

**PHISON ELECTRONICS CORP.**

**Handbook for the**

**2017 Annual General Shareholders' Meeting**

Date: June 13, 2017

Place: No.1, Qunyi Rd., Jhunan Township, Miaoli County 1<sup>st</sup> Floor  
meeting room of Factory 1 of Phison Electronics Corporation  
(Guangyuan Science and Technology Park)

Notice to Readers

*For the convenience of readers, the Handbook for the 2017 Annual General Shareholders' Meeting 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 version of the Handbook for the 2017 Annual General Shareholders' Meeting shall prevail.*

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# **Phison Electronics Corporation 2017 Annual General Shareholders Meeting Meeting Procedures**

## **I Meeting Procedures**

1. Announcement of the Commencement of the Meeting
2. Chairman's Address
3. Reporting Matters
4. Recognition Matters
5. Election Matters
6. Discussion Matters
7. Extemporaneous Motions
8. Meeting Adjourned

# **Phison Electronics Corporation 2017 Annual General Shareholders Meeting Meeting Agenda**

## **II Meeting Agenda**

Date and time: June 13, 2017 at 9:00 am (Tuesday)

Place: No.1, Qunyi Rd., Jhunan Township, Miaoli County

1<sup>st</sup> Floor meeting room of Factory 1 of Phison Electronics Corporation  
(Guangyuan Science and Technology Park)

Chairman: President Mr. Khein Seng Pua

### 1. Chairman's Address

### 2. Reporting Matters

- (1) The 2009 to 2015 Business Reports (Revised).
- (2) 2009 to 2015 Supervisor's Review Report (Revised).
- (3) The Distribution of Employees' Bonus and Directors' Remuneration for 2016.
- (4) 2016 Business Report.
- (5) 2016 Supervisor's Review Report.
- (6) Report on 2016 Annual General Shareholders Meeting Resolution to Proposal for a cash offering by private placement.
- (7) Report on Implementation of Treasury Stocks.
- (8) Implementation of Investments in the PRC.

### 3. Recognition Matters

- (1) Adoption of the restated 2009 to 2015 Consolidated Financial Statements and revised Business Reports.
- (2) Adoption of the 2016 Business Report and Financial Statements.
- (3) Adoption of the Proposal for Distribution of 2016 Profits.

### 4. Election Matters

- (1) Re-Election of the Company's 7 Directors (including 2 independent directors) and 3 supervisors for the 8th Term.

#### 5. Discussion Matters

- (1) The Company's plan to Propose for a cash offering by private placement.
- (2) Amendment to part of the Articles of the Company.
- (3) Amendment to part of the "Procedures for Acquisition or Disposal of Assets", "Procedures for Lending Funds to Other Parties", "Procedures for Endorsement and Guarantee" and "Procedures for Engaging in Derivatives Trading".
- (4) Amendment to part of the "Rules of Procedure for Shareholders Meeting".
- (5) Release of the New Directors from Non-Competition Restrictions.

#### 6. Extemporary Motions

#### 7. Meeting Adjourned

### **III Reporting Matters**

Agenda 1: (Proposed by the Board of Directors)

Proposal: Confirmation of the 2009 to 2015 Business Reports (Revised).

Explanation: For 2009 to 2015 Business Reports (Revised), please refer to pages 23-54 in Attachment 1 of this handbook.

Agenda 2: (Proposed by the Board of Directors)

Proposal: Confirmation of the 2009 to 2015 Supervisor's Review Report (Revised).

Explanation:1. The restated 2009 to 2012 Consolidated Financial Statements (including Restated Consolidated Balance Sheets, Restated Consolidated Statements Of Income, Restated Consolidated Statements Of Changes In Shareholders' Equity, Restated Consolidated Statements Of Cash Flows) and the restated 2013 to 2015 Consolidated Financial Statements (including Restated Consolidated Balance Sheets, Restated Consolidated Statements Of Comprehensive Income, Restated Statements Of Changes in Equity, Restated Consolidated Statements Of Cash Flows) were audited by the accountants. Also the 2009 to 2015 Business Reports (Revised) have been approved by the supervisors. These Business Reports are submitted in accordance with the provisions of Article 219 of the Company Act for confirmation, please refer to page 55 in Attachment 2 of this handbook.

2. The supervisor is invited to read above report to be reviewed.

Agenda 3: (Proposed by the Board of Directors)

Proposal: Confirmation of the Distribution of Employees' Bonus and Directors' Remuneration for 2016.

- Explanation: 1. Pursuant to Article 19 of the Articles of the Company, "If the Company makes any profits in that year, 8% - 19% shall be declared as the employees' bonus and no more than 1.5% shall be declared as the directors' and Supervisors' remuneration."
2. The profit earned by the Company in 2016 was NT\$6,137,198,101 (Profit refers to the PROFIT BEFORE INCOME TAX and before deducting the remuneration to employees Bonus and Directors' and Supervisors' Remuneration). In 2016, the profit distributed to the employee as bonus was NT\$550,000,000 (approximately 8.96% of the profit for the year 2016) and the profit distributed to the directors and supervisors as remuneration was NT\$55,000,000 (approximately 0.90% of the profit for the year 2016), all in cash.

Agenda 4: (Proposed by the Board of Directors)

Proposal: Confirmation of the 2016 Business Report.

Explanation: For the 2016 Business Report, please refer to pages 56-60 in Attachment 3 of this handbook.

Agenda 5: (Proposed by the Board of Directors)

Proposal: Confirmation of the 2016 Supervisor's Review Report.

Explanation:1. The 2016 Financial Statements, including Individual Financial Statements (including Balance Sheets, Comprehensive Income Statements, Statements Of Changes In Equity, Statements Of Cash Flows) and the Consolidated Financial Statements (including Consolidated Balance Sheets, Consolidated Statements Of Comprehensive Income, Consolidated Statements Of Changes In Equity, Consolidated Statements Of



Cash Flows) were audited by the accountants. Also the Business Report and the Proposal for Distribution of Profits have been approved by the supervisors. These are submitted in accordance with the provisions of Article 219 of the Company Act for confirmation, please refer to page 61 in Attachment 4 of this handbook.

2. The supervisor is invited to read the above report to be reviewed.

Agenda 6: (Proposed by the Board of Directors)

Proposal: Confirmation of the Report on 2016 Annual General Shareholders Meeting Resolution to Proposal for a cash offering by private placement.

Explanation: The Company passed a Resolution to privately raise no more than 20,000,000 common shares in 2016 Annual General Shareholders Meeting in June 15, 2016, and decided these shares should be raised in two times within one year from the date of the Annual General Shareholders Meeting resolution made. As the term expires, the Board of Directors decides this private equity case will no longer continue to raise and issue.

Agenda 7: (Proposed by the Board of Directors)

Proposal: Confirmation of the Report on the Implementation of Treasury Stocks.

Explanation: For the 2016 Implementation of Treasury Stocks, Please refer to page 62 in Attachment 5 of this handbook.

Agenda 8: (Proposed by the Board of Directors)

Proposal: Confirmation of the Implementation of Investments in the PRC.

Explanation: For the 2016 Implementation of Investments in the PRC, Please refer to page 63 in Attachment 6 of this handbook

## **IV Recognition Matters**

Agenda 1: (Proposed by the Board of Directors)

Proposal: Adoption of the restated 2009 to 2015 Consolidated Financial Statements and revised Business Reports.

Explanation:1. At the request of the Financial Supervisory Commission, the restated 2009 to 2012 Consolidated Financial Statements (including Restated Consolidated Balance Sheets, Restated Consolidated Statements Of Income, Restated Consolidated Statements Of Changes In Shareholders' Equity, Restated Consolidated Statements Of Cash Flows) and the restated 2013 to 2015 Consolidated Financial Statements (including Restated Consolidated Balance Sheets, Restated Consolidated Statements Of Comprehensive Income, Restated Statements Of Changes in Equity, Restated Consolidated Statements Of Cash Flows) were approved by the board of directors Meeting Resolution and audited by the accountants Hsin Wei Tai and Yu Wei Fan of Deloitte Taiwan and the supervisors. The above restated Consolidated Financial Statements together with the revised Business Reports are submitted for adoption.

2. For Adoption of the restated 2009 to 2015 Consolidated Financial Statements and revised Business Reports, please refer to pages 64-126 in Attachment 7 and pages 23-54 in Attachment 1 of this handbook.

**RESOLUTION:**

Agenda 2: (Proposed by the Board of Directors)

Proposal: Adoption of the 2016 Business Report and Financial Statements.

Explanation: 1.The 2016 Business Report and Individual Financial Statements (including Balance Sheets, Comprehensive Income Statements, Statements Of Changes In Equity, Statements Of Cash Flows)

and the Consolidated Financial Statements (including Consolidated Balance Sheets, Consolidated Statements Of Comprehensive Income, Consolidated Statements Of Changes In Equity, Consolidated Statements Of Cash Flows) have been prepared, and have been audited by the accountants Hsin Wei Tai and Yu Wei Fan of Deloitte Taiwan and the supervisors. The above Financial Statements together with the Business Report are submitted for adoption.

2. For the 2016 Business Report and Individual Financial Statements and Consolidated Financial Statements, please refer to pages 56-60 in Attachment 3 and pages 127-147 in Attachment 8.

RESOLUTION:

Agenda 3: (Proposed by the Board of Directors)

Proposal: Adoption of the Proposal for Distribution of 2016 Profits.

Explanation: 1. The net profit after tax for the year 2016 is NT \$4,866,992,076. According to the Articles of the Company, the Proposal for Distribution of Profits for the year 2016 is as follows:

**Phison Electronics Corporation**  
**Distribution of Profits**  
**2016**

(Unit: NT\$)

<b>Beginning retained earnings</b>	<b>7,115,425,854</b>
Less: The actuarial loss of the benefit plan is determined to be listed in the retained earnings in 2016	2,054,654
Less: Write off the treasury stock debit retained earnings in 2016	52,227,023
<b>Undistributed earnings after adjusted</b>	<b>7,061,144,177</b>
Add: Profits after tax in 2016	4,866,992,076
Less: 10% of the statutory earnings reserve	486,699,208
Add: Reversing special earnings reserve according to law	85,392,819
<b>Distributable net profit</b>	<b>11,526,829,864</b>
Distributable items:	
Shareholder Cash Dividends (14 NT\$ per share)	2,759,035,902
<b>Unappropriated retained earnings at the end of 2016</b>	<b>8,767,793,962</b>

President:

Manager:

Chief Accountant:

2. The issued shareholders' cash dividends of the Company's profits distribution in 2016 is amounted to NT\$2,759,035,902 which is allotted to NT\$14 per share, and is held by the shareholders in the register on the ex-dividend date as per the ratio of distributed shares; and the cash dividend is calculated on the basis of the distribution ratio, and the amount of the cash dividend which is less than NT\$1 shall be omitted, and the aggregate of cash dividend less than NT\$1 shall be transferred to the Employee Welfare Committee. The above distribution ratio for dividends is calculated based on the total number of outstanding shares of 197,073,993 as to March 20, 2017. After the cash dividends are passed by the Annual General Shareholders Meeting, the Board of Directors is

authorized to set the base date and related matters for distributing dividends and to adjust the distributing amounts per share as per the actual outstanding shares on the Ex-dividend date if the total number of outstanding shares changes.

RESOLUTION:

## **V Election Matters**

Agenda 1: (Proposed by the Board of Directors)

Proposal: Re-Election of the Company's 7 directors (including 2 independent directors) and 3 supervisors for the 8th Term.

Explanation:1. The directors and supervisors of the Company shall hold office for a term of three years and shall expire on June 16, 2017; in accordance with the provisions of Article 195 of the Company Act, they shall be re-elected at the 2017 Annual General Shareholders Meeting.

2. The Company has seven directors (including two independent directors) and three supervisors in current. Due to the expiration of the term of office, the Company will re-elect seven directors (including two independent directors) and three supervisors according to Article 13 of the Articles of the Company at this time, and the new directors and supervisors will hold office for a term of three years from June 13, 2017 to June 12, 2020.

3. The directors (including the independent directors) and the supervisors shall be elected by the shareholders 'meeting from the List of Candidates as per the system for nominating candidates, and the List of Candidates for directors (including the independent directors) and supervisors is as follows:

**Phison Electronics Corporation**  
**2017 Annual General Shareholders' Meeting**  
**List of Candidates for Directors (including Independent Directors)**  
**and Supervisors**

<b>Category of candidates</b>	<b>Name of candidates</b>	<b>Education</b>	<b>Experience</b>	<b>Current position</b>	<b>Number of shares held (Note)</b>
Director	Khein Seng Pua	MA in Electronic Control, National Chiao Tung University	R&D Engineer, Feiya Technology Corp.	CEO, Phison Electronics Corporation ; Directors Representative and Chairman, Lian Xu Dong Investment Corporation, OSTEK Corporation, Phisontech Electronics Taiwan Corp., Memoryexchange Corporation ; Directors Representative, Kingston Solutions Inc. ; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, EpoStar Electronics (BVI) Corporation, Core Storage Electronic (Samoa) Limited, HYCON Technology Corporation, Cheng He Investment Co., Ltd	4,557,972 shares
Director	Cheek Kong Aw Yong	MA in Electronic Control, National Chiao Tung University	R&D Engineer, Feiya Technology Corp.	President, Phison Electronics Corporation ; Directors Representative, Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp. ; Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, Core Storage Electronic (Samoa) Limited	3,355,745 shares

<b>Category of candidates</b>	<b>Name of candidates</b>	<b>Education</b>	<b>Experience</b>	<b>Current position</b>	<b>Number of shares held (Note)</b>
Director	Tzung Horng Kuang	Master of Business Administration of Greenwich University	Kogen Singapore Pte Ltd	Vice-President, Phison Electronics Corporation ; Directors Representative and Chairman, Emtops Electronics Corporation ; Directors Representative, Microtops Design Corporation, OSTEK Corporation ; Chairman, Phison Electronics Japan Corp., Director, Power Flash (Samoa) Limited	1,478,736 shares
Director	Chih Jen Hsu	Department of Computer Science of Chung Yuan Christian University	Assistant Manager of Winbond Electronics Corp.	Deputy General Manager of technology, Phison Electronics Corporation ; Directors Representative, Phisontech Electronics Taiwan Corp.	1,080,185 shares
Director	Toshiba Memory Semiconductor Taiwan Corporation Representative: Hiroto Nakai	Bachelor of Earth Resources Engineering of Tohoku University Master of Engineering of Tohoku University	Toshiba Corporation Storage & Electronic Devices Solutions Company, Memory Division, Senior Fellow	Toshiba Memory Corporation, Memory Division, Senior Fellow	1,000 shares
Independent director	Shu Fen Wang	Ph.D. in Finance, University of Houston	Director of Department of Information and Finance of National Chiao Tung University Hsinchu City Cable TV Review Committee BOT Promotion Committee Executive Secretary of National Chiao Tung University	Associate Professor, Institute of Finance, National Chiao Tung University ; Independent director, Bothhand Enterprise Inc., Original Biomedicals Co., Ltd.. Member of the Republic of China Enterprise Evaluation Association Member of the Public Debt Management Committee in Hsinchu County Member of the Public Debt Management Committee in Hsinchu City United States Beta Gamma Sigma Honorary Member Securities Analysts of ROC	0 share

<b>Category of candidates</b>	<b>Name of candidates</b>	<b>Education</b>	<b>Experience</b>	<b>Current position</b>	<b>Number of shares held (Note)</b>
Independent director	Chen Wei Wang	Department of Electronic Engineering of National Chiao Tung University Enterprise Class of National Chengchi University	CEO, Quanta Computer Inc. President, Quanta Computer Inc.	Director, Janus Technologies, Inc., Ichia Technologies Inc. ; Independent Director, Casetek Holdings Limited, Simplo Tchnology Co.,Ltd. ; Supervisor, Choice Development,Inc., Director Representative, Chicony Power Technology Co., Ltd.	0 share
Supervisor	Yeong Jiunn Yang	Postdoctoral Research Fellow, Institute of Electrical and Control Engineering , National Chiao Tung University	Ph.D. in Electrical and Control Engineering, National Chiao Tung University	Director, Apacer Technology Inc.	4,549,114 shares
Supervisor	Huei Ming Wang	MA in Industrial Management from Chung Hua University	Executive Director of R.O.C. Certified Public Accountants Association, Chairman of Disciplinary Committee of R.O.C. Certified Public Accountants Association, Chairman of Disciplinary Committee of Taipei City CPA Association, Ministry of Finance Imputation System Lecturer , Deputy Chairman of Professional Ethics Committee of National Federation of Certified Public Accountant Associations of the Republic of China	Director of Moores Rowland CPAs Head of Praxity International Union Certified Public Accountants in Taiwan	171,750 shares



<b>Category of candidates</b>	<b>Name of candidates</b>	<b>Education</b>	<b>Experience</b>	<b>Current position</b>	<b>Number of shares held (Note)</b>
Supervisor	Chiun Hsiou Chen	MA in Business Management from Binghamton University, State University of New York,	Vice-President, Dad International, Executive Vice President, Expert Management Consulting Co., LTD, Lecturer, Institute of Chen An-Che Research and Training Corp. Ltd., Manager of Administrative Department, Ichia Technologies, Inc. , General Manager, Kingtext Corp. Ltd., Marketing Specialist, Taiwan IBM , CSEC Planners	Independent director ,Waffer Technology Corp., National Aerospace Fasteners Corporation	0 share

Note: The number of shares held as of April 15, 2017.

4. The election is respectfully requested.

RESOLUTION:

## VI Discussion Matters

Agenda 1: (Proposed by the Board of Directors)

Proposal: Adoption of The Company's plan to Propose for a cash offering by private placement in private.

Explanation: 1. To introduce the strategic investors and enhance the long-term cooperative relationship between the strategic investors and the strategic partners to facilitate the long-term operation and business development, the Company intends to issue new shares with capital increase in private way according to the provisions of Article 43.6 of the Securities Exchange Act (hereinafter referred to as "Private Common Shares"). It is expected that the total amount of private placement of common shares does not exceed 20,000,000 shares which is valued at NT\$10 per share, and the increased paid-in capital will not more than NT\$200,000,000.

2. In accordance with the provisions of Article 43.6 of the Securities Exchange Act and the Notes on Private Equity Issuance of Public Offering Companies, it shall be as follows:

(1) The basis and rationality of the private price:

A. The proposed price per share for private common shares is set at no less than 80% of the higher price of the following two benchmark prices of the Company prior to the pricing date:

(i) The reference price shall be the simple arithmetical average closing price of the common shares of the Company for either one, three or five consecutive business days before pricing date, after adjustment for any distribution of stock dividends, cash dividends or capital reduction.

(ii) The reference price shall be the simple arithmetical average closing price of the common shares of the

Company for consecutive thirty business days before pricing date, after adjustment for any distribution of stock dividends, cash dividends or capital reduction.

- B. The actual pricing date and the actual private placement price shall determined by the Board of Directors not less than an quorum of Annual General Shareholders Meeting Resolution based on the foregoing pricing and in accordance with the future persons arranged status as well as the market conditions.
- C. The private placement pricing is determined based on the provisions of "Notes on Private Equity Issuance of Public Offering Companies", considering the company's future outlook and the strict restriction on the transfer time, the object and the number of private equity securities, and the inadmissibility for OTC within three years as well as the poor liquidity, therefore, the proposed private placement pricing should be reasonable and the will not have any significant impact on shareholders' equity.

(2) Selection method of persons arranged:

- A. The persons arranged is selected by the object of this private common shares in accordance with the provisions of Article 43.6 of the Securities Exchange Act and the provisions of Taiwan Financial Report No. 0910003455 issued by the ROC Financial Supervisory Commission on June 13, 2002 (91), within the strategic investors.
- B. The offeree shall be intended to be the strategic investors:
  - (i) Selection method and purpose for the offeree: Due to the demands for long-term operation and business

development, we will give priority to take account into strategic investors who will directly or indirectly facilitate the future operation of the Company, and can help the Company to expand its business and product market, enhance the customer relationships, or improve the integration of product development benefits, or can improve the technology and be in favor of the company's business philosophy.

(ii) Necessity: The purpose of selecting the offeree is to introduce the strategic investors and enhance the long-term cooperative relationship with the strategic partners. Through strategic investors, we can enhance the long-term competitiveness and operating efficiency of the Company, thus it is necessary.

(iii) Expected benefits: With the help of strategic investors' advantages such as experience, product technology, knowledge, brand reputation and market access, by means of the strategic cooperation, joint development of products, market integration or business development cooperation etc., it is expected to help the company to reduce operating costs, enhance the product technology, expand the sales market, in order to improve the company's future operating performance.

C. No person is proposed to be the offeree at present.

(3) The necessary reasons for private placement of shares:

A. Reasons for not adopt the public offering: taking account of the capital market conditions, the issuance cost, the financing timeliness and feasibility of private placement, and the constriction factor that the private placement shares can not be allowed to be transferred within three

years, which will help to ensure and strengthen the more close and long-term cooperative relations with the strategic partners, thus the new shares are issued by means of the private placement instead of the public offering way.

B. Private placement amount: The total amount of private placement share in this time is not more than 20,000,000 shares, which will be issued in one time or two times within one year from the date of the General Meeting Resolution.

