by function		
Operating costs	$ 37,340	$ 23,669
Operating expenses	132,024	100,020
	$ 169,364	$ 123,689
An analysis of amortization by function		
General and administrative expenses	$ 8,369	$ 7,206
Research and development expenses	157,722	115,378
	$ 166,091	$ 122,584

d. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	$ 3,539,975	$ 3,072,506
Post-employment benefits		
Defined contribution plan	69,244	62,220
Defined benefit plan	5,765	5,240
	75,009	67,460
Other employee benefits		
Employee welfare	54,933	58,221
Food stipend	36,766	33,662
	91,699	91,883
	$ 3,706,683	$ 3,231,849
Employee benefits		
Recognized in operating costs	$ 197,568	$ 180,878
Recognized in operating expenses	3,509,115	3,050,971
	$ 3,706,683	$ 3,231,849

e. Employees' compensation and remuneration of directors and supervisors for 2017 and 2016

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates from 8%-19% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2017 and 2016, which have been approved by the Corporation's board of directors on March 16, 2018 and March 20, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	2016
Employees' compensation	9.00%	8.96%
Remuneration of directors and supervisors	0.81%	0.90%

Amount

	For the Year Ended December 31, 2017		For the Year Ended December 31, 2016	
	Cash Dividends	Share Dividends	Cash Dividends	Share Dividends
Employees' compensation	$ 670,000	$ -	$ 550,000	$ -
Remuneration of directors and supervisors	60,000	-	55,000	-

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the 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 2018 and 2017 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

f. Gains or losses on foreign currency exchange

	For the Year Ended December 31	
	2017	**2016**
Foreign exchange gains	$ 404,688	$ 726,804
Foreign exchange losses	(809,261)	(619,853)
Net (loss) gain	$ (404,573)	$ 106,951

24. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2017	**2016**
Basic earnings per share	$ 29.23	$ 24.67
Diluted earnings per share	$ 28.83	$ 24.35

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

Net Profit for the Year

	For the Year Ended December 31	
	2017	**2016**
Earnings used in the computation of basic earnings per share		
Profit for the period attributable to owners of the Corporation	$ 5,760,972	$ 4,866,992
Earnings used in the computation of diluted earnings per share		
Profit for the period attributable to owners of the Corporation	$ 5,760,972	$ 4,866,992

Shares

(In Thousands of Shares)

	For the Year Ended December 31	
	2017	**2016**
Weighted-average number of common shares in computation of basic earnings per share	197,074	197,256
Effect of potential dilutive common shares:		
Employees' compensation	2,766	2,595
Weighted-average number of common shares used in the computation of dilutive earnings per share	199,840	199,851

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

25. DISPOSAL OF SUBSIDIARIES

On August 25, 2016, the Corporation paid $31,771 thousand to subscribe for the newly issued common shares for cash of Epostar Electronics (BVI) Corporation at a percentage different from its prior ownership percentage. As a result, the Corporation's ownership percentage decreased from 60% to 44%. The Corporation's less than 50% voting rights had no power to govern the financial and operating policies of Epostar Electronics (BVI) Corporation. Therefore the Corporation has lost control over Epostar Electronics (BVI) Corporation on August 25, 2016.

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

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

b. Gain on disposal of subsidiary

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

c. Net cash outflow on disposal of subsidiary

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

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 by the Chairman and should be considered as the related parties of the Corporation. In addition, according to Rule No. 1050036477 issued by the FSC, the Corporation treated the aforementioned companies as controlled entities and included these entities in the consolidated financial statements.