C. The capital usage in each issuance of private common shares and the expected achievement is as the following:

Issuance times	Capital usage	Expected achievement
In one time	To seek the technical cooperation or strategic alliances with the domestic and foreign industry manufacturers, as well as to enrich the working capital and in response to the company's long-term operational needs	Reducing the operating risks of the Company, strengthening the financial structure and enhancing the future operation performance of the Company
In two times	To seek the technical cooperation or strategic alliances with the domestic and foreign industry manufacturers, while to enrich the working capital and in response to the company's long-term operational needs in both times	Reducing the operating risks of the Company, strengthening the financial structure and enhancing the future operation performance of the Company in both times

(4) Due to that the power of operation within the year before Board of Directors Resolution for this private placement does not have any significant changes, and the total private common shares is expected to be no more than 20,000,000 shares, which is expected to be within 9.2% of the total shares of paid-in capital after the private placement, thus the offeree will be limited to the strategic investors, the company will have a positive result for the business development, it is expected that it will not cause significant changes in the operation right after the introduction of strategic investors.

(5) Other matters to be clarified:

A. The rights and obligations of the private common shares are the same as those of existing shares. Unless as specified in Article 43.8 of the Securities Exchange Act, and except the transfer under the terms and conditions of this article, the private common shares shall not be allowed to be transferred within three years from the date of delivery. After three years from the date of delivery, the Company shall, in accordance with the relevant provisions of the Securities Exchange Act, obtain the consent letter of the OTC Standards and apply for the reissue of public offering for the private common shares to the Competent Authority and apply for OTC transactions.

B. The main contents of the Plan for Private Common Shares, including the actual numbers of private common shares, the actual private placement price, the selection of the offeree, the base date, the issue conditions, the planning items, the use and progress of capitals, the expected achievement and other related matters, as well as all other matters relating to the issue plan, are submitted to the Board of Directors authorized to make

adjustment, make decision and issuance in accordance with the market conditions. In case of any changes needs to be made at the request of the competent authorities or based on an operational assessment or as a result of the objective environment, the Board of Directors is authorized to deal with it.

C. In addition to the above authorization, the General Meeting is required to authorize the president to sign, negotiate and change all contracts and documents relating to private common shares on behalf of the Company and to handle all matters relating to the issuance of private common shares.

RESOLUTION:

Agenda 2: (Proposed by the Board of Directors)

Proposal: Amendment to part of the Articles of the Company.

Explanation: 1. To amend the part of the Articles of the Company in accordance with the requirements of the Company's operations.

2. Please refer to pages 148-149 in Attachment 9 of this handbook for the Comparison Table of the revised Articles of the Company.

RESOLUTION:

Agenda 3: (Proposed by the Board of Directors)

Proposal: Amendment to part of the "Procedures for Acquisition or Disposal of Assets", "Procedures for Lending Funds to Other Parties", "Procedures for Endorsement and Guarantee" and "Procedures for Engaging in Derivatives Trading".

- Explanation: 1. Pursuant to the “Guidelines on Acquisition or Disposal of Assets by Public Offering Companies” and in line with the Company's operational needs, amend part of the “Procedures for Acquisition or Disposal of Assets”, “Procedures for Lending Funds to Other Parties”, “Procedures for Endorsement and Guarantee” and “Procedures for Engaging in Derivatives Trading”.
2. For the Comparison Tables for Amendments to “Procedures for Acquisition or Disposal of Assets”, to “Procedures for Lending Funds to Other Parties”, to “Procedures for Endorsement and Guarantee”, and to “Procedures for Engaging in Derivatives Trading”, please refer to pages 150-177 in Attachment 10 of this handbook.

**RESOLUTION:**

Agenda 4: (Proposed by the Board of Directors)

Proposal: Discussion on Amendment to part of the “Rules of Procedure for Shareholders’ Meeting”.

- Explanation: 1. Pursuant to the Financial Supervisory Commission Order No. 1060000381 on January 18, 2017, and the provision of paragraph 1 of Article 177 of the Company Act, the Listing (OTC) companies shall take the electronic way as one of the channels for voting rights, thus the Company will amend the “Rules of Procedure for Shareholders’ Meeting”.
2. For the Comparison Table for Amendments to the “Rules of Procedure for shareholders Meeting”, please refer to Page 178 in Attachment 11 of this handbook.

**RESOLUTION:**



Agenda 5: (Proposed by the Board of Directors)

Proposal: Discussion on Release of the New Directors from Non-Competition Restrictions.

Explanation: 1. According to paragraph 1 of Article 209 of Company Act, “A director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.”

2. For the fact that the directors of the Company may invest in or operate other companies within the same or similar business scope of the Company and act as directors, in order to meet the actual needs, without prejudice to the interests of the Company, the General Meeting is required to release the new directors from Non-competition restrictions according to laws.

3. For Details for Release of the New Directors from Non-Competition Restrictions, please refer to Page 179 in Attachment 12 of this handbook.

RESOLUTION:

## **VII Extemporary Motions**

## **VIII Attachments**

## **Phison Electronics Corporation 2009 Business Report (revised)**

After global financial storm, fast changing market environment and severe industrial changes in 2008, the operation of Phison Electronics in 2009 is good and with high growth under the driving of strong market demand of NAND Flash application product industry and under the support of all colleagues and the manufacturers upstream and downstream. In 2009, the operating revenue reached NT\$24.38 billion, the net profit after tax hit NT\$2.06 billion and the earning per share after tax was NT\$14.33.

Our company has continued to invest in research and development of Flash Controller IC and new application products in terms of flash drive, flash memory card, SSD and other built-in flash memory applications and has constantly innovated the original product lines, so as to satisfy the market demand. In 2009, the overall shipment amount of Controller IC and finished product for flash drive was increasing by about 78% from a year earlier and the overall shipment amount of Controller IC and finished product for flash memory card was increasing by about 28% from a year earlier. The product's market share was constantly increased while expanding the market sale territory.

Looking ahead, NAND Flash Controller IC is used more and more widely in the presence of quick changing and constant booming of NAND flash application industry, the sale volume of PATA/SATA SSD products is growing up gradually, apart from steady growth of original flash drive and flash memory card. Currently, Phison Electronics has been strengthening the application of various built-in Flash application products in phone, E-book, PC and related industrial computer systems, constantly developed the innovative Flash application Controller IC and provided the system integrated application design services and products, so as to provide the Total Solution technologies and services required for fast changing market, deepen the market competitiveness, continue to expand the market territory and establish the leading market position.

In terms of operational strategy, the company will continue to strengthen the professional R&D team and organizational structure, improve the internal operation process and enhance the production process technology and customer service quality, while utilizing the strategic alliance rationally to establish the long-term partners, increasing the stable source of Flash raw materials and expanding the product sale channels, and strengthening the vertical cooperation. The company will continue the establishment of long-term strategic partnership through meticulous

layout, carry out the integration of upstream and downstream resources, create the efficient and adequate production capacity and develop the new product lines for stretching toward the diversified market landscape, provide the more complete products and services for the market, constantly adjust in response to changes in the environment and continue to create the competitive advantages, so as to achieve the company's goal of sustainable and stable operation.

**The operating results for the year 2009 are described as follows:**

**A. Business plan implementation results**

(1) Operating revenue:

The net operating revenue of the company in 2009 was NT\$24,380,165 thousand, realizing an increase of NT\$5,523,851 thousand from NT\$18,856,314 thousand in 2008, up 29.29%.

(2) Net profit for the year:

The net profit after tax of the company in 2009 was NT\$2,063,061 thousand, realizing an increase of NT\$1,509,077 thousand in 2008, up 272.40%.

(3) As of December 31, 2009, the number of employees is 447 and the number of R&D staff is about 250.

**B. Budget implementation:**

The financial forecast of the company in 2009 was not disclosed; therefore, it is not necessary to disclose the budget implementation.

**C. Analysis of financial revenue and expenditure and profitability in recent two years**

**Financial revenue and expenditure**

Unit: NT\$ thousand

Items	2009	2008	Increased (decreased) amount	Variable proportion (%)
Operating revenue	24,380,165	18,856,314	5,523,851	29.29%
Gross profit	3,750,913	1,260,095	2,490,818	197.67%
Operating income	2,212,714	407,949	1,804,765	442.40%
Nonoperating income and expenses	36,949	197,002	(160,053)	(81.24%)
Net profit after tax	2,063,061	553,984	1,509,077	272.40%

### Profitability analysis

Items		2009	2008
Financial structure	Debt Ratio	39.73	28.52
	Ratio of long-term capital to fixed assets	1,126.02	634.28
Debt paying ability	Current ratio (%)	229.11	287.95
	Quick ratio (%)	149.04	200.20
	Times interest earned (times)	543.74	801.20
Profitability	Return on total assets (%)	19.99	7.33
	Return on stockholders' equity (%)	31.05	10.80
	Operating income to Paid-in capital ratio (%)	150.80	32.18
	Pre-tax income to paid-in capital (%)	153.32	47.72
	Net profit ratio (%)	8.46	2.94
	Earnings per share (NT\$)	14.33	4.46

#### D. R&D

##### 1.R&D expenses in recent two years

For the complete technology developers and providers of specialized Controller IC and system integrated applications related to flash memory, the company must input the considerable R&D labor and expenses to match up the quick changes of market product applications and master the competitive advantages, so as to shorten the R&D time and quicken the marketing of new products; The R&D expenses in 2009 and 2008 were NT\$980,389 thousand and NT\$415,098 thousand respectively, accounting for 4.02% and 2.20% of the net operating revenue of the year. As of the end of 2009, the company has obtained up to 186 approved patents in various countries.

##### 2.R&D results

Since establishment, the company has published many innovative products of Controller IC and system product lines in the Flash-related applications and has successfully promoted and sold the products worldwide. In 2009, the company has succeeded in development and promotion of the following well-received products, including:

- a.New-process for control single chip series and system products of USB2.0 flash drive
- b.New-process for control single chip series and system products of SD and microSD flash memory card

- c.PATA/SATA SSD Controller IC and 1.8/2.5" SSD system products for PC, low-cost PC and industrial PC market
  - d.PCI Express control single chips and Express Card system products
  - e.Control single chips of USB and memory card supporting the smart card
  - f. Controller IC of other embedded Flash application products
3. According to market demand trends, industrial competition situation and planned launching time of new products, the company's planned product lines to be newly developed or constantly upgraded in 2009 are as follows:
- a.Control single chips and system products of USB2.0 flash drive and memory card supporting 2xnm/1xnm process and x3 NAND Flash,
  - b.New generation of embedded eMMC/eSD system products developed for phone, E-book and handheld devices
  - c.PATA/SATA SSD control single chips and 1.8/2.5" SSD system products developed for PC, low-cost PC and industrial PC market
  - d.USB3.0 single chip control IC and application products
  - e.PCI Express control single chips and Express Card system products
  - f. NAND Flash Controller IC supporting advanced data encryption/decryption algorithm
  - g.Control single chips of memory card with strong computational capability supporting RTOS
  - h.Controler IC of other embedded Flash application products

**Phison Electronics Corporation**

President : Khein Seng Pua

General Manager : Cheek Kong Aw Yong

Accountant Officer: Shu Hua Chiu

## **Phison Electronics Corporation**

### **2010 Business Report (revised)**

Confronting the unstable political and economic environment and quick changing industrial market globally, the NAND Flash application product industry is changing constantly in 2010; however, under the driving of strong market demand and the support of all colleagues and the manufacturers upstream and downstream of Phison Electronics, the operating results in 2010 are favorable, the operating revenue reached NT\$31.7 billion, the net profit after tax hit NT\$151.6 billion and the earning per share after tax was NT\$8.57.

Our company has continued to invest in research and development of Flash Controller IC and new application products in terms of flash drive, flash memory card, SSD and other built-in flash memory applications and has constantly innovated the original product lines, so as to satisfy the market demand. In 2010, the overall shipment amount of Controller IC and finished product for flash drive was increasing by about 52% from a year earlier and the overall shipment amount of Controller IC and finished product for flash memory card was increasing by about 29% from a year earlier. The product's market share was constantly increased while expanding the market sale territory.

Looking ahead, NAND Flash Controller IC is used more and more widely in the presence of quick changing and constant booming of NAND flash application industry. Apart from the stable growth of original flash drive and flash memory card products, Phison Electronics has developed the embedded eMMC/eSD system products for phone, E-book and handheld devices and also developed PATA/SATA SSD control single chips and SSD-series system products for PC, tablet, low-cost PC and industrial PC market. Meanwhile, Phison Electronics has continued the development of Flash application Controller IC for various embedded Flash application products and provided the system integrated application design services and products, so as to provide the Total Solution technologies and services suitable for quick market changes, deepen the market competitiveness, continue to expand the market territory and establish the leading market position.

In terms of operational strategy, the company will continue to reserve a more rich R&D manpower, strengthen the R&D strength and technical quality of the specialized

R&D team and continue to improve the efficiency of internal operation and customer service quality internally, and will use the strategic alliance rationally to operate the long-term partners, increase the stable source of Flash raw materials and expand the product sale channels, and strengthen the vertical cooperation. The company will arrange the domestic and foreign markets carefully, to continue the integration of resources upstream and downstream and provide a more complete market products and services, extend towards a diversified market landscape and continue to create the competitive advantage, so as to realize the company's goal of sustainable and stable operation.

**The operating results for the year 2010 are described as follows:**

**A. Business plan implementation results**

(1) Operating revenue:

The net operating revenue of the company in 2010 was NT\$31,705,343 thousand, realizing an increase of NT\$7,325,178 thousand from NT\$24,380,165 thousand in 2009, up 30.05%.

(2) Net profit for the year:

The net profit after tax of the company in 2010 was NT\$1,515,723 thousand, decreasing by NT\$547,338 thousand from net profit after tax of NT\$2,063,061 thousand in 2009, down 26.53%.

(3) As of December 31, 2010, the number of employees is 499 and the number of R&D staff is about 261.

**B. Budget implementation:**

The financial forecast of the company in 2010 was not disclosed; therefore, it is not necessary to disclose the budget implementation.

**C. Analysis of financial revenue and expenditure and profitability in recent two years**

**Financial revenue and expenditure**

Unit: NT\$ thousand

Items	2010	2009	Increased (decreased) amount	Variable proportion (%)
Operating revenue	31,705,343	24,380,165	7,325,178	30.05
Gross profit	3,330,373	3,750,913	(420,540)	(11.21)
Operating income	2,044,818	2,212,714	(167,896)	(7.59)
Nonoperating income and expenses	(181,505)	36,949	(218,454)	(591.23)
Net profit after tax	1,515,723	2,063,061	(547,338)	(26.53)

### Profitability analysis

Items		2010	2009
Financial structure	Debt Ratio	35.00	39.73
	Ratio of long-term capital to fixed assets	1,212.33	1,126.02
Debt paying ability	Current ratio (%)	258.59	229.11
	Quick ratio (%)	192.86	149.04
	Times interest earned (times)	245.14	543.74
Profitability	Return on total assets (%)	11.28	19.99
	Return on stockholders' equity (%)	17.93	31.05
	Operating income to Paid-in capital ratio (%)	115.48	150.80
	Pre-tax income to paid-in capital (%)	105.23	153.32
	Net profit ratio (%)	4.78	8.46
	Earnings per share (NT\$)	8.57	14.33

#### D. R&D

##### (1). R&D expenses in recent two years

For the complete technology developers and providers of specialized Controller IC and system integrated applications related to flash memory, the company must input the considerable R&D labor and expenses to match up the quick changes of market product applications and master the competitive advantages, so as to shorten the R&D time and quicken the marketing of new products; The R&D expenses in 2010 and 2009 were NT\$793,227 thousand and NT\$980,389 thousand respectively, accounting for 2.50% and 4.02% of the net operating revenue of the year. As of the end of 2010, the company has obtained up to 214 approved patents in various countries.

##### (2). R&D results

Since establishment, the company has published many innovative products of Controller IC and system product lines in the Flash-related applications and has successfully promoted and sold the products worldwide. In 2010, the company has succeeded in development and promotion of the following well-received products, including:

- a. USB2.0 flash drive supporting 2xnm/1xnm process and x3 NAND Flash, control single chips and system products of memory card
- b. Embedded eMMC/eSD system products developed for phone, E-book and handheld devices



- c. PATA/SATA SSD control single chips and 1.8/2.5" SSD system products developed for PC, low-cost PC and industrial PC market
  - d. USB3.0 single chip control IC and application products
  - e. PCI Express control single chips and Express Card system products
  - f. NAND Flash Controller IC supporting advanced data encryption/decryption algorithm
  - g. Control single chips of memory card with strong computational capability supporting RTOS
  - h. Controller IC of other embedded Flash application products
- (3). According to market demand trends, industrial competition situation and planned launching time of new products, the company's planned product lines to be newly developed or constantly upgraded in 2010 are as follows:
- a. Control single chips and system products of USB2.0 flash drive and memory card supporting 2xnm/1xnm process and x3 NAND Flash,
  - b. New generation of embedded eMMC/eSD system products developed for phone, E-book and handheld devices
  - c. PATA/SATA SSD control single chips and 1.8/2.5" SSD system products developed for PC, low-cost PC and industrial PC market
  - d. SATA SSD control single chips and mSATA/Slim Type SSD Module system products developed for tablet and low-cost PC
  - e. Application products related to USB3.0 single chip control IC, USB3.0 UHS flash drive and USB3.0 SSD
  - f. SDXC Controller IC and high-speed SDXC memory cards developed for high-order camera market
  - g. PCI Express control single chips and Express Card system products
  - h. NAND Flash Controller IC supporting advanced data encryption/decryption algorithm
  - i. Control single chips of memory card with strong computational capability supporting RTOS
  - j. Controller IC of other embedded Flash application products

**Phison Electronics Corporation**

President : Khein Seng Pua

General Manager : Cheek Kong Aw Yong

Accountant Officer: Shu Hua Chiu

# **Phison Electronics Corporation**

## **2011 Business Report (revised)**

### **I. Operating policy and implementation overview:**

The sovereign debt issue in Eurozone has exerted influence on the international financial stability and dragged the global economic growth; however, facing the global unstable political and economic environment and violently changing scientific and technological industry market, the NAND Flash application product market is also fast changing pattern in 2012. At this year, Phison Electronics has quickly promoted the new application product portfolio according to the variation of application product market and customer demand, and satisfied the customer's demand in real time and finally achieved the goal of business growth. In 2012, the operating revenue was about NT\$33.3 billion, the net profit after tax hit NT\$2.6 billion and the earning per share after tax was NT\$14.68.

The company has constantly invested in the R&D of Controller IC and new application products in terms of flash drive, flash memory card, SSD and embedded flash memory application products, to meet the market demand. In particular, new terminal application products from new product line SSD and embedded flash memory application products have been constantly put into the market and the shipment amount realized a constant growth. In 2011, the overall shipment amount of SSD related Controller IC and finished products was increasing by about 168% from one year earlier, the overall shipment amount of Controller IC modules for the embedded flash memory application products realized an increase of about 250% from one year earlier and the product's market share has been improved continuously in the market sale landscape.

Looking ahead, the application of NAND Flash Controller IC is increasingly booming with constant innovation of the flash memory terminal application products. Apart from stabilized growth of the original flash drive and flash memory card, Phison Electronics will develop the new generation of embedded high-speed eMMC Controller IC for smart phone, E-book, tablet and other handheld devices, continuously develop PATA/SATA SSD Controller IC for PC, Ultrabook, low-cost PC and industrial PC market and develop NAND Flash Controller IC that support the

advanced data encryption/decryption algorithm to break through the data encryption/decryption technical solutions required for NFC (Near Field Communication) and other mobile transaction application product market, so as to obtain an early start in the market. Phison Electronics will constantly develop the innovated application Controller IC for various NAND Flash application products and provide the system integrated application design services and products, with a bid to provide the Total Solution technology and service fit for the quick changing market, deepen the market competitiveness and continuously expand the market landscape.

In terms of operational strategy, the company will continue to move forward by way of steady expansion. The company will continue to strengthen the R&D strength and technical quality of the specialized R&D team and continue to improve the efficiency of internal operation and customer service quality and appropriately expand the operating sites at proper time internally; the company will utilize the strategic alliance to actively develop and innovate the application technologies and products, expand the broader product sales channel and strengthen the cooperation externally. The company will arrange the domestic and foreign markets carefully, to continue the vertical resource integration and lateral expansion and provide a more complete market products and services, extend towards a diversified market landscape and continue to create the competitive advantage, so as to realize the company's goal of sustainable and stable operation.

## **II. Description of operating results in 2011:**

### **A. Business plan implementation results**

#### **(1) Operating revenue:**

The net operating revenue of the company in 2011 was NT\$32,231,796 thousand, realizing an increase of NT\$526,453 thousand from NT\$31,705,343 thousand in 2010, up 1.66%.

#### **(2) Net profit for the year:**

The net profit after tax of the company in 2011 was NT\$2,616,398 thousand, realizing an increase of NT\$1,100,675 thousand from NT\$1,515,723 thousand in 2010, up 72.62%.

#### **(3) As of December 31, 2011, the number of employees is 552 and the number of R&D staff is about 287.**

### **B. Budget implementation:**

The financial forecast of the company in 2011 was not disclosed; therefore, it is not necessary to disclose the budget implementation.

C. Analysis of operating revenue and expenditure and profitability in recent two years

**(1) Financial revenue and expenditure**

Unit: NT\$ thousand

Items	2011	2010	Increased (decreased) amount	Variable proportion (%)
Operating revenue	32,231,796	31,705,343	526,453	1.66%
Gross profit	4,533,988	3,330,373	1,203,615	36.14%
Operating income	2,756,376	2,044,818	711,558	34.80%
Nonoperating income and expenses	228,949	(181,505)	410,454	226.14%
Net profit after tax	2,616,398	1,515,723	1,100,675	72.62%

**(2) Profitability analysis**

Items		2011	2010	
Financial structure (%)	Debt Ratio	30.35	35.00	
	Ratio of long-term capital to fixed assets	857.72	1,212.33	
Solvency (%)	Current ratio	293.77	258.59	
	Quick ratio	242.91	192.86	
	Interest earned ratio (times)	620.62	245.14	
Operating performance	Accounts receivable turnover (times)	8.79	10.14	
	Average collection period	41.52	35.99	
	Inventory turnover (times)	13.22	11.23	
	Accounts payable turnover (times)	10.26	9.69	
	Average days in sales	27.60	32.50	
	Fixed assets turnover (times)	32.35	43.87	
Profitability	Total assets turnover (times)	2.21	2.35	
	Return on total assets (%)	17.96	11.28	
	Return on stockholders' equity (%)	26.58	17.93	
	Ratio to issued capital (%)	Operating income	154.20	115.48
		Pre-tax income	167.01	105.23
Profit ratio (%)	8.12	4.78		
Cash flow	Earnings per share (NT\$)	14.68	8.57	
	Cash flow ratio (%)	56.51	52.31	
	Cash flow adequacy ratio (%)	145.82	104.65	
Leverage	Cash reinvestment ratio (%)	17.23	19.55	
	Operating leverage	1.03	1.05	
	Financial leverage	1.00	1.00	

D. R&D

(1). R&D expenses in recent two years

The R&D expenses in 2011 and 2010 were NT\$1,174,360 thousand and NT\$793,227 thousand respectively, accounting for 3.64% and 2.50% of the net operating revenue of the year. As of the end of 2011, the company has obtained up to 291 approved patents in various countries.

(2) R&D results

In 2011, the company has succeeded in development and promotion of the following well-received products, including:

- a. Control single chips and system products of USB2.0 flash drive and memory card supporting 2xnm process and x3 NAND Flash,
- b. New generation of embedded eMMC/eSD system products developed for phone, E-book and handheld devices
- c. PATA/SATA SSD control single chips and 1.8/2.5" SSD system products developed for PC, low-cost PC and industrial PC market
- d. SATA SSD control single chips and mSATA/Slim Type SSD Module system products developed for tablet and low-cost PC
- e. Application products related to USB3.0 single chip control IC, USB3.0 UHS flash drive and USB3.0 SSD
- f. SDXC Controller IC and high-speed SDXC memory cards developed for high-order camera market
- g. PCI Express control single chips and Express Card system products
- h. NAND Flash Controller IC supporting advanced data encryption/decryption algorithm
- i. Control single chips of memory card with strong computational capability supporting RTOS
- j. Controller IC of other embedded Flash application products

(3) According to market demand trends, industrial competition situation and planned launching time of new products, the company's planned product lines to be newly developed or constantly upgraded in 2011 are as follows:

- a. Controller IC and system products of USB 2.0 flash drive and memory card supporting 1xnm process and x3 NAND Flash.
- b. New generation of embedded high-speed eMMC Controller IC developed for phone, E-book and tablet.
- c. PATA/SATA SSD control single chips and 1.8/2.5" SSD system products developed for PC, Ultrabook, low-cost PC and industrial PC market.
- d. SATA SSD control single chips and mSATA/Slim Type SSD Module system products developed for tablet and low-cost PC.
- e. Application products related to USB 3.0 Controller IC, USB3.0 UHS flash drive and USB 3.0 SSD.
- f. UHS-I SDXC Controller IC and high-speed UHS-I SDXC memory cards developed for high-order camera market.

- g. NAND Flash Controller IC supporting advanced data encryption/decryption algorithm.
- h. Control single chips of memory card with strong computational capability supporting RTOS.
- i. Controller IC of other embedded Flash application products.

**Phison Electronics Corporation**

President : Khein Seng Pua

General Manager : Cheek Kong Aw Yong

Accountant Officer: Shu Hua Chiu

# **Phison Electronics Corporation**

## **2012 Business Report (revised)**

### **I. Operating policy and implementation overview:**

Under the circumstances of unstable international and national economic environment and keen competition in the scientific and technological market, the NAND Flash application product market is changing in 2012. With gradual transition of main battlefield of the application product market and diversified customer demand, Phison Electronics has constantly promoted the new application products according to the market trend and quickly met the customer demand, and realized growing operating results in 2012. The operating revenue of the company in 2012 was about NT\$32.5 billion, the net profit after tax hit NT\$2.7 billion and the earning per share after tax was NT\$15.

In 2012, the company has mainly innovated the flash drive and flash memory card in the original product line, constantly invested in R&D of Controller IC for new applications and innovated the original product lines, to meet the market demand. The new application products from new product line SSD product and embedded flash memory application products have been constantly put into the market and the shipment amount realized a constant growth. In 2012, the overall shipment amount of SSD related Controller IC and finished products was increasing by about 126% from one year earlier, the overall shipment amount of Controller IC modules for the embedded flash memory application products realized an increase of about 53% from one year earlier and the product's market share has been improved continuously in the market sale landscape.

In the next year and future, the application of NAND Flash Controller IC will be increasingly booming with constant innovation of the flash memory terminal application products. Apart from stabilized growth of the original flash drive and flash memory card, Phison Electronics will develop the new generation of embedded high-speed eMMC Controller IC for smart phone, tablet and other handheld devices, continuously develop PATA/SATA SSD Controller IC and application modules for PC, Ultrabook, low-cost PC and industrial PC market and develop NAND Flash Controller IC that has the Security function to break through the data encryption/decryption technical solutions required for NFC (Near Field Communication) and other mobile transaction application product market, so as to expand the market landscape. With the quick changing market, Phison Electronics will constantly develop the innovated

application Controller IC for various NAND Flash application products and provide the system integrated application design services and products, with a bid to provide the Total Solution technology and service fit for the changing market demand, deepen the market competitiveness and continuously expand the market landscape.

In terms of operational strategy, the company will continue to move forward by way of steady expansion. The company will continue to strengthen the R&D strength and technical quality of the specialized R&D team and continue to improve the efficiency of internal operation and customer service quality and appropriately expand the operating sites at proper time to strengthen the growth momentum internally; the company will utilize the strategic alliance to actively develop and innovate the application technologies and products, expand the broader product sales channel and strengthen the cooperation externally. The company will arrange the domestic and foreign markets carefully, to continue the vertical resource integration and lateral expansion and provide a more complete market products and services, extend towards a diversified market landscape and continue to create the competitive advantage, so as to realize the company's goal of sustainable and stable operation.

## **II. Description of operating results in 2012:**

### **A. Business plan implementation results**

#### **(1) Operating revenue:**

The net operating revenue of the company in 2012 was NT\$32,548,394 thousand, realizing an increase of NT\$316,598 thousand from NT\$32,231,796 thousand in 2011, up 0.98%.

#### **(2) Net profit:**

The net profit after tax of the company in 2011 was NT\$2,695,384 thousand, realizing an increase of NT\$78,986 thousand from NT\$2,616,398 thousand in 2011, up 3.02%.

#### **(3) As of December 31, 2012, the number of employees is 670 and the number of R&D staff is about 374.**

### **B. Budget implementation:**

The financial forecast of the company in 2012 was not disclosed; therefore, it is not necessary to disclose the budget implementation.

### **C. Analysis of operating revenue and expenditure and profitability in recent two years**



## (1) Financial revenue and expenditure

Unit: NT\$ thousand

Items	2012	2011	Increased (decreased) amount	Variable proportion (%)
Operating revenue	32,548,394	32,231,796	316,598	0.98%
Gross profit	5,028,077	4,533,988	494,089	10.90%
Operating income	3,185,934	2,756,376	429,558	15.58%
Nonoperating income and expenses	(121,400)	228,949	(350,349)	(153.02%)
Net profit after tax	2,695,384	2,616,398	78,986	3.02%

## (2) Profitability analysis

Items		2012	2011	
Financial structure	Debt Ratio	28.75	30.35	
	Ratio of long-term capital to fixed assets	881.69	857.72	
Debt paying ability	Current ratio	309.82	293.77	
	Quick ratio	264.44	242.91	
	Interest earned ratio (times)	1,075.14	620.62	
Operating capability	Accounts receivable turnover (times)	7.79	8.79	
	Average collection period	46.85	41.52	
	Inventory turnover (times)	13.08	13.22	
	Accounts payable turnover (times)	9.60	10.26	
	Average days in sales	27.90	27.60	
	Fixed assets turnover (times)	24.51	32.35	
	Total assets turnover (times)	1.98	2.21	
Profitability	Return on total assets (%)	16.45	17.96	
	Return on stockholders' equity (%)	23.32	26.58	
	Ratio to issued capital (%)	Operating income	176.84	154.20
		Pre-tax income	170.10	167.01
	Profit ratio (%)	8.28	8.12	
	Earnings per share (NT\$)	15.00	14.68	
Cash flow	Cash flow ratio (%)	76.28	56.51	
	Cash flow adequacy ratio (%)	178.43	145.82	
	Cash reinvestment ratio (%)	20.25	17.23	
Degree of leverage	Operating leverage	1.03	1.03	
	Financial leverage	1.00	1.00	

## D. R&D

### (1). R&D expenses in recent two years

The R&D expenses in 2012 and 2011 were NT\$1,192,748 thousand and NT\$1,174,360 thousand respectively, accounting for 3.66% and 3.64% of the net operating revenue of the year. As of the end of 2012, the company has obtained up to 410 approved patents in various countries.

### (2) R&D results

In 2012, the company has succeeded in development and promotion of the following well-received products, including:

- a. Controller IC and system products of USB 2.0 flash drive and memory card supporting 1xnm process and x3 NAND Flash.
- b. New generation of embedded high-speed eMMC Controller IC developed for smart phone, E-book, tablet and other handheld devices.
- c. PATA/SATA SSD control single chips and 1.8/2.5" SSD system products developed for PC, Ultrabook, low-cost PC and industrial PC market.
- d. SATA SSD control single chips and mSATA/Slim Type SSD Module system products developed for tablet and low-cost PC.
- e. Application products related to USB 3.0 Controller IC, USB3.0 UHS flash drive and USB 3.0 SSD.
- f. NAND Flash Controller IC supporting advanced data encryption/decryption algorithm.
- g. Controller IC of other embedded Flash application products.

### (3) According to market demand trends, industrial competition situation and planned launching time of new products, the company's planned product lines to be newly developed or constantly upgraded in 2012 are as follows:

- a. New generation of embedded high-speed eMMC Controller IC developed for smart phone, E-book, tablet and other handheld devices.
- b. Flash Controller IC supporting UFS interface suitable for next generation of handheld communication devices.
- c. PATA/SATA SSD control single chips and 1.8/2.5" SSD system products supporting MLC/TLC developed for PC, Ultrabook, low-cost PC and industrial PC market.
- d. SATA SSD control single chips and mSATA/Slim Type SSD Module system products developed for tablet and low-cost PC.
- e. SSD product of PCI Express interfaces developed for the demand of enterprise-level high-speed storage.

- f. Application products related to USB 3.0 Controller IC, USB3.0 UHS flash drive and USB 3.0 SSD.
- g. USB3.0 Controller IC supporting WTG developed for Microsoft portable interpretative version.
- h. UHS-I/UHS-II SDXC Controller IC and high-speed UHS-I/UHS-II SDXC memory cards developed for high-order camera market.
- i. NAND Flash Controller IC supporting advanced data encryption/decryption algorithm.
- j. Control single chips of memory card with strong computational capability supporting RTOS.
- k. Controller IC of other embedded Flash application products.

**Phison Electronics Corporation**

President : Khein Seng Pua

General Manager : Cheek Kong Aw Yong

Accountant Officer: Shu Hua Chiu

# **Phison Electronics Corporation**

## **2013 Business Report (revised)**

### **I. Operating policy and implementation overview:**

2013 is a year full of challenges facing the rapid variation of the flash memory product industry, like the business spirit [Fight] defined by Phison Electronics in this year. With the unremitting efforts of all colleagues, Phison Electronics has achieved good operating results in 2013. The Restated consolidated operating income in 2013 was NT\$31.4 billion, the net profit after tax hit NT\$3.57 billion and the earning per share after tax was NT\$17.57.

Facing the constant variation and expansion of the flash memory application product terminal market in 2013, Phison Electronics has strengthened the investment in R&D of SSD products in the product line, eMMC product line and other various embedded flash memory application products while constantly develops, innovates and upgrades the flash drive and flash memory card in the original product line. Meanwhile, Phison Electronics has actively expanded the sale market landscape and has realized a constant growth of shipment amount. In 2013, the overall shipment amount of SSD related Controller IC and finished products was increasing by about 53% from one year earlier, the overall shipment amount of Controller IC modules for the embedded flash memory application products realized an increase of about 57% from one year earlier and the product's market share has been improved continuously in the market sale landscape.

This year, Phison Electronics will quickly improve the processing technology according to industry structural adjustment and Flash product application trend, and meanwhile it will constantly develop the customer source and expand the market share, reduce the excessive dependence on the single industry market, increase the investment in R&D of new process and provide the diversified application products. With constant innovation of flash memory terminal application product and expanding growth of NAND Flash Controller IC application, Phison Electronics will continuously develop the innovated application Controller IC on the basis of various embedded NAND Flash application products, and provide the system integrated application design services and products. Phison Electronics will develop the new generation of embedded high-speed eMMC Controller IC for smart phone, tablet and other handheld devices and develop the innovated SSD system products for PC, Ultrabook, industrial PC market and other markets requiring the enterprise-level high-speed storage, so as to provide the Total Solution technologies and services fit

for the quick changing market, deepen the market competitiveness and continuously expand the market landscape.

In terms of operational strategy, the company will continue to promote the growth of Phison Electronics by way of steady expansion. The company will continue to strengthen the R&D strength and technical quality of the specialized R&D team and continue to improve the efficiency of internal operation and customer service quality and appropriately expand the international and national operating sites at proper time to strengthen the growth momentum internally; the company will utilize the strategic alliance rationally for vertical resource integration and lateral expansion to strengthen the market competitiveness. The company will arrange the domestic and foreign markets carefully, expand a wider application products and sale channels, extend towards a diversified market landscape and continue to create the competitive advantage, so as to realize the company's goal of sustainable and stable operation.

## II. Operating results in 2013

### A. Description of operating results:

#### (1) Restated consolidated operating revenue:

The Restated consolidated net operating revenue of the company in 2013 was NT\$31,396,516 thousand, decreasing by NT\$455,874 thousand from NT\$31,852,390 thousand in 2012, down 1.43%.

#### (2) Restated consolidated net profit for the year:

The Restated consolidated net profit after tax of the company in 2013 was NT\$3,567,978 thousand, realizing an increasing of NT\$1,078,905 thousand from NT\$2,489,073 thousand in 2012, up 43.35%.

B. Budget implementation: The financial forecast of the company in 2013 was not disclosed; therefore, it is not necessary to disclose the budget implementation.

### C. Analysis of financial revenue and expenditure and profitability

#### (1) Restated consolidated operating income and expenditure

Unit: NT\$ thousand

Items	2013 (Restated)	2012 (Restated)	Increased (decreased) amount	Variable proportion (%)
Operating revenue	31,396,516	31,852,390	(455,874)	(1.43%)
Gross profit	6,334,452	5,151,425	1,183,027	22.97%
Operating income	3,861,397	2,978,686	882,711	29.63%
Nonoperating income and expenses	361,383	(85,035)	446,418	524.98%
Net profit after tax	3,567,978	2,489,073	1,078,905	43.35%

(2) Restated consolidated operating profitability

Items		2013 (Restated)	2012 (Restated)	
Financial structure	Debt Ratio	34.47	31.46	
	Ratio of long-term capital to property, plant and equipment	922.81	904.17	
Debt paying ability	Current ratio	262.53	287.26	
	Quick ratio	188.05	234.67	
	Interest earned ratio (times)	1,289.22	1,015.25	
Operating capability	Accounts receivable turnover (times)	8.70	8.20	
	Average collection period	41.95	44.51	
	Inventory turnover (times)	5.85	8.19	
	Average days in sales	62.39	44.56	
	Property, plant and equipment turnover (times)	21.02	24.02	
	Total assets turnover (times)	1.54	1.75	
Profitability	Return on total assets (%)		17.49	13.71
	Return on attributed equity to stockholders' of the parents(%)		26.14	20.85
	Ratio in paid-in capital (%)	Operating income	213.96	164.51
		Net profit before tax	233.98	159.81
	Profit ratio (%)		11.36	7.81
	Earnings per share (NT\$)		17.57	14.99
Cash flow	Cash flow ratio (%)		22.54	60.40
	Cash flow adequacy ratio (%)		96.66	124.04
	Cash reinvestment ratio (%)		1.96	17.34

D. R&D

(1). R&D expenses in recent two years

The Restated consolidated R&D expenses in 2013 and 2012 were NT\$1,644,042 thousand and NT\$1,221,713 thousand respectively, accounting for 5.24% and 3.84% of the consolidated operating income of the year. As of the end of 2013, the company has obtained up to 550 approved patents in various countries.

(2) R&D results

In 2013, the company has succeeded in development and promotion of the following well-received products, including:

- a. Controller IC and system products of USB 2.0 flash drive and memory card supporting 1xnm process and x3 NAND Flash.
- b. New generation of embedded high-speed eMMC Controller IC developed for smart phone, E-book, tablet and other handheld devices.
- c. Integrated SATA SSD Controller IC and 1.8/2.5" SSD system products developed for PC, Ultrabook, low-cost PC and industrial PC market.

- d. SATA SSD Controller IC and SiP and mSATA/Slim Type SSD Module system products of flash memory developed for tablet and low-cost PC.
  - e. Application products related to USB 3.0 Controller IC, USB 3.0 UHS flash drive and USB 3.0 SSD.
  - f. NAND Flash Controller IC supporting advanced data encryption/decryption algorithm.
  - g. Controller IC of other embedded Flash application products.
- (3) According to market demand trends, industrial competition situation and planned launching time of new products, the company's planned product lines to be newly developed or constantly upgraded in 2013 are as follows:
- a. New generation of embedded high-speed eMMC Controller IC developed for smart phone, E-book, tablet and other handheld devices.
  - b. Flash Controller IC supporting UFS interface suitable for next generation of handheld communication devices.
  - c. PATA/SATA SSD control single chips and 1.8/2.5" SSD system products supporting MLC/TLC developed for PC, Ultrabook, low-cost PC and industrial PC market.
  - d. Integrated SATA SSD Controller IC and SiP and mSATA/M.2/Slim Type SSD Module system products of flash memory developed for tablet and low-cost PC.
  - e. SSD product of PCI Express interfaces developed for the demand of enterprise-level high-speed storage.
  - f. Application products related to USB 3.0 Controller IC, USB 3.0 UHS flash drive and USB 3.0 SSD.
  - g. USB3.0 Controller IC supporting WTG developed for Microsoft portable interpretative version.
  - h. UHS-I/UHS-II SDXC Controller IC and high-speed UHS-I/UHS-II SDXC memory cards developed for high-order camera market.
  - i. eMMC Controller IC supporting advanced data encryption/decryption algorithm.
  - j. Control single chips of memory card with strong computational capability supporting RTOS.
  - k. Controller IC of other embedded Flash application products.

**Phison Electronics Corporation**

President : Khein Seng Pua

General Manager : Cheek Kong Aw Yong

Accountant Officer: Shu Hua Chiu

# **Phison Electronics Corporation**

## **2014 Business Report (revised)**

### **I. Operating policy and implementation overview:**

In 2014, the global scientific and technological industry is characterized by dramatic change and consolidation. Facing rapid variation of upstream and downstream industries of the flash memory, the operating income of the company in 2014 was favorable under joint cooperation of all colleagues and strategic partners. The Restated consolidated operating income of the company in 2014 was NT\$32.82 billion, the net profit after tax hit NT\$2.78 billion and the earning per share after tax was NT\$17.48.

Facing the constant variation and expansion of the flash memory application product terminal market in 2014, Phison Electronics has strengthened the investment in design and R&D of SSD products in the product line, eMMC product line and other various embedded flash memory application products while constantly develops, innovates and upgrades the flash drive and flash memory card in the original product line. Meanwhile, Phison Electronics has actively developed the new application product market and expanded the sale market landscape and has realized a constant growth of shipment amount. In 2014, the overall shipment amount of SSD related Controller IC and finished products was increasing by about 104% from one year earlier, the overall shipment amount of Controller IC modules for the embedded flash memory application products realized an increase of about 18% from one year earlier and the product's market share has been improved continuously in the market sale landscape.