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

	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	(661)	-
Differences recognized from equity transactions	$ (2,686)	$ 147,375
Line items adjusted for equity transactions		
Capital surplus - changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	$ (2,686)	$ 147,375

27. CAPITAL MANAGEMENT

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

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

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

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

28. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

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

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

   1) Fair value hierarchy

      December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic quoted shares	$ 67,095	$ -	$ -	$ 67,095
Beneficiary certificates - open-end funds	1,150,400	-	-	1,150,400
Convertible bonds	-	-	53,722	53,722
	$ 1,217,495	$ -	$ 53,722	$ 1,271,217
Available-for-sale financial assets				
Unlisted debt securities - ROC	$ -	$ -	$ 434,763	$ 434,763

      December 31, 2016

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

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

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

For the year ended December 31, 2017

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

For the year ended December 31, 2016

	Financial Assets at Fair Value Through Profit or Loss - Convertible Bonds	Available-for-sale Financial Assets - Equity Instruments	Total
Financial assets			
Balance at January 1, 2016	$ -	$ 295,950	$ 295,950
Return of capital	-	(49,500)	(49,500)
Recognized in profit or loss			
Other gains and losses	-	-	-
Recognized in other comprehensive income			
Unrealized gain arising on revaluation of available-for-sale financial assets	-	125,601	125,601
Balance at December 31, 2017	$ -	$ 372,051	$ 372,051

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

a) The fair values of convertible bonds are determined using Binary Tree Evaluation Model and option pricing models where the significant unobservable inputs are historical volatility. As of December 31, 2017, the historical volatility used was 46.75%.

b) The fair values of unlisted debt securities - ROC

December 31, 2017

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

December 31, 2016

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

Categories of Financial Instruments

	December 31	
	2017	**2016**
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading	$ 1,271,217	$ 1,227,729
Loans and receivables (Note 1)	20,242,977	20,207,076
Available-for-sale financial assets (Note 2)	1,252,390	1,084,941
Financial liabilities		
Financial liabilities at amortized cost (Note 3)	3,647,245	4,437,451

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

Note 2: The balances include the carrying amounts of available-for-sale financial assets measured at cost

Note 3: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, notes payable and trade payable

Financial Risk Management Objectives and Policies

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

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 set out in Note 33.

<u>Sensitivity analysis</u>

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

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

	Impact of USD	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss	$ 377,822	$ 383,610

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:

	December 31			
		2017		2016
Fair value interest rate risk				
Financial assets	$	4,584,471	$	3,307,008
Cash flow interest rate risk				
Financial assets		9,638,332		11,709,953
Financial liabilities		-		580,500

Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2017 and 2016 would increase by $964 thousand and $1,113 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 exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by $12,712 thousand and $12,277 thousand, respectively. The pre-tax other comprehensive income for the years ended December 31, 2017 and 2016 would increase/decrease by $4,348 thousand and $3,721 thousand, respectively, as a result of the changes in fair value of held-for-sale investments.

b. Credit risk

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

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

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

c. Liquidity risk

The Group manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Group relies on bank borrowings as a significant source of liquidity. As of December 31, 2017 and 2016, the Group had available unutilized short-term bank loan facilities of $6,820,500 thousand and $2,907,500 thousand, respectively.

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

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.

	December 31, 2017				
	On Demand or Less Than 1 Month	**1-3 Months**	**3 Months to 1 Year**	**1-5 Years**	**More than 5 Years**
Non-derivative financial liabilities					
Non-interest bearing	$ 2,641,026	$ 2,875,361	$ 2,960,437	$ -	$ -

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

Information on Transfers of Financial Assets

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

29. TRANSACTIONS WITH RELATED-PARTIES

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

a. Related-party and its relationship

Related Party	Relationship
Toshiba International Procurement Hong Kong, Ltd.	Other related parties
Toshiba Memory America, Inc.	Other related parties
Toshiba Singapore Pte. Ltd.	Other related parties
Toshiba Corporation, Japan	Other related parties
Toshiba Client Solutions ANZ Pty Limited	Other related parties

(Continued)

Related Party	Relationship
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 Memory Taiwan Corporation	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

(Concluded)

b. Operating revenue

	For the Year Ended December 31	
	2017	2016
Related-party categories		
Associates	$ 22,380	$ 33,281
Other related parties (Note 1)	1,855,850	2,070,971
	$ 1,878,230	$ 2,104,252

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

c. Operating costs

1) Purchase of goods

	For the Year Ended December 31	
	2017	2016
Related-party categories		
Associates	$ 293,119	$ 318,003
Other related parties		
Toshiba Memory Taiwan Corporation	3,210,897	-
Toshiba Electronic Components Taiwan Corporation	12,335,671	18,830,260
Others (Note 1)	3,735,307	2,681,533
	$ 19,574,994	$ 21,829,796