The flash memory terminal application products will be constantly promoted and NAND Flash Controller IC application will be expanded in 2015. Phison Electronics will constantly develop the innovated application Controller IC for various NAND Flash application products and provide the system integrated application design services and products. Phison Electronics will increase the investment in new process and R&D of innovated technologies and specifications according to the variation of the scientific and technological industry and the trend of Flash product application, so as to quicken the provision of diversified application products, constantly develop the new application market and expand the market share. In particular, Phison Electronics will improve the application of SSD, eMMC and innovative products in various scientific and technological products and expand the sale landscape. Phison Electronics will develop the new generation of embedded high-speed eMMC Controller IC for smart phone, tablet and other handheld devices



and develop the innovated SSD system products for Ultrabook, industrial PC market and other markets requiring the enterprise-level high-speed storage, Internet of Things and other network data storage demand, so as to provide the Total Solution technologies and services fit for the quick changing market, deepen the market competitiveness and continuously expand the market landscape.

In terms of operational strategy, the company will continue to promote the growth of Phison Electronics by way of steady expansion towards the development of the flash memory application product market. In 2014 and 2015, the company will continue the strategic cooperation with the upstream and downstream manufacturers to strengthen the strategic cooperation mutually by share investment, product cooperation, market development and other operational strategies and use the strategic alliance rationally for vertical resource integration and horizontal expansion to strengthen the market competitiveness. The company will continue to strengthen the R&D strength and technical quality of the specialized R&D team and continue to improve the efficiency of internal operation and customer service quality and will observe the market changes to timely and appropriately expand the domestic and international operating bases, to enhance the growth momentum, careful layout the domestic and international market and expand a wider range of application products and sale channels, extend towards a diversified market landscape and continue to create the competitive advantage, so as to realize the company's goal of sustainable and stable operation.

## **II. Operating results in 2014:**

### **A. Description of operating results:**

(1) Restated consolidated operating revenue:

The Restated consolidated net operating revenue of the company in 2014 was NT\$32,819,532 thousand, realizing an increase of NT\$41,423,016 thousand from NT\$31,396,516 thousand in 2013, up 4.53%.

(2) Restated consolidated net profit for the year:

The revenue consolidated net profit after tax of the company in 2014 was NT\$2,781,074 thousand, decreasing by NT\$786,904 thousand from NT\$3,567,978 thousand in 2013, down 22.05%.

**B. Budget implementation:** The financial forecast of the company in 2014 was not disclosed; therefore, it is not necessary to disclose the budget implementation.

### **C. Analysis of financial revenue and expenditure and profitability**

## (1) Restated consolidated operating income and expenditure

Unit: NT\$ thousand

Items	2014 (Restated)	2013 (Restated)	Increased (decreased) amount	Variable proportion (%)
Operating revenue	32,819,532	31,396,516	1,423,016	4.53%
Gross profit	5,369,234	6,334,452	(965,218)	(15.24%)
Operating income	2,790,032	3,861,397	(1,071,365)	(27.75%)
Nonoperating income and expenses	532,397	361,383	171,014	47.32%
Net profit after tax	2,781,074	3,567,978	(786,904)	(22.05%)

## (2) Restated consolidated operating and financial profitability

Items		2014 (Restated)	2013 (Restated)	
Financial structure	Debt Ratio	29.20	34.47	
	Ratio of long-term capital to property, plant and equipment	1,026.76	922.81	
Debt paying ability	Current ratio	301.74	262.53	
	Quick ratio	220.77	188.05	
	Interest earned ratio (times)	1,362.65	1,289.22	
Operating capability	Accounts receivable turnover (times)	8.59	8.70	
	Average collection period	42.49	41.95	
	Inventory turnover (times)	4.90	5.85	
	Average days in sales	74.48	62.39	
	Property, plant and equipment turnover (times)	20.33	21.02	
	Total assets turnover (times)	1.42	1.54	
Profitability	Return on total assets (%)	12.06	17.49	
	Return on attributed equity to stockholders' of the parents(%)	17.66	26.14	
	Ratio in paid-in capital (%)	Operating income	150.43	213.96
		Net profit before tax	179.13	233.98
	Profit ratio (%)	8.47	11.36	
	Earnings per share (NT\$)	17.48	17.57	
Cash flow	Cash flow ratio (%)	17.27	22.54	
	Cash flow adequacy ratio (%)	112.83	96.66	
	Cash reinvestment ratio (%)	(4.15)	1.96	

## D. R&D

### (1). R&D expenses in recent two years

The Restated consolidated R&D expenses in 2014 and 2013 were NT\$1,673,799 thousand and NT\$1,644,042 thousand respectively, accounting for 5.10% and 5.24% of the consolidated operating income of the year. As of the end of 2014, the company has obtained up to 700 approved patents in various countries.

### (2) R&D results

The following products have been successfully developed and promoted in 2014, including:

- A. Develop PCIE gen3 PHY for next generation of higher-speed transmission interface.
- B. Develop the highly-efficient and power-saving UFS gear 3 PHY for handheld devices.
- C. Develop next generation of eMMC5.0 Controller IC.
- D. Develop the flash memory Controller IC with multiple CPU cores to improve the data transmission and access speed.
- E. Develop DSP and LDPC error-corrected modules for the flash memory with more advanced process, to provide more powerful error correction capability.
- F. Develop the high-speed SDXC UHSII Controller IC and memory card.
- G. Develop the flash memory Controller IC and SSD with the maximum storage capacity up to 1TB.
- H. Develop USB3.0 Controller IC and pen drive with data transmission rate of more than 400MB.

### (3) According to market demand trends, industrial competition situation and planned launching time of new products, the company's planned product lines to be newly developed or constantly upgraded in 2015 are as follows:

- A. Integrate DSP+LDPC module into SSD Controller IC, increase the data access speed and extend the life cycle of SSD products.
- B. Develop PCIe NVM1.2 circuit module that supports the high-speed SSD.
- C. Develop UFS Unipro flash memory Controller IC.
- D. Develop the error corrected circuit module of high performance and low power consumption, to support 3D flash drive.
- E. Develop next generation of data encryption and decryption circuit module, utilize a safer algorithm and improve the command cycle.

F. Develop the core circuit module for flash memory management, simplify the firmware workflow, increase the data transmission efficiency and reduce the power consumption.

G. Constantly develop the products with innovative technology and specification fit for the application market against SSD product line and embedded flash drive module.

**Phison Electronics Corporation**

President : Khein Seng Pua

General Manager : Cheek Kong Aw Yong

Accountant Officer: Shu Hua Chiu

# **Phison Electronics Corporation**

## **2015 Business Report (revised)**

### **I. Operating policy and implementation overview:**

In 2015, the flash memory scientific and technological industry is constantly changing with the spreading of merger and acquisition topic, which adds more uncertainties towards the originally changing and treacherous economic environment. Thanks to the correct operating strategy, the operating income and net profit of the company in 2015 hit a record high. The Restated consolidated net operating income in 2015 was NT\$37.4 billion, the net profit after tax hit NT\$3.9 billion and the earning per share after tax was NT\$20.41.

The company has constantly invested in R&D for product innovation and upgrading in 2015 to quickly meet the demand of the constantly changing and expanding market of flash memory product terminals. Meanwhile, the company has strengthened the investment in innovation of SSD products in the product line and the design and R&D in eMMC product line and other flash memory application products and actively expanded the sale market landscape; benefit from these factors, the shipment amount has realized a constant growth. In 2015, the overall shipment amount of SSD related Controller IC and finished products was increasing by about 83% from one year earlier, the overall shipment amount of Controller IC modules for eMMC embedded flash memory application products realized an increase of about 66% from one year earlier and the product's market share has been improved continuously in the market sale landscape.

The flash memory terminal application products have been constantly promoted, the application of NAND Flash Controller IC is increasingly booming, the price of Flash raw materials is fast changing and the market environment is also increasingly competitive. Looking ahead 2016, apart from installation in various handheld devices, the flash memory terminal application products that are originally equipped with the traditional hard disk will be provided with SSD as the data storage equipment; therefore, the application of NAND Flash Controller IC will be increasingly expanding. Phison Electronics will constantly develop the innovated application Controller IC for various NAND Flash application products and provide the system integrated application design services and products. Phison Electronics will increase the investment in new process and innovate the technologies and specifications according to the quick changing of the scientific and technological industry and the trend of Flash product application, to quicken

the provision of diversified application products, in particular, improve the application of SSD, eMMC and innovative products in various technological products and expand the sale landscape. Phison Electronics will develop the new generation of embedded high-speed eMMC and UFS Controller IC for smart phone, tablet and other handheld devices and develop the innovated SSD system products for Ultrabook, industrial PC market and other markets requiring the enterprise-level high-speed storage as well as Internet of Things and other network data storage demand, so as to provide the Total Solution technologies and services fit for the quick changing market, deepen the market competitiveness and continuously expand the market landscape.

In terms of operational strategy, the company will continue to promote the growth of Phison Electronics by way of steady expansion towards the development of the flash memory application product market. Currently, the company has set up the operating bases in Japan, mainland China and other regions and will observe the market changes to timely and appropriately expand the Chinese mainland, domestic and international operating bases, to enhance the growth momentum, careful layout the domestic and international market and expand a wider range of application products and sale channels. The company will continue to cooperate with the upstream and downstream manufacturers to strategically invest in shares, product cooperation and market development and other operational strategies, to strengthen the strategic cooperation mutually, use the strategic alliance rationally for vertical resource integration and horizontal expansion to strengthen the market competitiveness, expand towards a wide range of market landscape and continue to create the competitive advantage, so as to achieve the company's goal of sustainable and stable operation.

## **II. Operating results in 2015:**

### **A. Description of operating results:**

#### (1) Restated consolidated operating revenue:

The restated consolidated net operating revenue of the company in 2015 was NT\$37,409,177 thousand, realizing an increase of NT\$4,589,645 thousand from NT\$32,819,532 thousand in 2014, up 13.98%.

#### (2) Restated consolidated net profit for the year:

The restated consolidated net profit after tax of the company in 2015 was NT\$3,896,693 thousand, realizing an increasing of NT\$1,115,619 thousand from NT\$2,781,074 thousand in 2014, up 40.11%.

**B. Budget implementation:** the financial forecast of the company in 2015 was not disclosed; therefore, it is not necessary to disclose the budget implementation.

**C. Analysis of financial revenue and expenditure and profitability**

(1) Restated consolidated operating revenue and expenditure

Unit: NT\$ thousand

Items	2015 (Restated)	2014 (Restated)	Increased (decreased) amount	Variable proportion (%)
Operating revenue	37,409,177	32,819,532	4,589,645	13.98%
Gross profit	7,627,464	5,369,234	2,258,230	42.06%
Operating income	4,226,904	2,790,032	1,436,872	51.50%
Nonoperating income and expenses	246,360	532,397	(286,037)	(53.73%)
Net profit after tax	3,896,693	2,781,074	1,115,619	40.11%

(2) Restated consolidated operating and financial profitability

Items		2015 (Restated)	2014 (Restated)
Financial structure	Debt Ratio	27.69	29.20
	Ratio of long-term capital to property, plant and equipment	1,255.03	1,026.76
Debt paying ability	Current ratio	318.26	301.74
	Quick ratio	250.14	220.77
	Interest earned ratio (times)	1,476.84	1,362.65
Operating capability	Accounts receivable turnover (times)	8.81	8.59
	Average collection period	41.43	42.49
	Inventory turnover (times)	5.52	4.90
	Average days in sales	66.12	74.48
	Accounts payable turnover (times)	7.16	6.20
	Property, plant and equipment turnover (times)	22.87	20.33
	Total assets turnover (times)	1.44	1.42
Profitability	Return on total assets (%)	14.96	12.06
	Return on attributed equity to stockholders' of the parents(%)	21.71	20.96
	Operating income to paid-in capital (%)	214.16	150.43
	Pre-tax income to paid-in capital (%)	226.64	179.13
	Profit ratio (%)	10.42	8.47
	Earnings per share (NT\$)	20.41	17.48
Cash flow	Cash flow ratio (%)	55.68	17.27
	Cash flow adequacy ratio (%)	114.25	112.83
	Cash reinvestment ratio (%)	10.18	(4.15)
Degree of leverage	Operating leverage	1.05	1.06
	Financial leverage	1.00	1.00

#### D. R&D

(1). R&D expenses in recent two years:

The restated consolidated R&D expenses in 2015 and 2014 were NT\$2,395,099 thousand and NT\$1,673,799 thousand respectively, accounting for 6.40% and 5.10% of the consolidated operating revenue of the year. As of the end of 2015, the company has obtained up to 932 approved patents in various countries.

(2) R&D results:

The following products have been successfully developed and promoted in 2015, including:

- A. Integrate DSP+LDPC module into SSD Controller IC, support next generation of flash drive to increase the data access speed and extend the life cycle of SSD products.
- B. Develop the error corrected circuit module of high performance and low power consumption, to support 3D flash drive.
- C. Develop next generation of data encryption and decryption circuit module, utilize a safer algorithm and improve the command cycle.
- D. Integrate DSP+LDPC module into eMMC Controller IC, support next generation of flash drive to increase the data speed and extend the life cycle of eMMC products.
- E. Develop eMMC Controller IC of latest specification that supports eMMC5.2.
- F. Develop the high-performance PCIE Gen3 PHY that supports the remote high-speed transmission at lower power consumption.
- G. Develop the compact SATA SSD of low power consumption and high performance.

(3) According to market demand trends, industrial competition situation and planned launching time of new products, the company's planned product lines to be newly developed or constantly upgraded in 2016 are as follows:

- A. Develop USB3.0 flash drive that supports the high-speed random write.
- B. Develop SD/microSD memory card that supports the high-speed random write.
- C. Develop UFS Unipro flash memory Controller IC.
- D. Develop the core circuit module for flash memory management, simplify the firmware workflow, increase the data transmission efficiency and reduce the power consumption.



- E. Combining the resources at Host end, develop the high-performance SSD that can reduce the overall power consumption.
- F. Constantly develop the products with innovative technology and specification fit for the application market against SSD product line and embedded flash drive module.

**Phison Electronics Corporation**

President : Khein Seng Pua

General Manager : Cheek Kong Aw Yong

Accountant Officer: Shu Hua Chiu

## **2009 to 2015 Supervisor's Review Report (Revised)**

The Board of Directors prepare the revised 2009 to 2015 Business Reports and the restated 2009 to 2012 Consolidated Financial Statements (including Restated Consolidated Balance Sheets, Restated Consolidated Statements Of Income, Restated Consolidated Statements Of Changes In Shareholders' Equity, Restated Consolidated Statements Of Cash Flows) and the restated 2013 to 2015 Consolidated Financial Statements (including Restated Consolidated Balance Sheets, Restated Consolidated Statements Of Comprehensive Income, Restated Statements Of Changes in Equity, Restated Consolidated Statements Of Cash Flows), and the restated Consolidated Financial Statements were audited by the accountants Hsin Wei Tai and Yu Wei Fan of Deloitte Taiwan, and provided with the relevant Audit Reports. The above revised Business Reports and the restated Consolidated Financial Statements have been audited by us (supervisors), and we all believed that there's no unconformity in them. We now make report as above in accordance with the provision of Article 219 of the Company Act, please check it.

Yours sincerely

2017 Annual General Shareholders Meeting

Phison Electronics Corporation

Supervisor: Yeong Jiunn Yang

Supervisor: Chiun Hsiou Chen

Supervisor: Huei Ming Wang

March 20,2017

## **Phison Electronics Corporation 2016 Business Report**

### **1. Operating Policy and Implementation Overview:**

Although facing many uncertainties factors and challenges of the memory industry environment, Phison Electronics Corporation once again achieved a lot of success and still created a new record of revenue and profitability in 2016. In 2016, the global economic slowdown and financial market volatility also affected the overall demand of the memory industry. However, with the leading position in technology, active layout of the global market, as well as timely providing and solving the customer needs, these are the main factors that Phison Electronics Corporation can perform better than other companies in the same industry in 2016. With the hardworking of all staff, the total revenue of the combined fiscal revenue was about NT\$ 43.8 billion, the combined after-tax surplus was about 4.8 billion NT, and the after-tax EPS was NT\$ 24.67 in 2016, Which are significantly higher than those in the year of 2015.

In 2016, the Company's overall shipments of SSD-related controllers and finished products accounted for 24% of the company's overall revenue, which is about 51% higher than that of the previous year. At the same time, the Company actively developed UFS controllers, which become the best choice for high-efficiency embedded storage devices for the next generation. R&D team also continued to invest in key IP development and process miniaturization, to provide a more complete product lineup, steping towards the next major industry milestone.

Benefit from the Internet and intelligent application market, the Cloud Computing Large Data Center is rapidly pushing up the penetration rate of ultra high-speed Solid State Disks (SSD) into the rapid growth phase. In the SSD application market, the Phison Electronics Corporation launches different NAND Flash controllers in response to the different applications, including the latest launched PCIe Gen 3x2 NVMe controllers, which are the leading products for the Company to actively seize the mainstream application market. In the enterprise SSD application market, Phison Electronics Corporation together with its partners launchesthe products using the ultra-high-speed 8-channel PCIe Gen3x4 controller from Phison Electronics Corporation, and jointly launched the

world-class quality U.2 SSD. In embedded applications, as fewer one of the world's industry leaders from eMMC to UFS, Phison Electronics Corporation will continue to drive the mobile storage devices into a new generation. A new controller that supports UFS2.1 is launched, which specially combines with the proprietary technology of Phison Electronics Corporation, with StrongECCTM and the CoProcessorTM architecture, thus it not only provides low power consumption but also shows the excellent error correction capabilities and SSD similar performance. In the memory card, Phison Electronics Corporation launched the latest SD5.1 A1 controller compatible with SD & microSD card, with the absolute advantage in high-speed random access, which is superior over the current industry SD5.1 A1 standard speed requirements and supports the more competitive 3D TLC Nand Flash, targeting high storage capacity application market. In the USB series, Phison Electronics Corporation produced the latest portable SSD SU31. The SU31 excellent performance can be seen from that it is able to simulate the performance measurement of the actual situation. In addition, the new iDUO Lightning and C-Thru USB3.1 solutions allow users to charge the phone or mobile device while using the storage device.

Looking forward to this (2017) year, although the global economic situation is still turbulent, the memory price continues to rise due to the shortage of goods which urgently need to be supplied by the upstream supply source manufacturers, leaving; in addition to the new generation of embedded high-speed eMMC and UFS controllers for various handheld devices such as smart phones and flat Computers, Phison Electronics Corporation continues to develop the innovative SSD system products for ultra-thin notebook, industrial computers, enterprise-class high-speed storage needs and network data storage of Internet of things and other application market etc., to provide the market required Total Solution technology and services with the rapid changes in response to rapid market changes, deepen the market competitiveness, and continuously expand the market area.

## **2. 2016 Business Results:**

### **A. Description of business results:**

#### **(1) Consolidated Operating revenue:**

The net consolidated operating revenue of the Company for the year 2016 is NT\$43,782,512 thousand, which is 17.04% higher than that of 2015 (which is NT\$37,409,177 thousand).

#### **(2) Consolidated net profit for the year:**

The consolidated net profit of the Company for the year 2016 is NT\$ 4,801,843 thousand, which is 23.23% higher than that of 2015 (which is NT\$ 3,896,693 thousand).

B. Budget implementation: the company did not disclose the financial forecast for the year 2016, so there is no need to publicly expose the budget implementation.

C. Analysis of business revenue and expenditure and profitability:

1. Consolidated operating revenue and expenditure:

Unit: NT\$ thousand

Items	2016	2015	Increased (decreased) amount	Variable proportion (%)
Operating revenue	43,782,512	37,409,177	6,373,335	17.04%
Gross profit	9,263,738	7,627,464	1,636,274	21.45%
Operating income	4,842,648	4,226,904	615,744	14.57%
Nonoperating income and expenses	634,278	246,360	387,918	157.46%
Net profit after tax	4,801,843	3,896,693	905,150	23.23%

2. Consolidated operating and financial profitability:

Items		2016	2015
Financial structure (%)	Debt Ratio	28.08	27.69
	Ratio of long-term capital to property, plant and equipment	947.81	1,255.03
Solvency (%)	Current ratio	300.48	318.26
	Quick ratio	241.07	250.14
	Interest earned ratio (times)	2,668.77	1,476.84
Operating performance	Accounts receivable turnover (times)	9.48	8.81
	Average collection period	38.50	41.43
	Inventory turnover (times)	6.59	5.52
	Average days in sales	55.38	66.12
	Accounts payable turnover (times)	8.51	7.16
	Property, plant and equipment turnover (times)	21.55	22.87
	Total assets turnover (times)	1.45	1.44
Profitability	Return on total assets (%)	15.91	14.96
	Return on attributed equity to stockholders' of the parent (%)	22.47	21.71
	Operating income to paid-in capital (%)	245.73	214.46
	Pre-tax income to paid-in capital (%)	277.91	226.64
	Profit ratio (%)	10.97	10.42
	Earnings per share (NT\$)	24.67	20.41
Cash flow	Cash flow ratio (%)	66.87	55.68
	Cash flow adequacy ratio (%)	123.62	114.25
	Cash reinvestment ratio (%)	15.30	10.18
Leverage	Operating leverage	1.05	1.05
	Financial leverage	1.00	1.00

#### D. Research and development overview:

##### 1. Research and development costs for the last two years:

The consolidated R&D expenses for 2016 and 2015 are NT\$ 3,218,183 thousand and NT\$ 2,395,099 thousand, accounting for 7.35% and 6.40% of the consolidated business revenue for that year respectively. As of 2016, the Company has obtained 1,194 approved patents in various countries.

##### 2. R&D results:

The Company has successfully developed and launched the following products in 2016, including:

- (1)The development of the lower power consumption MIPI Gear 3 PHY as the host interface for UFS Unipro flash controller
- (2)The development of USB3.0 flash disk for supporting high-speed random write
- (3)The development of Developing SD/microSD card for supporting high-speed, high-quality and long continuous recording
- (4)The development of flash memory management core circuit module, to simplify the firmware workflow, increase the data transmission efficiency, and reduce the power consumption
- (5)The development of power-saving technology, to effectively reduce the system power consumption, to reduce the power consumption of SSD products
- (6)The development of SD/microSD card with high-random read/write capability for expansion of built-in flash memory for handheld devices

##### 3. Taking account of the market demand trend, the industry competition situation and the planed launching time for new products, the product lines planning to be newly developed or continuously upgraded are as follows:

- (1)The development of USB3.0 flash disk for supporting high-speed random write
- (2)The development of SD/microSD card for supporting high-speed random write
- (3)The development of UFS Unipro flash controller
- (4)The development of flash memory management core circuit module, to simplify the firmware workflow, increase the data transmission efficiency, and reduce the power consumption
- (5)The development of high-performance SSD to reduce the overall power consumption, by combining with Host end resources

(6)The continuous development of innovative technology products in cooperate with the application market, intended for the SSD product line and built-in flash memory module

**Phison Electronics Corporation**

President : Khein Seng Pua

General Manager : Cheek Kong Aw Yong

Accountant Officer: Shu Hua Chiu

## 2016 Supervisor's Review Report

The Board of Directors prepared the 2016 Business Report and Financial Statements (including Consolidated Financial Statements) and the Proposal for Distribution of Profits, and the Financial Statements have been audited by the accountants Hsin Wei Tai and Yu Wei Fan of Deloitte Taiwan and provided with relevant Audit Reports. The above Business Report and the Financial Statements (including Consolidated Financial Statements) and the Proposal for Distribution of Profits have been audited by us (supervisors), and we all believed that there's no unconformity in them. We now make report as above in accordance with the provision of Article 219 of the Company Act, please check it.

Yours sincerely

2017 Annual General Shareholders' Meeting

Phison Electronics Corporation

Supervisor: Yeong Jiunn Yang

Supervisor: Chiun Hsiou Chen

Supervisor: Huei Ming Wang

March 20,2017



### 2016 Implementation of Treasury Stocks

Buyback sessions	The second time (session)
Purpose of the buyback	To maintain the corporate credit and the shareholders' equity
Buyback period	105/08/10~105/08/10
Buyback interval price	NT\$ 215.74
Category and number of shares boughtback	300,000 shares of common shares
Amount of shares boughtback	NT\$ 64,722,087
Number of shares sold and transferred	300,000 shares
Cumulative number of shares held	0 share
Percentage of cumulative number of shares held in total number of issued shares (%)	0.00%

Note: For the actual purchased 300,000 Treasury shares, it has been scheduled to reduce capitals on the base date of November 10, 2016, and the Letter No. 10501280670 authorized by the Ministry of Economic Affairs has approved this capital reduction and make registration for it.

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(In Thousands)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$ 23,006 (US\$ 790)	Note 2	\$ 23,006 (US\$ 790)	\$ -	\$ -	\$ 23,006 (US\$ 790)	100.00	\$ (2,645)	\$ 133	\$ -
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.	576,780 (US\$ 18,000)	Note 2	576,780 (US\$ 18,000)	-	-	576,780 (US\$ 18,000)	100.00	17,227	545,498	-

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

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

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

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

**REPRESENTATION LETTER**

The affiliates of Phison Electronics Corp. (the “Corporation”), which should have been included in the combined financial statements of the Corporation and its affiliates as of and for the year ended December 31, 2009 based on the “Regulations Governing The Preparation of Combined Financial Statements of Public Companies and Their Affiliates” in the Republic of China (ROC), are the same as those included in the consolidated financial statements of the Corporation and its subsidiary as of and for the year ended December 31, 2009, prepared under the Statement of Financial Accounting Standards No. 7, “Consolidated Financial Statements,” in the ROC. The information required to be disclosed in the combined financial statements has already been disclosed in the above consolidated financial statements. Consequently, there is no need to prepare separate combined financial statements of the Corporation and its affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA  
Chairman

September 21, 2016

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

We have audited the accompanying restated consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiary as of December 31, 2009 and 2008, and the related restated consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. and its subsidiary as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Note 2, to conform to Rule No. 1050036477 issued by the FSC, Phison Electronics Corp. acknowledged Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation, Cloud Solution Global Limited and Fast Choice Global Limited) and Twinson Electronics Corporation (100% acquired by Phison Electronics Corp. on December 25, 2014 and renamed as Ostek Corporation) as its controlled entities and included these entities in the consolidated financial statements. Such rule and acknowledgment served as the basis for the restatement of the consolidated financial statements from January 1, 2009 to June 30, 2016. Please refer to Note 2 for the effects of the restatement on the consolidated financial statements.

As stated in Note 26, on August 5, 2016, Phison Electronics Corp. was searched by the Hsinchu District Prosecutors Office for alleged violation of the Securities and Exchange Act, and relevant personnel had been interrogated. The case remains under statutory investigation.

As disclosed in Note 3 to the consolidated financial statements, in March 2007, the Accounting Research and Development Foundation of the Republic of China issued Interpretation No. 2007-052, which requires companies to recognize as compensation expenses the bonuses to employees and remuneration to directors and supervisors beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings.

September 21, 2016

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the financial position, results of operations 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 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 SUBSIDIARY**

**RESTATED CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2009 AND 2008**

**(In Thousands of New Taiwan Dollars, Except Par Value)**

ASSETS	2009		2008		LIABILITIES AND SHAREHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 3,938,774	27	\$ 2,439,836	32	Short-term loans (Notes 13 and 21)	\$ 799,750	6	\$ -	-
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	461,604	3	-	-	Notes and accounts payable				
Notes and accounts receivable					Third parties	1,691,222	12	1,043,438	13
Third parties, net (Notes 2 and 6)	3,041,263	21	1,392,083	18	Related parties (Note 20)	2,385,749	16	903,461	12
Related parties (Note 20)	281,945	2	140,087	2	Income tax payable (Notes 2 and 15)	191,349	1	10	-
Other financial assets (Note 20)	36,681	-	32,754	-	Accrued expenses (Note 17)	982,657	7	361,941	5
Inventories, net (Notes 2, 3 and 7)	3,518,702	25	1,320,374	17	Deferred income tax liabilities - current (Notes 2 and 15)	-	-	1,392	-
Prepayments (Note 12)	1,384,858	10	708,010	9	Other	92,464	1	52,341	1
Deferred income tax assets - current (Notes 2 and 15)	163,486	1	150,198	2	Total current liabilities	6,143,191	43	2,362,583	31
Restricted assets- current (Note 21)	5,193	-	5,100	-	<b>OTHER LIABILITIES</b>				
Other	310,951	2	121,930	2	Guarantee deposits received	66	-	353	-
Total current assets	13,143,457	91	6,310,372	82	Deferred credits (Notes 2 and 20)	10,160	-	10,257	-
<b>LONG-TERM INVESTMENTS</b>					Total other liabilities	10,226	-	10,610	-
Investments accounted for by the equity method (Notes 2 and 9)	402,549	3	398,438	5	Total liabilities	6,153,417	43	2,373,193	31
Financial assets carried at cost - noncurrent (Notes 2 and 8)	29,953	-	45,356	1	<b>SHAREHOLDERS' EQUITY (Notes 2, 3 and 17)</b>				
Total long-term investments	432,502	3	443,794	6	Capital stock - NT\$10.00 par value				
<b>PROPERTIES (Notes 2, 10, 20 and 21)</b>					Authorized - 180,000 thousand shares				
Cost					Issued and outstanding - 146,727 thousand shares in 2009 and 126,766 thousand shares in 2008	1,467,273	10	1,267,662	17
Land	364,478	3	388,000	5	Advance receipts for common stock	66,166	-	-	-
Buildings	286,886	2	391,868	5	Capital surplus				
Testing equipment	108,135	1	97,502	2	Additional paid-in capital	3,016,551	21	2,235,062	29
Office equipment	16,778	-	16,074	-	From long-term investment	23,367	-	21,088	-
Other equipment	1,845	-	1,870	-	Employee stock options	42,183	-	321	-
Total cost	778,122	6	895,314	12	Total capital surplus	3,082,101	21	2,256,471	29
Less: Accumulated depreciation	93,329	1	68,783	1	Retained earnings				
	684,793	5	826,531	11	Legal reserve	429,879	3	374,481	5
Construction in progress	24,230	-	-	-	Unappropriated retained earnings	2,980,919	21	1,492,893	19
Prepayments for land and equipment	3,682	-	3,682	-	Total retained earnings	3,410,798	24	1,867,374	24
Net properties	712,705	5	830,213	11	Other equity				
<b>INTANGIBLE ASSETS (Notes 2, 11, 20 and 22)</b>					Cumulative translation adjustments	(1,643)	-	-	-
	80,147	1	54,591	-	Treasury stock - 750 thousand shares	-	-	(127,645)	(2)
<b>OTHER ASSETS</b>					Total other equity	(1,643)	-	(127,645)	(2)
Guarantee deposits paid (Note 21)	1,830	-	4,231	-	Total shareholders' equity to owners of the Company	8,024,695	55	5,263,862	68
Deferred income tax assets - noncurrent (Notes 2 and 15)	1,798	-	1,448	-	Non-controlling interests	246,053	2	61,126	1
Restricted assets- noncurrent (Note 21)	47,985	-	49,200	1	Total shareholders' equity	8,270,748	57	5,324,988	69
Miscellaneous (Notes 2 and 14)	3,741	-	4,332	-	<b>TOTAL</b>	<b>\$ 14,424,165</b>	<b>100</b>	<b>\$ 7,698,181</b>	<b>100</b>
Total other assets	55,354	-	59,211	1					
<b>TOTAL</b>	<b>\$ 14,424,165</b>	<b>100</b>	<b>\$ 7,698,181</b>	<b>100</b>					

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARY

## RESTATED CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 20)				
Gross sales	\$ 25,199,007	101	\$ 19,415,846	101
Less: Sales returns and allowances	<u>259,771</u>	<u>1</u>	<u>127,218</u>	<u>1</u>
Net sales	24,939,236	100	19,288,628	100
Service revenue	<u>22,478</u>	<u>-</u>	<u>10,695</u>	<u>-</u>
Total operating revenue	24,961,714	100	19,299,323	100
OPERATING COSTS (Notes 3, 7, 16 and 20)	<u>20,965,026</u>	<u>84</u>	<u>17,983,245</u>	<u>93</u>
GROSS PROFIT	<u>3,996,688</u>	<u>16</u>	<u>1,316,078</u>	<u>7</u>
OPERATING EXPENSES (Note 16)				
Marketing	297,405	1	201,870	1
General and administrative	298,756	1	241,399	2
Research and development	<u>985,347</u>	<u>4</u>	<u>418,890</u>	<u>2</u>
Total operating expenses	<u>1,581,508</u>	<u>6</u>	<u>862,159</u>	<u>5</u>
OPERATING INCOME	<u>2,415,180</u>	<u>10</u>	<u>453,919</u>	<u>2</u>
NONOPERATING INCOME AND GAINS				
Gain on disposal of properties (Notes 2 and 20)	39,242	-	-	-
Gains on disposal of investments, net (Notes 2, 5 and 8)	6,064	-	3,420	-
Interest income	3,636	-	26,636	-
Foreign exchange gains, net (Note 2)	-	-	98,343	1
Other (Notes 2, 5 and 20)	<u>28,545</u>	<u>-</u>	<u>72,061</u>	<u>-</u>
Total nonoperating income and gains	<u>77,487</u>	<u>-</u>	<u>200,460</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	14,627	-	-	-
Equity in net loss of investees (Notes 2 and 9)	5,951	-	1,118	-
Interest expense	4,145	-	756	-
Impairment loss on financial assets carried at cost (Notes 2, 8 and 9)	4,100	-	16,800	-
Other (Note 2)	<u>94</u>	<u>-</u>	<u>519</u>	<u>-</u>
Total nonoperating expenses and losses	<u>28,917</u>	<u>-</u>	<u>19,193</u>	<u>-</u>

(Continued)





**PHISON ELECTRONICS CORP. AND SUBSIDIARY**

RESTATED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2009 AND 2008  
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Equity Attributable to Owners of the Parent														
	Capital Stocks Issued and Outstanding		Advance Receipts for Common Stock	Paid-in Capital in Excess of Par Value	Capital Surplus			Legal Reserve	Retained Earnings		Cumulative Translation Adjustment	Treasury Stock	Total	Non-controlling Interests	Total Equity
	Shares (Thousands)	Amount			Long-term Investment	Employee Stock Options	Total		Unappropriated	Total					
BALANCE, JANUARY 1, 2008	101,180	\$ 1,011,802	\$ -	\$ 1,767,962	\$ 4,517	\$ -	\$ 1,772,479	\$ 235,243	\$ 1,977,073	\$ 2,212,316	\$ -	\$ -	\$ 4,996,597	\$ 33,566	\$ 5,030,163
Appropriation of the 2007 earnings	-	-	-	-	-	-	-	139,238	(139,238)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	(22,000)	(22,000)	-	-	-	-	-
Bonus to employees - stock	2,200	22,000	-	-	-	-	-	-	(60,000)	(60,000)	-	-	(60,000)	-	(60,000)
Bonus to employees - cash	-	-	-	-	-	-	-	-	(200,860)	(200,860)	-	-	-	-	-
Stock dividends - NTS\$1.93637 per share	20,086	200,860	-	-	-	-	-	-	(602,582)	(602,582)	-	-	(602,582)	-	(602,582)
Cash dividends - NTS\$5.80912 per share	-	-	-	-	-	-	-	-	(13,484)	(13,484)	-	-	(13,484)	-	(13,484)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance after appropriation	123,466	1,234,662	-	1,767,962	4,517	-	1,772,479	374,481	938,909	1,313,390	-	-	4,320,531	33,566	4,354,097
Effect of change in equity in an investee due to the Corporation's subscription for additional shares issued by an investee at a rate not equal to its current equity	-	-	-	-	16,571	-	16,571	-	-	-	-	-	16,571	-	16,571
Issuance of capital stock as of June 16, 2008 - NTS\$128.00 per share	1,200	12,000	-	141,600	-	-	141,600	-	-	-	-	-	153,600	-	153,600
Issuance of capital stock as of June 23, 2008 - NTS\$165.00 per share	2,100	21,000	-	325,500	-	-	325,500	-	-	-	-	-	346,500	-	346,500
Acquisition of treasury stock - 750 thousand shares	-	-	-	-	-	-	-	-	-	-	(127,645)	(127,645)	-	(127,645)	
Compensation cost recognized for employee stock options	-	-	-	-	-	321	321	-	-	-	-	-	321	-	321
Consolidated net income in 2008	-	-	-	-	-	-	-	-	553,984	553,984	-	-	553,984	27,560	581,544
BALANCE, DECEMBER 31, 2008	126,766	1,267,662	-	2,235,062	21,088	321	2,256,471	374,481	1,492,893	1,867,374	-	(127,645)	5,263,862	61,126	5,324,988
Appropriation of the 2008 earnings	-	-	-	-	-	-	-	55,398	(55,398)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	(120,000)	(120,000)	-	-	-	-	-
Stock dividends - NTS\$0.89508 per share	12,000	120,000	-	-	-	-	-	-	(380,000)	(380,000)	-	-	(380,000)	-	(380,000)
Cash dividends - NTS\$2.83442 per share	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance after appropriation	138,766	1,387,662	-	2,235,062	21,088	321	2,256,471	429,879	937,495	1,367,374	-	(127,645)	4,883,862	61,126	4,944,988
Effect of change in equity in an investee due to the Corporation's subscription for additional shares issued by an investee at a rate not equal to its current equity	-	-	-	-	2,279	-	2,279	-	-	-	-	-	2,279	-	2,279
Bonus to employees - stock	661	6,611	-	106,389	-	-	106,389	-	-	-	-	-	113,000	-	113,000
Issuance of capital stock as of February 18, 2009 - NTS\$53.00 per share	1,700	17,000	-	73,100	-	-	73,100	-	-	-	-	-	90,100	-	90,100
Issuance of capital stock as of May 15, 2009 - NTS\$117.50 per share	5,600	56,000	-	602,000	-	-	602,000	-	-	-	-	-	658,000	-	658,000
Compensation cost recognized for employee stock options	-	-	-	-	-	41,862	41,862	-	-	-	-	-	41,862	-	41,862
Transfer of treasury stock to employees	-	-	-	-	-	-	-	-	(19,637)	(19,637)	-	127,645	108,008	-	108,008
Advance receipts for common stock - employee stock options	-	-	66,166	-	-	-	-	-	-	-	-	-	66,166	-	66,166
Foreign long-term investments translation adjustment	-	-	-	-	-	-	-	-	-	-	(1,643)	-	(1,643)	-	(1,643)
Consolidated net income in 2009	-	-	-	-	-	-	-	-	2,063,061	2,063,061	-	-	2,063,061	184,927	2,247,988
BALANCE, DECEMBER 31, 2009	146,727	\$ 1,467,273	\$ 66,166	\$ 3,016,551	\$ 23,367	\$ 42,183	\$ 3,082,101	\$ 429,879	\$ 2,980,919	\$ 3,410,798	\$ (1,643)	\$ -	\$ 8,024,695	\$ 246,053	\$ 8,270,748

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARY

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 2,247,988	\$ 581,544
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization	55,552	55,013
Compensation cost of employee stock options	49,220	321
Depreciation	40,517	40,832
(Gain) loss on disposal and retirement of properties, net (including realized deferred credits)	(39,217)	207
Allowance for sales returns and discounts	24,383	-
Deferred income tax	(15,030)	19,866
Gain on disposal of intangible assets (including realized deferred credits)	(10,257)	(38,813)
Allowance (reversal of) for doubtful accounts	7,002	(18,433)
Equity in net loss of investees	5,951	1,118
Write-down (reversal of write-down) of inventories	5,290	(5,536)
Impairment loss on financial assets carried at cost	4,100	16,800
(Gain) loss on disposal of financial assets carried at cost	(2,365)	755
Properties transferred to expenses	-	1,411
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	(461,604)	-
Notes and accounts receivable	(1,822,423)	442,590
Other financial assets	(3,927)	(31,404)
Inventories	(2,203,618)	633,781
Other current assets	(865,869)	(506,746)
Notes and accounts payable	2,130,072	(818,424)
Income tax payable	191,339	(114,859)
Accrued expenses	733,716	156,771
Other current liabilities	38,170	(9,610)
Prepaid pension cost	591	(629)
Net cash generated from operating activities	<u>109,581</u>	<u>406,505</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds of the disposal of properties	171,090	2,134
Increase in intangible assets	(81,108)	(35,082)
Increase in investments accounted for by the equity method	(43,353)	(140,138)
Acquisition of properties	(42,769)	(340,442)
Proceeds of capital reduction from investees	33,927	-
Proceeds of the disposal of financial assets carried at cost	16,965	1,745
Increase in financial assets carried at cost	(3,297)	(10,356)
Decrease in guarantee deposits paid	2,401	2,484
Decrease in restricted assets	1,122	4,598
Proceeds of the disposal of intangible assets	-	50,000
Net cash generated from (used in) investing activities	<u>54,978</u>	<u>(465,057)</u>

Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARY

### RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	\$ 799,750	\$ -
Proceeds of the issuance of capital stock	748,100	500,100
Cash dividends paid	(380,000)	(602,582)
Transfer of treasury stock to employee	100,650	-
Advance receipts for common stock - employee stock options	66,166	-
(Decrease) increase in guarantee deposit received	(287)	353
Capital paid for acquisition of treasury stock	-	(127,645)
Bonus to employees and remuneration to directors and supervisors	-	(73,484)
	<u>1,334,379</u>	<u>(303,258)</u>
Net cash generated from (used in) financing activities		
	<u>1,334,379</u>	<u>(303,258)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>1,498,938</b>	<b>(361,760)</b>
<b>CASH , BEGINNING OF YEAR</b>	<b><u>2,439,836</u></b>	<b><u>2,801,596</u></b>
<b>CASH, END OF YEAR</b>	<b><u>\$ 3,938,774</u></b>	<b><u>\$ 2,439,836</u></b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 4,068</u>	<u>\$ 756</u>
Income tax paid	<u>\$ 39,449</u>	<u>\$ 149,492</u>
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS</b>		
Increase in properties	\$ 44,722	\$ 337,692
(Increase) decrease in payables to contractors and equipment suppliers (included in other current liabilities)	<u>(1,953)</u>	<u>2,750</u>
Acquisition of properties	<u>\$ 42,769</u>	<u>\$ 340,442</u>

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

(Concluded)

## REPRESENTATION LETTER

The affiliates of Phison Electronics Corp. (the “Corporation”), which should have been included in the combined financial statements of the Corporation and its affiliates as of and for the year ended December 31, 2010 based on the “Regulations Governing The Preparation of Combined Financial Statements of Public Companies and Their Affiliates” in the Republic of China (ROC), are the same as those included in the consolidated financial statements of the Corporation and its subsidiary as of and for the year ended December 31, 2010, prepared under the Statement of Financial Accounting Standards No. 7, “Consolidated Financial Statements,” in the ROC. The information required to be disclosed in the combined financial statements has already been disclosed in the above consolidated financial statements. Consequently, there is no need to prepare separate combined financial statements of the Corporation and its affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA  
Chairman

September 21, 2016

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

We have audited the accompanying restated consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiary as of December 31, 2010 and 2009, and the related restated consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. and its subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Note 2, to conform to Rule No. 1050036477 issued by the FSC, Phison Electronics Corp. acknowledged Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation, Cloud Solution Global Limited and Fast Choice Global Limited) and Twinson Electronics Corporation (100% acquired by Phison Electronics Corp. on December 25, 2014 and renamed as Ostek Corporation) as its controlled entities and included these entities in the consolidated financial statements. Such rule and acknowledgment served as the basis for the restatement of the consolidated financial statements from January 1, 2009 to June 30, 2016. Please refer to Note 2 for the effects of the restatement on the consolidated financial statements.