2) Processing costs

	For the Year Ended December 31	
	2017	**2016**
Related-party categories		
Associates	$ 1,330	$ 13
Other related parties (Note 2)	1,387,601	3,039,291
	$ 1,388,931	$ 3,039,304

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

d. Receivables from related parties

	December 31	
	2017	**2016**
Related-party categories		
Associates	$ 465	$ 1,039
Other related parties (Note 1)	317,686	357,211
	$ 318,151	$ 358,250

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

e. Payables to related parties

	December 31	
	2017	**2016**
Related-party categories		
Associates	$ 24,959	$ 79,059
Other related parties		
Toshiba Electronic Components Taiwan Corporation	17	1,697,597
Toshiba Memory Taiwan Corporation	2,105,363	-
Others (Note 1)	430,199	342,735
	$ 2,560,538	$ 2,119,391

The outstanding trade payables from related parties are unsecured.

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

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

f. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	$ 287,412	$ 262,337
Post-employment benefits	1,492	1,436
Other employee benefits	4,873	6,409
	$ 293,777	$ 270,182

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.

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

	December 31	
	2017	2016
Not later than 1 year	$ 17,644	$ 11,457
Later than 1 year and not later than 5 years	34,538	892
	$ 52,182	$ 12,349

b. The Group as lessor

Operating leases relate to the property are owned by the Group, and such leases will expire on December 31, 2018.

For the years ended December 31, 2017 and 2016, the Group recognized a guarantee on trade receivables of $206 thousand and $256 thousand, respectively.

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

	December 31	
	2017	2016
Not later than 1 year	$ 2,087	$ 2,488

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2017	2016
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	$ 80,534	$ 57,439

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

Significant Commitments

	December 31	
	2017	**2016**
Unused letters of credit	$ 2,046,500	$ 2,020,000

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

In Thousands of New Taiwan Dollars and Foreign Currencies

	December 31, 2017		
	Foreign Currencies	**Exchange Rates**	**New Taiwan Dollars**
Financial assets			
Monetary			
USD	$ 308,126	29.7600	$ 9,169,830
CNY	59,203	4.5650	270,260
Financial liabilities			
Monetary			
USD	96,532	29.7600	2,872,798

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

For the years ended December 31, 2017 and 2016, (realized and unrealized) net foreign exchange gains were $404,573thousand and $106,951 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

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 the dropping of the claim for further prosecution. The Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Court Prosecutorial Office against the chairman of the Corporation, Mr. Khein Seng Pua, and others, the case is under re-investigation, and the financial position and operation of the Corporation is not affected in respect of this matter.

35. ADDITIONAL DISCLOSURES

a. Information about significant transactions and b. investees:

1) Financing provided to others. (None)

2) Endorsement/guarantee provided. (None)

3) Marketable securities held (excluding investments in subsidiaries, associates and joint ventures). (Table 1)

4) Marketable securities acquired and disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital. (None)

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (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)

c. Information on investments in mainland China:

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 7)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses. (Table 8)

a) The amount and percentage of purchases and the balance and percentage of the related payables at the end of the period.

b) The amount and percentage of sales and the balance and percentage of the related receivables at the end of the period.

c) The amount of property transactions and the amount of the resultant gains or losses.

d) The balance of negotiable instrument endorsements, guarantees or pledges of collateral at the end of the period and their purposes.

e) The highest balance, the end of period balance, the interest rate range, and total current period interest with respect to financing of funds.

f) Other transactions that have a material effect on the profit or loss for the period or on the financial position, such as the rendering or receipt of services.

36. SEGMENT INFORMATION

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

a. Segment revenue and results

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

	Segment Revenue For the Year Ended December 31		**Segment Profits (Loss) For the Year Ended December 31**	
	2017	**2016**	**2017**	**2016**
Department that designs and sells flash memory controllers	$ 41,864,759	$ 43,782,512	$ 6,732,575	$ 4,842,901
Investment department	-	-	(883)	(253)
Total operating segments	$ 41,864,759	$ 43,782,512	6,731,692	4,842,648
Other gains and losses			(571,886)	16,158
Share of gains of associates			442,368	459,309
Other income			120,677	160,864
Finance costs			(4,981)	(2,053)
Profit before tax			$ 6,717,870	$ 5,476,926

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

c. Revenue from major products and services

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

	For the Year Ended December 31	
	2017	**2016**
Sales of Nand flash controller and application products etc.	$ 41,690,713	$ 43,682,283
Services income	174,046	100,229
	$ 41,864,759	$ 43,782,512

d. Geographical information

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

	Revenue from External Customers		Non-Current Assets	
	For the Year Ended December 31		For the Year Ended December 31	
	2017	**2016**	**2017**	**2016**
Asia	$ 23,853,418	$ 22,372,435	$ 3,044,791	$ 2,660,073
America	13,514,981	15,741,311	-	-
Europe	4,126,140	5,348,709	-	-
Australia	368,827	318,926	-	-
Other	1,393	1,131	-	-
	$ 41,864,759	$ 43,782,512	$ 3,044,791	$ 2,660,073

Revenue was categorized depending on clients' locations.

e. Information about major customers

Included in revenue arising from selling of Nand flash, controller and application products of $41,690,713 thousand and $43,682,283 thousand in 2017 and 2016, respectively, is revenue of approximately $9,217,685 thousand and $7,658,918 thousand which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenue for both 2017 and 2016.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	Beneficiary certificates							
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,307	$ 103,558	-	$ 103,558	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,139	93,349	-	93,349	Note 3
	UPAMC James Bond Money Market Fund	-	Financial assets at fair value through profit or loss - current	12,254	203,599	-	203,599	Note 3
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,995	91,837	-	91,837	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	14,847	152,526	-	152,526	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,130	50,738	-	50,738	Note 3
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	13,767	202,746	-	202,746	Note 3
	Taishin Ta-Chong Market Fund	-	Financial assets at fair value through profit or loss - current	3,594	50,757	-	50,757	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,119	101,129	-	101,129	Note 3
	Convertible bonds							
	Ubitus Inc.		Financial assets at fair value through profit or loss - current	-	53,722	-	53,722	Note 11
	Common shares							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at fair value through profit or loss - current	7,100	67,095	0.88	67,095	Note 4
	Aptos Technology Inc.	-	Financial assets measured at cost - non-current	1,059	-	1.86	10,736	Note 10
	Viva Baseball Co., Ltd.	-	Financial assets measured at cost - non-current	Note 7	-	8.33	259	Note 5
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets measured at cost - non-current	1,000	8,720	0.50	8,720	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets measured at cost - non-current	3,000	24,471	18.75	25,770	Note 5
	Zillians Inc.	-	Financial assets measured at cost - non-current	440	-	17.25	-	Note 9
	Adam Elements International Co., Ltd.	-	Financial assets measured at cost - non-current	1,710	13,373	19.00	15,639	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets measured at cost - non-current	900	17,293	0.67	17,293	Note 5
	THLight Co., Ltd.	-	Financial assets measured at cost - non-current	6,388	-	17.94	1,153	Note 5
	UD INFO Corp.	-	Financial assets measured at cost - non-current	570	5,569	18.51	9,248	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets measured at cost - non-current	15,000	138,812	11.11	138,812	Note 5
	GeoThings, Inc.	-	Financial assets measured at cost - non-current	150	-	6.70	850	Note 5
	Ironyun Incorporated (preference shares)	-	Financial assets measured at cost - non-current	5,000	-	5.92	1,594	Note 5
	Vescir Ltd.	-	Financial assets measured at cost - non-current	63	-	4.57	266	Note 5
	Innorich Venture Capital Corp.	-	Financial assets measured at cost - non-current	3,000	27,945	5.61	27,945	Note 5
	Dawning Leading Technology Inc.	-	Financial assets measured at cost - non-current	10,335	53,670	2.82	54,277	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets measured at cost - non-current	11,966	58,253	17.16	79,319	Note 5
	Gomore Inc.	-	Financial assets measured at cost - non-current	16,075	6,770	13.00	4,388	Note 5