As stated in Note 25, on August 5, 2016, Phison Electronics Corp. was searched by the Hsinchu District Prosecutors Office for alleged violation of the Securities and Exchange Act, and relevant personnel had been interrogated. The case remains under statutory investigation.

September 21, 2016

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the financial position, results of operations 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 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 SUBSIDIARY**

**RESTATED CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2010 AND 2009**

**(In Thousands of New Taiwan Dollars, Except Par Value)**

ASSETS	2010		2009		LIABILITIES AND SHAREHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 5,812,830	39	\$ 3,938,774	27	Short-term loans (Notes 14 and 22)	\$ 1,106,940	7	\$ 799,750	6
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	403,012	3	461,604	3	Notes and accounts payable				
Notes and accounts receivable					Third parties	1,168,664	8	1,691,222	12
Third parties, net (Notes 2 and 6)	2,596,052	17	3,041,263	21	Related parties (Note 21)	2,460,924	16	2,385,749	16
Related parties (Note 21)	344,947	2	281,945	2	Income tax payable (Notes 2 and 16)	160,415	1	191,349	1
Other financial assets (Note 21)	8,504	-	36,681	-	Accrued expenses (Note 18)	825,059	6	982,657	7
Inventories (Notes 2, 3 and 7)	3,162,487	21	3,518,702	25	Deferred income tax liabilities (Notes 2 and 16)	4,658	-	-	-
Prepayments (Note 13)	934,925	6	1,384,858	10	Others	113,489	1	92,464	1
Deferred income tax assets - current (Notes 2 and 16)	82,964	1	163,486	1	Total current liabilities	<u>5,840,149</u>	<u>39</u>	<u>6,143,191</u>	<u>43</u>
Restricted assets (Note 22)	5,741	-	5,193	-	<b>OTHER LIABILITIES</b>				
Others	232,510	2	310,951	2	Guarantee deposits received	196	-	66	-
Total current assets	<u>13,583,972</u>	<u>91</u>	<u>13,143,457</u>	<u>91</u>	Deferred credits (Notes 2 and 21)	9,975	-	10,160	-
<b>LONG-TERM INVESTMENTS</b>					Total other liabilities	<u>10,171</u>	<u>-</u>	<u>10,226</u>	<u>-</u>
Investments accounted for by the equity method (Notes 2 and 10)	455,489	3	402,549	3	Total liabilities	<u>5,850,320</u>	<u>39</u>	<u>6,153,417</u>	<u>43</u>
Available-for-sale financial assets - noncurrent (Notes 2 and 8)	31,540	-	-	-	<b>SHAREHOLDERS' EQUITY (Notes 2 and 18)</b>				
Financial assets carried at cost - noncurrent (Notes 2 and 9)	28,668	-	29,953	-	Capital stock - NT\$10.00 par value				
Total long-term investments	<u>515,697</u>	<u>3</u>	<u>432,502</u>	<u>3</u>	Authorized - 230,000 thousand shares in 2010 and 180,000 thousand shares in 2009				
<b>PROPERTIES (Notes 2, 11, 21 and 22)</b>					Issued and outstanding - 177,078 thousand shares in 2010 and 146,727 thousand shares in 2009	1,770,788	12	1,467,273	10
Cost					Advance receipts for common stock	12,246	-	66,166	-
Land	375,235	3	364,478	3	Capital surplus				
Land improvement	5,095	-	-	-	Additional paid-in capital	3,112,044	21	3,016,551	21
Buildings	320,225	2	286,886	2	From long-term investment	23,466	-	23,367	-
Testing equipment	118,921	1	108,135	1	Employee stock options	86,670	-	42,183	-
Office equipment	17,377	-	16,778	-	Total capital surplus	3,222,180	21	3,082,101	21
Other equipment	2,799	-	1,845	-	Retained earnings				
Total cost	839,652	6	778,122	6	Legal reserve	636,185	4	429,879	3
Less: Accumulated depreciation	110,517	1	93,329	1	Special reserve	1,643	-	-	-
	729,135	5	684,793	5	Unappropriated retained earnings	3,256,071	22	2,980,919	21
Construction in progress	-	-	24,230	-	Total retained earnings	3,893,899	26	3,410,798	24
Prepayments for equipment	4,080	-	3,682	-	Other equity				
Net properties	<u>733,215</u>	<u>5</u>	<u>712,705</u>	<u>5</u>	Unrealized loss on financial assets	(8,460)	-	-	-
<b>INTANGIBLE ASSETS (Notes 2, 12, 21 and 23)</b>	<u>81,158</u>	<u>1</u>	<u>80,147</u>	<u>1</u>	Cumulative translation adjustments	(6,432)	-	(1,643)	-
<b>OTHER ASSETS</b>					Total other equity	(14,892)	-	(1,643)	-
Guarantee deposits paid	2,293	-	1,830	-	Total shareholders' equity to owners of the Company	8,884,221	59	8,024,695	55
Deferred income tax assets - noncurrent (Notes 2 and 16)	3,070	-	1,798	-	Non-controlling interests	231,172	2	246,053	2
Restricted assets- noncurrent (Note 22)	43,695	-	47,985	-	Total shareholders' equity	<u>9,115,393</u>	<u>61</u>	<u>8,270,748</u>	<u>57</u>
Miscellaneous (Notes 2 and 15)	2,613	-	3,741	-	<b>TOTAL</b>	<u>\$ 14,965,713</u>	<u>100</u>	<u>\$ 14,424,165</u>	<u>100</u>
Total other assets	<u>51,671</u>	<u>-</u>	<u>55,354</u>	<u>-</u>					
<b>TOTAL</b>	<u>\$ 14,965,713</u>	<u>100</u>	<u>\$ 14,424,165</u>	<u>100</u>					

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARY

## RESTATED CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 21)				
Gross sales	\$ 31,621,412	101	\$ 25,199,007	101
Less: Sales returns and allowances	<u>204,803</u>	<u>1</u>	<u>259,771</u>	<u>1</u>
Net sales	31,416,609	100	24,939,236	100
Service revenue	<u>63,052</u>	<u>-</u>	<u>22,478</u>	<u>-</u>
Total operating revenue	31,479,661	100	24,961,714	100
OPERATING COSTS (Notes 3, 7, 17 and 21)	<u>28,215,531</u>	<u>90</u>	<u>20,965,026</u>	<u>84</u>
GROSS PROFIT	<u>3,264,130</u>	<u>10</u>	<u>3,996,688</u>	<u>16</u>
OPERATING EXPENSES (Note 17)				
Marketing	294,004	1	297,405	1
General and administrative	216,749	1	298,756	1
Research and development	<u>795,422</u>	<u>2</u>	<u>985,347</u>	<u>4</u>
Total operating expenses	<u>1,306,175</u>	<u>4</u>	<u>1,581,508</u>	<u>6</u>
OPERATING INCOME	<u>1,957,955</u>	<u>6</u>	<u>2,415,180</u>	<u>10</u>
NONOPERATING INCOME AND GAINS				
Interest income	4,630	-	3,636	-
Gain on disposal of properties (Notes 2 and 21)	366	-	39,242	-
Other (Notes 2, 5, 9 and 21)	<u>20,332</u>	<u>-</u>	<u>34,609</u>	<u>-</u>
Total nonoperating income and gains	<u>25,328</u>	<u>-</u>	<u>77,487</u>	<u>-</u>
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	107,364	-	14,627	-
Equity in net loss of investees (Notes 2 and 10)	12,370	-	5,951	-
Interest expense	7,642	-	4,145	-
Impairment loss on financial assets carried at cost (Notes 2 and 9)	6,767	-	4,100	-
Other (Note 2)	<u>179</u>	<u>-</u>	<u>94</u>	<u>-</u>
Total nonoperating expenses and losses	<u>134,322</u>	<u>-</u>	<u>28,917</u>	<u>-</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	1,848,961	6	2,463,750	10
INCOME TAX EXPENSE (Notes 2 and 16)	<u>353,271</u>	<u>1</u>	<u>215,762</u>	<u>1</u>
CONSOLIDATED NET INCOME	<u>\$ 1,495,690</u>	<u>5</u>	<u>\$ 2,247,988</u>	<u>9</u>

(Continued)



# PHISON ELECTRONICS CORP. AND SUBSIDIARY

## RESTATED CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
NET PROFIT ATTRIBUTED TO:				
Owners of the Parent	\$ 1,515,723	5	2,063,061	8
Non-controlling interests	<u>(20,033)</u>	<u>-</u>	<u>184,927</u>	<u>1</u>
	<u>\$ 1,495,690</u>	<u>5</u>	<u>\$ 2,247,988</u>	<u>9</u>
	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 10.53</u>	<u>\$ 8.57</u>	<u>\$ 13.02</u>	<u>\$ 11.94</u>
Diluted	<u>\$ 10.21</u>	<u>\$ 8.31</u>	<u>\$ 12.60</u>	<u>\$ 11.55</u>

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARY**

**RESTATEd CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**  
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Equity Attributable to Owners of the Parent																
	Capital Stocks Issued and Outstanding		Advance Receipts for Common Stock	Capital Surplus				Retained Earnings				Other Equity			Non-controlling Interests	Total Equity	
	Shares	Amount		Paid-in Capital in Excess of Par Value	Long-term Investment	Employee Stock Options	Total	Legal Reserve	Special Reserve	Unappropriated	Total	Unrealized Loss on Financial Assets	Cumulative Translation Adjustments	Treasury Stock			Total
	(Thousands)																
BALANCE, JANUARY 1, 2009	126,766	\$ 1,267,662	\$ -	\$ 2,235,062	\$ 21,088	\$ 321	\$ 2,256,471	\$ 374,481	\$ -	\$ 1,492,893	\$ 1,867,374	\$ -	\$ -	\$ (127,645)	\$ 5,263,862	\$ 61,126	\$ 5,324,988
Appropriation of the 2008 earnings	-	-	-	-	-	-	-	55,398	-	(55,398)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	(120,000)	(120,000)	-	-	-	-	-	-
Stock dividends - NTS0.89508 per share	12,000	120,000	-	-	-	-	-	-	-	(120,000)	(120,000)	-	-	-	-	-	-
Cash dividends - NTS2.83442 per share	-	-	-	-	-	-	-	-	-	(380,000)	(380,000)	-	-	-	(380,000)	-	(380,000)
Balance after appropriation	138,766	1,387,662	-	2,235,062	21,088	321	2,256,471	429,879	-	937,495	1,367,374	-	-	(127,645)	4,883,862	61,126	4,944,988
Effect of change in equity in an investee due to the Corporation's subscription for additional shares issued by an investee at a rate not equal to its current equity	-	-	-	-	2,279	-	2,279	-	-	-	-	-	-	-	2,279	-	2,279
Bonus to employees - stock	661	6,611	-	106,389	-	-	106,389	-	-	-	-	-	-	-	113,000	-	113,000
Issuance of capital stock as of February 18, 2009 - NTS\$53.00 per share	1,700	17,000	-	73,100	-	-	73,100	-	-	-	-	-	-	-	90,100	-	90,100
Issuance of capital stock as of May 15, 2009 - NTS\$117.50 per share	5,600	56,000	-	602,000	-	-	602,000	-	-	-	-	-	-	-	658,000	-	658,000
Compensation cost recognized for employee stock options	-	-	-	-	-	41,862	41,862	-	-	-	-	-	-	-	41,862	-	41,862
Transfer of treasury stock to employees	-	-	-	-	-	-	-	-	-	(19,637)	(19,637)	-	-	127,645	108,008	-	108,008
Advance receipts for common stock - employee stock options	-	-	66,166	-	-	-	-	-	-	-	-	-	-	-	66,166	-	66,166
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	(1,643)	-	-	(1,643)	-	(1,643)
Consolidated net income in 2009	-	-	-	-	-	-	-	-	-	2,063,061	2,063,061	-	-	-	2,063,061	184,927	2,247,988
BALANCE, DECEMBER 31, 2009	146,727	1,467,273	66,166	3,016,551	23,367	42,183	3,082,101	429,879	-	2,980,919	3,410,798	-	(1,643)	-	8,024,695	246,053	8,270,748
Appropriation of the 2009 earnings	-	-	-	-	-	-	-	206,306	-	(206,306)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	(1,643)	(1,643)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	1,643	-	-	-	-	-	-	-	-
Stock dividends - NTS\$1.99946 per share	29,503	295,035	-	-	-	-	-	-	-	(295,035)	(295,035)	-	-	-	-	-	-
Cash dividends - NTS\$4.99864 per share	-	-	-	-	-	-	-	-	-	(737,587)	(737,587)	-	-	-	(737,587)	-	(737,587)
Balance after appropriation	176,230	1,762,308	66,166	3,016,551	23,367	42,183	3,082,101	636,185	1,643	1,740,348	2,378,176	-	(1,643)	-	7,287,108	246,053	7,533,161
Effect of change in equity in an investee due to the Corporation's subscription for shares issued by an investee at a rate not equal to its current equity	-	-	-	-	99	-	99	-	-	-	-	-	-	-	99	-	99
Transfer of employee stock options to capital stock on January 31, 2010 - NTS\$123.10 per share	538	5,375	(66,166)	60,791	-	-	60,791	-	-	-	-	-	-	-	-	-	-
Transfer of executed employee stock options to capital stock on April 30, 2010 - NTS\$123.10 per share	252	2,525	-	28,558	-	-	28,558	-	-	-	-	-	-	-	31,083	-	31,083
Transfer of executed employee stock options to capital stock on June 30, 2010 - NTS\$123.1 per share	20	200	-	2,262	-	-	2,262	-	-	-	-	-	-	-	2,462	-	2,462
Transfer of executed employee stock options to capital stock on October 31, 2010 - 20,000 shares, NTS\$123.1 per share; 18,000 shares, NTS\$100 per share	38	380	-	3,882	-	-	3,882	-	-	-	-	-	-	-	4,262	-	4,262
Advance receipts for common stock - employee stock options	-	-	12,246	-	-	-	-	-	-	-	-	-	-	-	12,246	-	12,246
Compensation cost recognized for employee stock options	-	-	-	-	-	44,487	44,487	-	-	-	-	-	-	-	44,487	-	44,487
Unrealized loss on financial assets	-	-	-	-	-	-	-	-	-	-	-	(8,460)	-	-	(8,460)	-	(8,460)
Translation of adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	(4,789)	-	-	(4,789)	-	(4,789)
Consolidated net income in 2010	-	-	-	-	-	-	-	-	-	1,515,723	1,515,723	-	-	-	1,515,723	(20,033)	1,495,690
Non-controlling Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,152	5,152
BALANCE, DECEMBER 31, 2010	177,078	\$ 1,770,788	\$ 12,246	\$ 3,112,044	\$ 23,466	\$ 86,670	\$ 3,222,180	\$ 636,185	\$ 1,643	\$ 3,256,071	\$ 3,893,899	\$ (8,460)	\$ (6,432)	\$ -	\$ 8,884,221	\$ 231,172	\$ 9,115,393

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARY

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 1,495,690	\$ 2,247,988
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax	83,908	(15,030)
Amortization	54,034	55,552
Compensation cost of employee stock options	44,487	49,220
Depreciation	44,027	40,517
Equity in net loss of investees	12,370	5,951
Write-down of inventories	9,421	5,290
(Reversal of) allowance of doubtful accounts	(7,912)	7,002
Impairment loss on financial assets carried at cost	6,767	4,100
Allowance for sales returns and discounts	6,184	24,383
Gain on disposal and retirement of properties, net (including realized deferred credits)	(339)	(39,217)
Intangible assets transferred to expenses	281	-
Gain on disposal of intangible assets (including realized deferred credits)	-	(10,257)
Gain on disposal of financial assets carried at cost	-	(2,365)
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	58,592	(461,604)
Notes and accounts receivable	573,607	(1,822,423)
Other financial assets	28,438	(3,927)
Inventories	596,882	(2,203,618)
Other current assets	559,788	(865,869)
Notes and accounts payable	(915,389)	2,130,072
Income tax payable	(30,934)	191,339
Accrued expenses	(158,076)	733,716
Other current liabilities	3,899	38,170
Prepaid pension cost	1,128	591
Net cash generated from operating activities	<u>2,466,853</u>	<u>109,581</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in investment accounted for by the equity method	(70,000)	(43,353)
Acquisition of properties	(62,383)	(42,769)
Increase in intangible assets	(55,299)	(81,108)
Increase in available-for-sale financial assets - noncurrent	(40,000)	-
Increase in financial assets carried at cost	(8,035)	(3,297)
Decrease in restricted assets	4,281	1,122
Proceeds of capital reduction from investees	2,553	33,927
Proceeds of the disposal of properties	1,479	171,090
(Increase) decrease in guarantee deposits paid	(155)	2,401
Proceeds of the disposal of financial assets carried at cost	-	16,965
Net cash (used in) generated from investing activities	<u>(227,559)</u>	<u>54,978</u>

(Continued)

# PHISON ELECTRONICS CORP. AND SUBSIDIARY

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	\$ (737,587)	\$ (380,000)
Increase in short-term loans	307,190	799,750
Transfer of executed employee stock option to capital stock	37,807	-
Advance receipts for common stock - employee stock options	12,246	66,166
Decrease in Non-controlling interests	5,152	-
Increase (decrease) in guarantee deposit received	130	(287)
Proceeds of the issuance of capital stock	-	748,100
Transfer of treasury stock to employee	-	100,650
	<u>(375,062)</u>	<u>1,334,379</u>
Net cash (used in) generated from financing activities		
	<u>9,824</u>	<u>-</u>
Effect of Initial Consolidation of Subsidiaries		
NET INCREASE IN CASH	1,874,056	1,498,938
CASH, BEGINNING OF YEAR	<u>3,938,774</u>	<u>2,439,836</u>
CASH, END OF YEAR	<u>\$ 5,812,830</u>	<u>\$ 3,938,774</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 7,286</u>	<u>\$ 4,068</u>
Income tax paid	<u>\$ 300,297</u>	<u>\$ 39,449</u>
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS</b>		
Increase in properties	\$ 65,435	\$ 44,722
Increase in payables to contractors and equipment suppliers (included in other current liabilities)	<u>(3,052)</u>	<u>(1,953)</u>
Acquisition of properties	<u>\$ 62,383</u>	<u>\$ 42,769</u>

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

## **REPRESENTATION LETTER**

The affiliates of Phison Electronics Corp. (the “Corporation”), which should have been included in the combined financial statements of the Corporation and its affiliates as of and for the year ended December 31, 2011 based on the “Regulations Governing The Preparation of Combined Financial Statements of Public Companies and Their Affiliates” in the Republic of China (ROC), are the same as those included in the consolidated financial statements of the Corporation and its subsidiaries as of and for the year ended December 31, 2011, prepared under the Statement of Financial Accounting Standards No. 7 - “Consolidated Financial Statements,” in the ROC. The information required to be disclosed in the combined financial statements has already been disclosed in the above consolidated financial statements. Consequently, there is no need to prepare separate combined financial statements of the Corporation and its affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA  
Chairman

September 21, 2016

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

We have audited the accompanying restated consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiaries as of December 31, 2011 and 2010, and the related restated consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. and its subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Note 2, to conform to Rule No. 1050036477 issued by the FSC, Phison Electronics Corp. acknowledged Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation, Cloud Solution Global Limited and Fast Choice Global Limited) and Twinson Electronics Corporation (100% acquired by Phison Electronics Corp. on December 25, 2014 and renamed as Ostek Corporation) as its controlled entities and included these entities in the consolidated financial statements. Such rule and acknowledgment served as the basis for the restatement of the consolidated financial statements from January 1, 2009 to June 30, 2016. Please refer to Note 2 for the effects of the restatement on the consolidated financial statements.

As stated in Note 25, on August 5, 2016, Phison Electronics Corp. was searched by the Hsinchu District Prosecutors Office for alleged violation of the Securities and Exchange Act, and relevant personnel had been interrogated. The case remains under statutory investigation.