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
	Patriot Memory Asia Headquarter	-	Financial assets measured at cost - non-current	580	$ 7,540	4.33	$ 7,532	Note 5
	Taishan Buffalo Investment Co., Ltd.	-	Financial assets measured at cost - non-current	25,000	25,000	1.08	25,055	Note 5
	Apacer Technology Inc.	-	Available-for-sale financial assets - non-current	10,050	434,763	9.96	434,763	Note 6
	Private equity fund							
	Fuh Hwa Smart Energy Fund		Financial assets measured at cost - non-current	6,000	60,000	3.81	58,078	Note 3
Lian Xu Dong Investment Corporation	Beneficiary certificates							
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,986	30,203	-	30,203	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,424	30,194	-	30,194	Note 3
	Common shares							
	United Power Research Technology Corp.	-	Financial assets measured at cost - non-current	5,616	45,702	16.12	63,027	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,250	-	2.23	4,154	Note 5
	Translink Capital Partners III, L.P.	-	Financial assets measured at cost - non-current	1,245	38,441	1.18	38,376	Note 5
	Translink Capital Partners IV L.P	-	Financial assets measured at cost - non-current	100	3,034	0.92	2,660	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets measured at cost - non-current	2,111	230,118	10.92	19,697	Note 5
	Weltronics Corp., Ltd.	-	Financial assets measured at cost - non-current	700	-	19.44	(1,279)	Note 5
	UMBO CV Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,626	16,860	3.58	4,720	Note 5
	Omni Media International Incorporation		Financial assets measured at cost - non-current	1,714	20,756	13.84	20,756	Note 5
	RENIAC, INC. (preference shares)	-	Financial assets measured at cost - non-current	302	15,300	3.46	14	Note 5
Emtops Electronics Corporation	Beneficiary certificates							
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	815	10,148	-	10,148	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	988	10,155	-	10,155	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	Beneficiary certificates							
	United Cash Fund	-	Financial assets at fair value through profit or loss - current	2,731	19,461	-	19,461	Note 3
Everspeed Technology Limited	Common shares							
	Zillians Inc.	-	Financial assets measured at cost - non-current	500	-	19.61	-	Note 9
Cloud Solution Global Limited	Common shares							
	My Digital Discount, Inc.	-	Financial assets measured at cost - non-current	-	-	19.00	4,066	Note 5

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

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

Note 3: The calculation of the market value was based on the net asset value as of December 31, 2017.

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

(Continued)

Note 5: The calculation of the net asset value was based on the investee's unaudited financial statements as of December 31, 2017.

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

Note 7: The Company is not limited by shares.

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

Note 9: The Company liquidation was approved by the board of directors on December 31, 2016.

Note 10: The calculation of the net asset value was based on the investee's reviewed financial statements as of June 30, 2017.

Note 11: The calculation of the market value was based on an expert assessment report as of December 29, 2017.

(Concluded)

TABLE 2

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

TABLE 3

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 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-subsidiary of parent company of the Corporation’s legal entity board of directors	Purchase	$ 12,335,671	43	Net 30 days after monthly closing	None	None	$ (17)	-	-
	Toshiba America Electronic Components, Inc.	Subsidiary of parent company of the Corporation’s legal entity board of directors	Purchase	2,795,015	10	Net 30 days after receipt date	None	None	-	-	-
	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	293,119	1	Net 30 days after monthly closing	None	None	(24,959)	(1)	-
	Toshiba Memory America, Inc.	Subsidiary of parent company of the Corporation’s legal entity board of directors	Purchase	921,246	3	Net 30 days after receipt date	None	None	(324,096)	(9)	-
	Toshiba Memory Taiwan Corporation	Sub-subsidiary of parent company of the Corporation’s legal entity board of directors	Purchase	3,210,897	11	Net 30 days after monthly closing	None	None	(2,105,363)	(58)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,043,145	3	Net 15 days after monthly closing	None	None	(85,934)	(2)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	344,456	1	Net 45 days after monthly closing	None	None	(20,169)	(1)	-
	Toshiba Corporation (“Toshiba-JP-SS”)	Parent company of the Corporation’s legal entity board of directors	Sale	(485,013)	(1)	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	(314,516)	(1)	Net 60 days after monthly closing	None	None	144,108	2	-
	Toshiba Memory Corporation	The Corporation’s legal entity board of directors	Sale	(876,187)	(2)	Net 60 days after monthly closing	None	None	79,556	1	-
	Dawning Leading Technology Inc.	The Corporation is its director	Sale	(172,914)	-	Net 30 days after monthly closing	None	None	93,889	2	-
	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	(518,402)	(1)	Net 30 days after monthly closing	None	None	17,135	-	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiary	Sale	(272,041)	(41)	Net 30 days after monthly closing	None	None	-	-	-

TABLE 4

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 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 International Procurement Hong Kong Ltd.	Subsidiary of parent company of the Corporation's legal entity board of directors	$ 144,108	3.6	$ -	-	$ 143,111	$ -

Note: As of March 1, 2018.

TABLE 5

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Number	Company Name	Counterparty	Flow of Transaction	Transaction Details			Percentage of Transaction Amount to Consolidated Operating Revenue or Total Assets (%)
				Account	Amount	Transaction Terms	
0	Phison Electronics Corp.	Hefei Core Storage Electronic Limited	1	Sales revenue	$ 518,402	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Accounts receivable	17,135	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Research and development expenses	84,039	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Other payables	14,302	Based on regular terms	-
		Ostek Corporation	1	Purchases	2,388	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	5,188	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	26,566	Based on regular terms	-
		Ostek Corporation	1	Other payables	1,091	Based on regular terms	-
		Phison Electronics Taiwan Corp.	1	Sales revenue	12,995	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expense	8,157	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other payables	2,225	Based on regular terms	-
		Emtops Electronics Corp.	1	Purchases	19,152	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Sales revenue	1,386	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Purchases	14,453	Based on regular terms	-
1	Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	2	Sales revenue	272,041	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.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2017	December 31, 2016	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phison Electronics Corp.	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	$ 106,050	$ 106,050	10,605,000	32.91	$ 1,623,790	$ 1,441,523	$ 474,405	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	70,108	(3,843)	(3,843)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	400,000	65,000,000	100.00	614,104	(8,914)	(8,914)	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	21,563	(5,405)	(2,648)	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	28,982	28,982	900	100.00	3,969	(5,577)	(5,577)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	665,823	635,696	21,000,000	100.00	626,167	15,890	15,890	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	62,707	5,686	5,368	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	47,741	(98,817)	(42,745)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	97,848	518	518	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	139,985	(15,318)	(15,318)	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	53,546	(8,482)	-	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	16,617	43,260	-	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	38,755	6,948	-	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	563,172	22,336	-	Sub-subsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2017	December 31, 2016	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	$ 98,754	$ 98,754	3,000,000	100.00	$ 91,947	$ 1,035	$ -	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	7,364	(6,154)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,637	(40)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	11,277	(8,745)	-	Sub-subsidiary
Cloud Solution Global Limited	Asadhya Enterprises Private Limited	India	Trade of electronic products	611	611	122,255	49.00	-	(14)	-	Equity-method investee

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 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	$ (7,242)	$ 23,805	$ -
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	22,460	562,104	-

Accumulated Investments in Mainland China as of December 31, 2017	Investment Amount Authorized by Investment Commission, MOEA	Limit on Investments (Note 3)
$ 629,876 (US$ 19,790)	$ 629,876 (US$ 19,790)	$ 15,634,989

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 audited financial statements.

Note 3: The limit of investments in mainland China, which is based on Regulations Governing the Approval of Investments on Technical Corporation in Mainland China, is 60% of the Group's net asset value, which is $26,058,315 x 60% = $15,634,989.

TABLE 8

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	$ 518,402	1	Net 30 days after monthly closing	None	None	$ 17,135	-	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiaries	Sale	272,041	41	Net 30 days after monthly closing	None	None	-	-	-