September 21, 2016

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the financial position, results of operations 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 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

### RESTATED CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011		2010		LIABILITIES AND SHAREHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 6,982,877	39	\$ 5,812,830	39	Short-term loans (Note 14)	\$ 302,750	2	\$ 1,106,940	7
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	558,667	3	403,012	3	Notes and accounts payable				
Notes and accounts receivable					Third parties	1,826,037	10	1,168,664	8
Third parties, net (Notes 2, 3 and 6)	3,359,441	19	2,596,052	17	Related parties (Note 21)	2,740,042	15	2,460,924	16
Related parties (Note 21)	772,942	4	344,947	2	Income tax payable (Notes 2 and 16)	382,970	2	160,415	1
Other financial assets (Note 21)	26,305	-	8,504	-	Accrued expenses (Note 18)	1,381,284	8	825,059	6
Inventories (Notes 2 and 7)	3,615,975	20	3,162,487	21	Deferred income tax liabilities - current (Notes 2 and 16)	-	-	4,658	-
Prepayments (Note 13)	567,738	3	934,925	6	Others	53,092	-	113,489	1
Deferred income tax assets - current (Notes 2 and 16)	67,263	1	82,964	1					
Restricted assets (Note 22)	5,211	-	5,741	-	Total current liabilities	6,686,175	37	5,840,149	39
Others	321,543	2	232,510	2					
Total current assets	16,277,962	91	13,583,972	91	<b>OTHER LIABILITIES</b>				
					Guarantee deposits received	206	-	196	-
<b>LONG-TERM INVESTMENTS</b>					Deferred credits (Notes 2 and 21)	-	-	9,975	-
Investments accounted for by the equity method (Notes 2 and 10)	161,748	1	455,489	3					
Prepayments for long-term investment (Notes 2 and 9)	15,000	-	-	-	Total other liabilities	206	-	10,171	-
Available-for-sale financial assets - noncurrent (Notes 2 and 8)	969	-	31,540	-					
Financial assets carried at cost - noncurrent (Notes 2 and 9)	131,374	1	28,668	-	Total liabilities	6,686,381	37	5,850,320	39
Total long-term investments	309,091	2	515,697	3	<b>SHAREHOLDERS' EQUITY (Notes 2 and 18)</b>				
					Capital stock - NT\$10 par value				
<b>PROPERTIES (Notes 2, 11 and 21)</b>					Authorized - 230,000 thousand shares in 2011 and 2010				
Cost					Issued and outstanding - 178,753 thousand shares in 2011 and 177,078 thousand shares in 2010	1,787,532	10	1,770,788	12
Land	505,235	3	375,235	3	Advance receipts for common stock	3,779	-	12,246	-
Land improvements	18,695	-	5,095	-	Capital surplus				
Buildings	320,225	2	320,225	2	Additional paid-in capital	3,220,972	18	3,112,044	21
Testing equipment	139,648	1	118,921	1	Long-term investments	10,373	-	23,466	-
Office equipment	7,808	-	17,377	-	Employee stock options	53,975	-	86,670	-
Other equipment	2,473	-	2,799	-	Expired stock options	16	-	-	-
Total cost	994,084	6	839,652	6	Total capital surplus	3,285,336	18	3,222,180	21
Less: Accumulated depreciation	133,613	1	110,517	1	Retained earnings				
Construction in progress	395,550	2	-	-	Legal reserve	787,757	4	636,185	4
Prepayments for equipment	4,011	-	4,080	-	Special reserve	14,892	-	1,643	-
Net properties	1,260,032	7	733,215	5	Unappropriated retained earnings	4,931,505	28	3,256,071	22
					Total retained earnings	5,734,154	32	3,893,899	26
<b>INTANGIBLE ASSETS (Notes 2 and 12)</b>					Other equity				
	76,035	-	81,158	1	Cumulative translation adjustments	(4,912)	-	(6,432)	-
					Unrealized loss on financial instruments	(1,831)	-	(8,460)	-
<b>OTHER ASSETS</b>					Total other equity	(6,743)	-	(14,892)	-
Guarantee deposits paid	543	-	2,293	-	Total shareholders' equity to owners of the Company	10,804,058	60	8,884,221	59
Deferred income tax assets - noncurrent (Notes 2 and 16)	9,672	-	3,070	-	Non-controlling interests	500,738	3	231,172	2
Restricted assets (Note 22)	45,413	-	43,695	-					
Miscellaneous (Notes 2 and 15)	12,429	-	2,613	-	Total shareholders' equity	11,304,796	63	9,115,393	61
Total other assets	68,057	-	51,671	-					
<b>TOTAL</b>	<b>\$ 17,991,177</b>	<b>100</b>	<b>\$ 14,965,713</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 17,991,177</b>	<b>100</b>	<b>\$ 14,965,713</b>	<b>100</b>

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



# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 21)				
Gross sales	\$ 32,256,161	101	\$ 31,621,412	100
Less: Sales returns and allowances	<u>439,712</u>	<u>1</u>	<u>204,803</u>	<u>-</u>
Net sales	31,816,449	100	31,416,609	100
Service revenue	<u>50,573</u>	<u>-</u>	<u>63,052</u>	<u>-</u>
Total operating revenue	31,867,022	100	31,479,661	100
OPERATING COSTS (Notes 7, 17 and 21)	<u>26,881,060</u>	<u>85</u>	<u>28,215,531</u>	<u>90</u>
GROSS PROFIT	<u>4,985,962</u>	<u>15</u>	<u>3,264,130</u>	<u>10</u>
OPERATING EXPENSES (Note 17)				
Marketing	442,559	1	294,004	1
General and administrative	322,235	1	216,749	1
Research and development	<u>1,185,084</u>	<u>4</u>	<u>795,422</u>	<u>2</u>
Total operating expenses	<u>1,949,878</u>	<u>6</u>	<u>1,306,175</u>	<u>4</u>
OPERATING INCOME	<u>3,036,084</u>	<u>9</u>	<u>1,957,955</u>	<u>6</u>
NONOPERATING INCOME AND GAINS				
Foreign exchange gain, net (Note 2)	228,780	1	-	-
Gain on disposal of investments, net (Notes 5, 8 and 9)	16,935	-	311	-
Gain on disposal of properties (Notes 2 and 21)	9,836	-	366	-
Interest income	9,298	-	4,630	-
Other (Notes 2, 5 and 21)	<u>42,898</u>	<u>-</u>	<u>20,021</u>	<u>-</u>
Total nonoperating income and gains	<u>307,747</u>	<u>1</u>	<u>25,328</u>	<u>-</u>
NONOPERATING EXPENSES AND LOSSES				
Equity in net loss of investees (Notes 2 and 10)	34,555	-	12,370	-
Interest expense	4,825	-	7,642	-
Impairment loss on financial assets carried at cost (Notes 2 and 9)	8,752	-	6,767	-
Foreign exchange loss, net (Note 2)	-	-	107,364	-
Other (Notes 2 and 5)	<u>11,190</u>	<u>-</u>	<u>179</u>	<u>-</u>
Total nonoperating expenses and losses	<u>59,322</u>	<u>-</u>	<u>134,322</u>	<u>-</u>

(Continued)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
CONSOLIDATED INCOME BEFORE INCOME TAX	\$ 3,284,509	10	\$ 1,848,961	6
INCOME TAX EXPENSE (Notes 2 and 16)	<u>398,545</u>	<u>1</u>	<u>353,271</u>	<u>1</u>
CONSOLIDATED NET INCOME	<u>\$ 2,885,964</u>	<u>9</u>	<u>\$ 1,495,690</u>	<u>5</u>
NET PROFIT ATTRIBUTED TO:				
Owners of the Parent	\$ 2,616,398	8	1,515,723	5
Non-controlling interests	<u>269,566</u>	<u>1</u>	<u>(20,033)</u>	<u>-</u>
	<u>\$ 2,885,964</u>	<u>9</u>	<u>\$ 1,495,690</u>	<u>5</u>
	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 16.75</u>	<u>\$ 14.68</u>	<u>\$ 10.53</u>	<u>\$ 8.57</u>
Diluted	<u>\$ 16.40</u>	<u>\$ 14.37</u>	<u>\$ 10.21</u>	<u>\$ 8.31</u>

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

**RESTATED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2011 AND 2010  
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)**

	Equity Attributable to Owners of the Parent																	
	Capital Stocks Issued and Outstanding		Advance Receipts for Common Stock	Capital Surplus					Retained Earnings				Other Equity		Non-controlling Interests	Total Equity		
	Shares (Thousands)	Amount		Paid-in Capital in Excess of Par Value	Long-term Investment	Employee Stock Options	Expired Stock Options	Total	Legal Reserve	Special Reserve	Unappropriated	Total	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments			Total	
BALANCE, JANUARY 1, 2010	146,727	\$ 1,467,273	\$ 66,166	\$ 3,016,551	\$ 23,367	\$ 42,183	\$ -	\$ 3,082,101	\$ 429,879	\$ -	\$ 2,980,919	\$ 3,410,798	\$ (1,643)	\$ -	\$ 8,024,695	\$ 246,053	\$ 8,270,748	
Appropriation of the 2009 earnings	-	-	-	-	-	-	-	-	206,306	-	(206,306)	-	-	-	-	-	-	
Legal reserve	-	-	-	-	-	-	-	-	-	1,643	(1,643)	-	-	-	-	-	-	
Special reserve	-	-	-	-	-	-	-	-	-	-	(295,035)	(295,035)	-	-	-	-	-	
Stock dividends - NTS1.99946 per share	29,503	295,035	-	-	-	-	-	-	-	-	(737,587)	(737,587)	-	-	(737,587)	-	(737,587)	
Cash dividends - NTS4.99864 per share	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Balance after appropriation	176,230	1,762,308	66,166	3,016,551	23,367	42,183	-	3,082,101	636,185	1,643	1,740,348	2,378,176	(1,643)	-	7,287,108	246,053	7,533,161	
Effect of change in equity in an investee due to the Corporation's subscription for shares issued by an investee at a rate not equal to its current equity	-	-	-	-	99	-	-	99	-	-	-	-	-	-	99	-	99	
Transfer of employee stock options to capital stock on January 31, 2010 - NTS123.1 per share	538	5,375	(66,166)	60,791	-	-	-	60,791	-	-	-	-	-	-	-	-	-	
Transfer of executed employee stock options to capital stock on April 30, 2010 - NTS123.1 per share	252	2,525	-	28,558	-	-	-	28,558	-	-	-	-	-	-	31,083	-	31,083	
Transfer of executed employee stock options to capital stock on June 30, 2010 - NTS123.1 per share	20	200	-	2,262	-	-	-	2,262	-	-	-	-	-	-	2,462	-	2,462	
Transfer of executed employee stock options to capital stock on October 31, 2010 - 20,000 shares, NTS123.1 per share; 18,000 shares, NTS100 per share	38	380	-	3,882	-	-	-	3,882	-	-	-	-	-	-	4,262	-	4,262	
Advance receipts for common stock - employee stock options	-	-	12,246	-	-	-	-	-	-	-	-	-	-	-	12,246	-	12,246	
Compensation cost recognized for employee stock options	-	-	-	-	-	44,487	-	44,487	-	-	-	-	-	-	44,487	-	44,487	
Unrealized loss on financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,460)	(8,460)	-	(8,460)	
Translation of adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	(4,789)	-	(4,789)	-	(4,789)	
Consolidated net income in 2010	-	-	-	-	-	-	-	-	-	-	1,515,723	1,515,723	-	-	1,515,723	(20,033)	1,495,690	
Non-controlling Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,152	5,152	
BALANCE, DECEMBER 31, 2010	177,078	1,770,788	12,246	3,112,044	23,466	86,670	-	3,222,180	636,185	1,643	3,256,071	3,893,899	(6,432)	(8,460)	8,884,221	231,172	9,115,393	
Appropriation of the 2010 earnings	-	-	-	-	-	-	-	-	151,572	-	(151,572)	-	-	-	-	-	-	
Legal reserve	-	-	-	-	-	-	-	-	-	-	(13,249)	(13,249)	-	-	-	-	-	
Special reserve	-	-	-	-	-	-	-	-	-	-	(776,143)	(776,143)	-	-	(776,143)	-	(776,143)	
Cash dividends - NTS4.344886 per share	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Balance after appropriation	177,078	1,770,788	12,246	3,112,044	23,466	86,670	-	3,222,180	787,757	14,892	2,315,107	3,117,756	(6,432)	(8,460)	8,108,078	231,172	8,339,250	
Effect of change in equity in an investee due to the Corporation's subscription for additional shares issued by an investee at a rate not equal to its current equity	-	-	-	-	-	5,060	-	5,060	-	-	-	-	-	-	5,060	-	5,060	
Adjustments on shareholders' equity due to disposal of long-term investment	-	-	-	-	(18,153)	-	-	(18,153)	-	-	-	-	-	-	(18,153)	-	(18,153)	
Transfer of employee stock options to capital stock on January 3, 2011 - NTS100 per share	58	575	(5,750)	5,175	-	-	-	5,175	-	-	-	-	-	-	-	-	-	
Transfer of employee stock options to capital stock on January 3, 2011 - NTS29 per share	224	2,240	(6,496)	7,712	-	(3,456)	-	4,256	-	-	-	-	-	-	-	-	-	
Transfer of executed employee stock options to capital stock on May 5, 2011 - NTS29 per share	175	1,750	-	6,025	-	(2,700)	-	3,325	-	-	-	-	-	-	5,075	-	5,075	
Transfer of executed employee stock options to capital stock on May 5, 2011 - NTS54.7 per share	991	9,910	-	75,049	-	(30,751)	-	44,298	-	-	-	-	-	-	54,208	-	54,208	
Transfer of executed employee stock options to capital stock on July 8, 2011 - NTS29 per share	23	230	-	792	-	(355)	-	437	-	-	-	-	-	-	667	-	667	
Transfer of executed employee stock options to capital stock on July 8, 2011 - NTS54.7 per share	85	844	-	6,400	-	(2,622)	-	3,778	-	-	-	-	-	-	4,622	-	4,622	
Transfer of executed employee stock options to capital stock on October 5, 2011 - NTS28.2 per share	27	270	-	908	-	(417)	-	491	-	-	-	-	-	-	761	-	761	
Transfer of executed employee stock options to capital stock on October 5, 2011 - NTS53.2 per share	92	925	-	6,867	-	(2,870)	-	3,997	-	-	-	-	-	-	4,922	-	4,922	
Advance receipts for common stock - employee stock options	-	-	3,779	-	-	-	-	-	-	-	-	-	-	-	3,779	-	3,779	
Compensation cost recognized for employee stock options	-	-	-	-	-	10,492	-	10,492	-	-	-	-	-	-	10,492	-	10,492	
Expired stock options	-	-	-	-	-	(16)	16	-	-	-	-	-	-	-	-	-	-	
Unrealized gain on financial assets	-	-	-	-	-	-	-	-	-	-	-	-	6,629	6,629	-	-	6,629	
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	1,520	1,520	-	-	1,520	
Consolidated net income in 2011	-	-	-	-	-	-	-	-	-	-	2,616,398	2,616,398	-	-	2,616,398	269,566	2,885,964	
BALANCE, DECEMBER 31, 2011	178,753	\$ 1,787,532	\$ 3,779	\$ 3,220,972	\$ 10,373	\$ 53,975	\$ 16	\$ 3,285,336	\$ 787,757	\$ 14,892	\$ 4,931,505	\$ 5,734,154	\$ (4,912)	\$ (1,831)	\$ 10,804,058	\$ 500,738	\$ 11,304,796	

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 2,885,964	\$ 1,495,690
Adjustments to reconcile net income to net cash provided by operating activities:		
Write-down of inventories	103,501	9,421
Allowance for sales returns and discounts	58,229	6,184
Amortization	50,499	54,034
Depreciation	44,133	44,027
Equity in net loss of investees	34,555	12,370
Allowance of (reversal of) doubtful accounts	30,417	(7,912)
Gain on disposal of investments, net	(20,225)	-
Deferred income tax	5,771	83,908
Compensation cost of employee stock options	10,492	44,487
Gain on disposal of properties, net (including realized deferred credits)	(9,836)	(339)
Impairment loss on financial assets carried at cost	8,752	6,767
Intangible assets transferred to expenses	-	281
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	(155,655)	58,592
Notes and accounts receivable	(1,280,030)	573,607
Other financial assets	(17,801)	28,438
Inventories	(556,989)	596,882
Other current assets	278,154	559,788
Notes and accounts payable	936,491	(915,389)
Income tax payable	222,555	(30,934)
Accrued expenses	556,225	(158,076)
Other current liabilities	(59,421)	3,899
Deferred expenses	(11,337)	-
Prepaid pension cost	1,521	1,128
Net cash generated from operating activities	<u>3,115,965</u>	<u>2,466,853</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of properties	(572,323)	(62,383)
Proceeds of the disposal of financial assets carried at cost	241,907	-
Increase in investments accounted for by the equity method	(75,536)	(70,000)
Increase in intangible assets	(45,376)	(55,299)
Proceeds of the disposal of available-for-sale financial assets	37,628	-
Increase in prepayments for long-term investment	(15,000)	-
Increase in financial assets carried at cost	(13,327)	(8,035)
Decrease (increase) in guarantee deposits paid	1,750	(155)
Proceeds of the disposal of properties	258	1,479
(Increase) Decrease in restricted assets	(1,188)	4,281
Increase in available-for-sale financial assets - noncurrent	-	(40,000)
Proceeds of capital reduction from investees	-	2,553
Net cash used in investing activities	<u>(441,207)</u>	<u>(227,559)</u>

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in short-term loans	\$ (804,190)	\$ 307,190
Cash dividends paid	(776,143)	(737,587)
Transfer of executed employee stock options to capital stock	70,255	37,807
Advance receipts for common stock - employee stock options	3,779	12,246
Increase in guarantee deposits received	10	130
Decrease in Non-controlling interests	<u>-</u>	<u>5,152</u>
Net cash used in financing activities	<u>(1,506,289)</u>	<u>(375,062)</u>
<b>EFFECT OF EXCHANGE RATE CHANGES</b>		
	<u>1,578</u>	<u>-</u>
Effect of Initial Consolidation of Subsidiaries	<u>-</u>	<u>9,824</u>
<b>NET INCREASE IN CASH</b>	<b>1,170,047</b>	<b>1,874,056</b>
<b>CASH, BEGINNING OF YEAR</b>	<u><b>5,812,830</b></u>	<u><b>3,938,774</b></u>
<b>CASH, END OF YEAR</b>	<u><b>\$ 6,982,877</b></u>	<u><b>\$ 5,812,830</b></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 5,109</u>	<u>\$ 7,286</u>
Income tax paid	<u>\$ 171,557</u>	<u>\$ 300,297</u>
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS</b>		
Increase in properties	\$ 571,347	\$ 65,435
Increase (decrease) in payables to contractors and equipment suppliers (included in other current liabilities)	<u>976</u>	<u>(3,052)</u>
Acquisition of properties	<u>\$ 572,323</u>	<u>\$ 62,383</u>

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

## **REPRESENTATION LETTER**

The affiliates of Phison Electronics Corp. (the “Corporation”), which should have been included in the combined financial statements of the Corporation and its affiliates as of and for the year ended December 31, 2012 based on the “Regulations Governing The Preparation of Combined Financial Statements of Public Companies and Their Affiliates” in the Republic of China (ROC), are the same as those included in the consolidated financial statements of the Corporation and its subsidiaries as of and for the year ended December 31, 2012, prepared under the Statement of Financial Accounting Standards No. 7 - “Consolidated Financial Statements,” in the ROC. The information required to be disclosed in the combined financial statements has already been disclosed in the above consolidated financial statements. Consequently, there is no need to prepare separate combined financial statements of the Corporation and its affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA  
Chairman

September 21, 2016

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

We have audited the accompanying restated consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiaries as of December 31, 2012 and 2011, and the related restated consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Note 2, to conform to Rule No. 1050036477 issued by the FSC, Phison Electronics Corp. acknowledged Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation, Cloud Solution Global Limited and Fast Choice Global Limited) and Twinson Electronics Corporation (100% acquired by Phison Electronics Corp. on December 25, 2014 and renamed as Ostek Corporation) as its controlled entities and included these entities in the consolidated financial statements. Such rule and acknowledgment served as the basis for the restatement of the consolidated financial statements from January 1, 2009 to June 30, 2016. Please refer to Note 2 for the effects of the restatement on the consolidated financial statements.

As stated in Note 25, on August 5, 2016, Phison Electronics Corp. was searched by the Hsinchu District Prosecutors Office for alleged violation of the Securities and Exchange Act, and relevant personnel had been interrogated. The case remains under statutory investigation.

September 21, 2016

Notice to Readers

*The accompanying consolidated financial statements are intended only to present the financial position, results of operations 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 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

### RESTATED CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2012		2011		LIABILITIES AND SHAREHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash (Note 4)	\$ 9,033,052	49	\$ 6,982,877	39	Short-term loans (Note 14)	\$ 261,360	2	\$ 302,750	2
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	514,477	3	558,667	3	Notes and accounts payable				
Notes and accounts receivable					Third parties	1,458,386	8	1,826,037	10
Third parties, net (Notes 2, 3 and 6)	3,233,332	18	3,359,441	19	Related parties (Note 21)	1,882,030	10	2,740,042	15
Related parties (Note 21)	336,211	2	772,942	4	Income tax payable (Notes 2 and 16)	443,892	2	382,970	2
Other financial assets (Note 21)	140,236	1	202,418	1	Accrued expenses (Note 18)	1,541,607	8	1,381,284	8
Inventories (Notes 2 and 7)	2,900,541	16	3,615,975	20	Other	90,714	1	53,092	-
Prepayments (Note 13)	107,445	-	567,738	3					
Deferred income tax assets - current (Notes 2 and 16)	74,553	-	67,263	1	Total current liabilities	<u>5,677,989</u>	<u>31</u>	<u>6,686,175</u>	<u>37</u>
Restricted assets (Note 22)	20,229	-	5,211	-	<b>OTHER LIABILITIES</b>				
Other	137,396	1	145,430	1	Accrued pension cost (Notes 2 and 15)	1,556	-	-	-
					Guarantee deposits received	262	-	206	-
Total current assets	<u>16,497,472</u>	<u>90</u>	<u>16,277,962</u>	<u>91</u>					
<b>LONG-TERM INVESTMENTS</b>					Total other liabilities	<u>1,818</u>	<u>-</u>	<u>206</u>	<u>-</u>
Investments accounted for by the equity method (Notes 2 and 10)	90,562	-	161,748	1	Total liabilities	<u>5,679,807</u>	<u>31</u>	<u>6,686,381</u>	<u>37</u>
Prepayments for long-term investments (Notes 2 and 9)	-	-	15,000	-	<b>SHAREHOLDERS' EQUITY (Notes 2 and 18)</b>				
Available-for-sale financial assets - noncurrent (Notes 2 and 8)	-	-	969	-	Capital stock - NT\$10 par value				
Financial assets carried at cost - noncurrent (Notes 2 and 9)	148,904	1	131,374	1	Authorized - 230,000 thousand shares in 2012 and 2011				
					Issued and outstanding - 180,162 thousand shares in 2012 and				
Total long-term investments	<u>239,466</u>	<u>1</u>	<u>309,091</u>	<u>2</u>	178,753 thousand shares in 2011	1,801,622	10	1,787,532	10
<b>PROPERTIES (Notes 2, 11 and 21)</b>					Advance receipts for common stock	9,051	-	3,779	-
Cost					Capital surplus				
Land	505,235	3	505,235	3	Additional paid-in capital	3,326,030	18	3,220,972	18
Land improvements	18,695	-	18,695	-	Long-term investments	7,488	-	10,373	-
Buildings	837,742	5	320,225	2	Employee stock options	10,010	-	53,975	-
Testing equipment	171,167	1	139,648	1	Expired stock options	178	-	16	-
Office equipment	21,754	-	7,808	-	Total capital surplus	<u>3,343,706</u>	<u>18</u>	<u>3,285,336</u>	<u>18</u>
Leased improvement	6,324	-	-	-	Retained earnings				
Other equipment	4,206	-	2,473	-	Legal reserve	1,049,399	6	787,757	4
Total cost	1,565,123	9	994,084	6	Special reserve	6,743	-	14,892	-
Less: Accumulated depreciation	173,106	1	133,613	1	Unappropriated retained earnings	6,113,902	33	4,931,505	28
	1,392,017	8	860,471	5	Total retained earnings	<u>7,170,044</u>	<u>39</u>	<u>5,734,154</u>	<u>32</u>
Construction in progress	-	-	395,550	2	Other equity				
Prepayments for equipment	13,672	-	4,011	-	Cumulative translation adjustments	(9,001)	-	(4,912)	-
					Unrealized loss on financial instruments	-	-	(1,831)	-
Net properties	<u>1,405,689</u>	<u>8</u>	<u>1,260,032</u>	<u>7</u>	Total other equity	<u>(9,001)</u>	<u>-</u>	<u>(6,743)</u>	<u>-</u>
<b>INTANGIBLE ASSETS (Notes 2 and 12)</b>	<u>83,043</u>	<u>1</u>	<u>76,035</u>	<u>-</u>	Total shareholders' equity to owners of the Company	12,315,422	67	10,804,058	60
<b>OTHER ASSETS</b>					Non-controlling interests	296,179	2	500,738	3
Guarantee deposits paid	833	-	543	-					
Deferred income tax assets - noncurrent (Notes 2 and 16)	21,125	-	9,672	-	Total shareholders' equity	<u>12,611,601</u>	<u>69</u>	<u>11,304,796</u>	<u>63</u>
Restricted assets (Note 22)	43,560	-	45,413	-	<b>TOTAL</b>	<u>\$ 18,291,408</u>	<u>100</u>	<u>\$ 17,991,177</u>	<u>100</u>
Miscellaneous (Notes 2 and 15)	220	-	12,429	-					
Total other assets	<u>65,738</u>	<u>-</u>	<u>68,057</u>	<u>-</u>					
<b>TOTAL</b>	<u>\$ 18,291,408</u>	<u>100</u>	<u>\$ 17,991,177</u>	<u>100</u>					

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 21)				
Gross sales	\$ 32,098,111	101	\$ 32,256,161	101
Less: Sales returns and allowances	<u>305,043</u>	<u>1</u>	<u>439,712</u>	<u>1</u>
Net sales	31,793,068	100	31,816,449	100
Service revenue	<u>59,322</u>	<u>-</u>	<u>50,573</u>	<u>-</u>
Total operating revenue	31,852,390	100	31,867,022	100
OPERATING COSTS (Notes 7, 17 and 21)	<u>26,700,965</u>	<u>84</u>	<u>26,881,060</u>	<u>85</u>
GROSS PROFIT	<u>5,151,425</u>	<u>16</u>	<u>4,985,962</u>	<u>15</u>
OPERATING EXPENSES (Note 17)				
Marketing	592,594	2	442,559	1
General and administrative	359,089	1	322,235	1
Research and development	<u>1,222,421</u>	<u>4</u>	<u>1,185,084</u>	<u>4</u>
Total operating expenses	<u>2,174,104</u>	<u>7</u>	<u>1,949,878</u>	<u>6</u>
OPERATING INCOME	<u>2,977,321</u>	<u>9</u>	<u>3,036,084</u>	<u>9</u>
NONOPERATING INCOME AND GAINS				
Gain on disposal of investments, net (Notes 5, 8 and 9)	21,081	-	16,935	-
Interest income	16,411	-	9,298	-
Dividends income (Note 2)	5,706	-	1,487	-
Valuation gain on financial assets, net (Note 2)	5,407	-	-	-
Gain on disposal of properties (Notes 2 and 21)	3,411	-	9,836	-
Foreign exchange gain, net (Note 2)	-	-	228,780	1
Other (Note 2)	<u>25,960</u>	<u>-</u>	<u>41,411</u>	<u>-</u>
Total nonoperating income and gains	<u>77,976</u>	<u>-</u>	<u>307,747</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Equity in net loss of investees (Notes 2 and 10)	75,330	-	34,555	-
Foreign exchange loss, net (Note 2)	71,498	-	-	-
Impairment loss (Notes 2, 9 and 10)	10,443	-	8,752	-
Interest expense	2,853	-	4,825	-
Other (Note 2)	<u>2</u>	<u>-</u>	<u>11,190</u>	<u>-</u>
Total nonoperating expenses and losses	<u>160,126</u>	<u>-</u>	<u>59,322</u>	<u>-</u>

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
CONSOLIDATED INCOME BEFORE INCOME TAX	\$ 2,895,171	9	\$ 3,284,509	10
INCOME TAX EXPENSE (Notes 2 and 16)	<u>404,346</u>	<u>1</u>	<u>398,545</u>	<u>1</u>
CONSOLIDATED NET INCOME	<u>\$ 2,490,825</u>	<u>8</u>	<u>\$ 2,885,964</u>	<u>9</u>
NET PROFIT ATTRIBUTED TO:				
Owners of the Parent	\$ 2,695,384	9	2,616,398	8
Non-controlling interests	<u>(204,559)</u>	<u>(1)</u>	<u>269,566</u>	<u>1</u>
	<u>\$ 2,490,825</u>	<u>8</u>	<u>\$ 2,885,964</u>	<u>9</u>
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 17.06</u>	<u>\$ 15.00</u>	<u>\$ 16.75</u>	<u>\$ 14.68</u>
Diluted	<u>\$ 16.79</u>	<u>\$ 14.77</u>	<u>\$ 16.40</u>	<u>\$ 14.37</u>

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

RESTATED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2012 AND 2011  
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Equity Attributable to Owners of the Parent													Other Equity			Non-controlling Interests	Total Equity
	Capital Stocks Issued and Outstanding		Advance Receipts for Common Stock	Capital Surplus					Retained Earnings				Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Total			
	Shares (Thousands)	Amount		Paid-in Capital in Excess of Par Value	Long-term Investment	Employee Stock Options	Expired Stock Options	Total	Legal Reserve	Special Reserve	Unappropriated	Total						
			Total										Total	Total				
BALANCE, JANUARY 1, 2011	177,078	\$ 1,770,788	\$ 12,246	\$ 3,112,044	\$ 23,466	\$ 86,670	\$ -	\$ 3,222,180	\$ 636,185	\$ 1,643	\$ 3,256,071	\$ 3,893,899	\$ (6,432)	\$ (8,460)	\$ 8,884,221	\$ 231,172	\$ 9,115,393	
Appropriation of the 2010 earnings	-	-	-	-	-	-	-	-	151,572	-	(151,572)	-	-	-	-	-	-	
Legal reserve	-	-	-	-	-	-	-	-	-	-	(13,249)	-	-	-	-	-	-	
Special reserve	-	-	-	-	-	-	-	-	-	13,249	(13,249)	-	-	-	-	-	-	
Cash dividends - NT\$4.344886 per share	-	-	-	-	-	-	-	-	-	-	(776,143)	-	-	-	-	-	-	
Balance after appropriation	177,078	1,770,788	12,246	3,112,044	23,466	86,670	-	3,222,180	787,757	14,892	2,315,107	3,117,756	(6,432)	(8,460)	8,108,078	231,172	8,339,250	
Effect of change in equity in an investee due to the Corporation's subscription for additional shares issued by an investee at a rate not equal to its current equity	-	-	-	-	5,060	-	-	5,060	-	-	-	-	-	-	5,060	-	5,060	
Adjustments due to disposal of long-term investment	-	-	-	-	(18,153)	-	-	(18,153)	-	-	-	-	-	-	(18,153)	-	(18,153)	
Transfer of employee stock options to capital stock on January 3, 2011 - NT\$100 per share	58	575	(5,750)	5,175	-	-	-	5,175	-	-	-	-	-	-	-	-	-	
Transfer of employee stock options to capital stock on January 3, 2011 - NT\$29 per share	224	2,240	(6,496)	7,712	-	(3,456)	-	4,256	-	-	-	-	-	-	-	-	-	
Transfer of executed employee stock options to capital stock on May 5, 2011 - NT\$29 per share	175	1,750	-	6,025	-	(2,700)	-	3,325	-	-	-	-	-	-	5,075	-	5,075	
Transfer of executed employee stock options to capital stock on May 5, 2011 - NT\$4.7 per share	991	9,910	-	75,049	-	(30,751)	-	44,298	-	-	-	-	-	-	54,208	-	54,208	
Transfer of executed employee stock options to capital stock on July 8, 2011 - NT\$29 per share	23	230	-	792	-	(355)	-	437	-	-	-	-	-	-	667	-	667	
Transfer of executed employee stock options to capital stock on July 8, 2011 - NT\$4.7 per share	85	844	-	6,400	-	(2,622)	-	3,778	-	-	-	-	-	-	4,622	-	4,622	
Transfer of executed employee stock options to capital stock on October 5, 2011 - NT\$32.2 per share	27	270	-	908	-	(417)	-	491	-	-	-	-	-	-	761	-	761	
Transfer of executed employee stock options to capital stock on October 5, 2011 - NT\$53.2 per share	92	925	-	6,867	-	(2,870)	-	3,997	-	-	-	-	-	-	4,922	-	4,922	
Advance receipts for common stock - employee stock options	-	-	3,779	-	-	-	-	-	-	-	-	-	-	-	3,779	-	3,779	
Compensation cost recognized for employee stock options	-	-	-	-	-	10,492	-	10,492	-	-	-	-	-	-	10,492	-	10,492	
Expired stock options	-	-	-	-	-	(16)	-	16	-	-	-	-	-	-	-	-	-	
Unrealized gain on financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	6,629	6,629	-	6,629	
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	1,520	-	1,520	-	1,520	
Consolidated net income in 2011	-	-	-	-	-	-	-	-	-	-	2,616,398	2,616,398	-	-	2,616,398	269,566	2,885,964	
BALANCE, DECEMBER 31, 2011	178,753	1,787,532	3,779	3,220,972	10,373	53,975	16	3,285,336	787,757	14,892	4,931,505	5,734,154	(4,912)	(1,831)	10,804,058	500,738	11,304,796	
Appropriation of the 2011 earnings	-	-	-	-	-	-	-	-	261,642	-	(261,642)	-	-	-	-	-	-	
Legal reserve	-	-	-	-	-	-	-	-	-	-	8,149	-	-	-	-	-	-	
Reversal of special reserve	-	-	-	-	-	-	-	-	-	(8,149)	8,149	-	-	-	-	-	-	
Cash dividends - NT\$6.996189 per share	-	-	-	-	-	-	-	-	-	-	(1,259,494)	-	-	-	(1,259,494)	-	(1,259,494)	
Balance after appropriation	178,753	1,787,532	3,779	3,220,972	10,373	53,975	16	3,285,336	1,049,399	6,743	3,418,518	4,474,660	(4,912)	(1,831)	9,544,564	500,738	10,045,302	
Transfer of employee stock options to capital stock on January 13, 2012 - NT\$28.2 per share	18	180	(507)	605	-	(278)	-	327	-	-	-	-	-	-	-	-	-	
Transfer of employee stock options to capital stock on January 13, 2012 - NT\$53.2 per share	62	615	(3,272)	4,565	-	(1,908)	-	2,657	-	-	-	-	-	-	-	-	-	
Transfer of executed employee stock options to capital stock on April 27, 2012 - NT\$35.2 per share	1,189	11,890	-	89,649	-	(38,284)	-	51,365	-	-	-	-	-	-	63,255	-	63,255	
Transfer of executed employee stock options to capital stock on August 1, 2012 - NT\$53.2 per share	4	40	-	299	-	(127)	-	172	-	-	-	-	-	-	212	-	212	
Transfer of executed employee stock options to capital stock on October 30, 2012 - NT\$51.5 per share	136	1,365	-	9,940	-	(4,275)	-	5,665	-	-	-	-	-	-	7,030	-	7,030	
Advance receipts for common stock - employee stock options	-	-	9,051	-	-	-	-	-	-	-	-	-	-	-	9,051	-	9,051	
Compensation cost recognized for employee stock options	-	-	-	-	-	1,069	-	1,069	-	-	-	-	-	-	1,069	-	1,069	
Adjustments due to sale of long-term equity investments	-	-	-	-	(2,885)	-	-	(2,885)	-	-	-	-	-	-	(2,885)	-	(2,885)	
Unrealized gain on financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	1,831	1,831	-	1,831	
Expired stock options	-	-	-	-	-	(162)	-	162	-	-	-	-	-	-	-	-	-	
Translation adjustments on long-term equity investments	-	-	-	-	-	-	-	-	-	-	-	-	(4,089)	-	(4,089)	-	(4,089)	
Consolidated net income in 2012	-	-	-	-	-	-	-	-	-	-	2,695,384	2,695,384	-	-	2,695,384	(204,559)	2,490,825	
BALANCE, DECEMBER 31, 2012	180,162	\$ 1,801,622	\$ 9,051	\$ 3,326,030	\$ 7,488	\$ 10,010	\$ 178	\$ 3,343,706	\$ 1,049,399	\$ 6,743	\$ 6,113,902	\$ 7,170,044	\$ (9,001)	\$ -	\$ 12,315,422	\$ 296,179	\$ 12,611,601	

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 2,490,825	\$ 2,885,964
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in net loss of investees	75,330	34,555
Depreciation	65,592	44,133
Amortization	74,407	50,499
Allowance for sales returns and discounts	60,417	58,229
Allowance of doubtful accounts	42,387	30,417
Deferred income tax	(18,230)	5,771
Impairment loss on financial assets	10,443	8,752
Gain on disposal of properties, net (including realized deferred credits)	(3,411)	(9,836)
Gain on disposal of investments, net	(3,169)	(20,225)
Compensation cost of employee stock options	1,069	10,492
Properties transferred to expenses	174	-
(Reversal of write-down) write-down of inventories	(28,712)	103,501
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss - current	44,190	(155,655)
Notes and accounts receivable	460,036	(1,280,030)
Other financial assets	62,182	(17,801)
Inventories	744,146	(556,989)
Other current assets	468,327	278,154
Notes and accounts payable	(1,225,663)	936,491
Income tax payable	60,922	222,555
Accrued expenses	160,323	556,225
Other current liabilities	39,578	(59,421)
Deferred expenses	-	(11,337)
Prepaid pension cost	2,428	1,521
Net cash generated from operating activities	<u>3,583,591</u>	<u>3,115,965</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of properties	(215,581)	(572,323)
Increase in intangible assets	(70,078)	(45,376)
Increase in financial assets carried at cost	(50,526)	(13,327)
Proceeds of the disposal of financial assets carried at cost	38,396	241,907
Increase in restricted assets	(13,165)	(1,188)
Increase in investments accounted for by the equity method	(5,688)	(75,536)
Proceeds of the disposal of properties	5,613	258
Proceeds of the disposal of available-for-sale financial assets-noncurrent	2,846	37,628
(Increase) decrease in guarantee deposits paid	(290)	1,750
Increase in prepayments for long-term investment	-	(15,000)
Net cash used in investing activities	<u>(308,473)</u>	<u>(441,207)</u>

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	\$ (1,259,494)	\$ (776,143)
Transfer of executed employee stock options to capital stock	70,497	70,255
Decrease in short-term loans	(41,390)	(804,190)
Advance receipts for common stock - employee stock options	9,051	3,779
Increase in guarantee deposits received	<u>56</u>	<u>10</u>
Net cash used in financing activities	<u>(1,221,280)</u>	<u>(1,506,289)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>(3,663)</u>	<u>1,578</u>
NET INCREASE IN CASH	2,050,175	1,170,047
CASH, BEGINNING OF YEAR	<u>6,982,877</u>	<u>5,812,830</u>
CASH, END OF YEAR	<u>\$ 9,033,052</u>	<u>\$ 6,982,877</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 2,844</u>	<u>\$ 5,109</u>
Income tax paid	<u>\$ 361,258</u>	<u>\$ 171,557</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Increase in properties	\$ 213,625	\$ 571,347
Decrease in payables to contractors and equipment suppliers (included in other current liabilities)	<u>1,956</u>	<u>976</u>
Acquisition of properties	<u>\$ 215,581</u>	<u>\$ 572,323</u>

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

## **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, 2013 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 Accounting Standard 27 “Consolidated and Separate 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.

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KHEIN SENG PUA  
Chairman

September 21, 2016

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

We have audited the accompanying restated consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiaries as of December 31, 2013, December 31, 2012 and January 1, 2012, and the related restated consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2013 and 2012. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. and its subsidiaries as of December 31, 2013, December 31, 2012 and January 1, 2012, and their consolidated financial performance and their consolidated cash flows for the years ended December 31, 2013 and 2012, in conformity 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 by the Financial Supervisory Commission (FSC) of the Republic of China.

As stated in Note 4, to conform to Rule No. 1050036477 issued by the FSC, Phison Electronics Corp. acknowledged Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation, Cloud Solution Global Limited and Fast Choice Global Limited) and Twinson Electronics Corporation (100% acquired by Phison Electronics Corp. on December 25, 2014 and renamed as Ostek Corporation) as its controlled entities and included these entities in the consolidated financial statements. Such rule and acknowledgment served as the basis for the restatement of the consolidated financial statements from January 1, 2009 to June 30, 2016. Please refer to Note 4 for the effects of the restatement on the consolidated financial statements.

As stated in Note 33, on August 5, 2016, Phison Electronics Corp. was searched by the Hsinchu District Prosecutors Office for alleged violation of the Securities and Exchange Act, and relevant personnel had been interrogated. The case remains under statutory investigation.

We have also audited the financial statements of the parent company, Phison Electronics Corp., as of and for the years ended December 31, 2013 and 2012, on which we have issued an unqualified report.

September 21, 2016



Notice to Readers

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

## RESTATED CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2013		December 31, 2012		January 1, 2012	
	Amount	%	Amount	%	Amount	%
<b>CURRENT ASSETS</b>						
Cash and cash equivalents (Note 6)	\$ 8,719,476	39	\$ 9,023,951	49	\$ 6,982,877	39
Financial assets at fair value through profit or loss - current (Notes 7 and 27)	1,759,347	8	514,477	3	558,667	3
Debt investments with no active market - current (Notes 8 and 30)	70,016	-	29,330	-	5,211	-
Notes and accounts receivable						
Third parties (Note 9)	3,243,379	15	3,300,482	18	3,448,237	19
Related parties (Notes 9 and 28)	339,343	2	336,211	2	772,942	4
Other receivables (Note 9)	206,006	1	140,236	1	202,418	1
Current tax assets (Note 23)	56,877	-	-	-	-	-
Inventories (Note 10)	5,674,803	25	2,900,541	16	3,615,975	20
Prepayments (Note 16)	63,550	-	121,117	-	571,749	3
Other current assets	94,374	-	137,396	1	145,430	1
<b>Total current assets</b>	<b>20,227,171</b>	<b>90</b>	<b>16,503,741</b>	<b>90</b>	<b>16,303,506</b>	<b>90</b>
<b>NONCURRENT ASSETS</b>						
Available-for-sale financial assets - noncurrent (Notes 11 and 27)	-	-	-	-	969	-
Financial assets measured at cost - noncurrent (Note 12)	144,113	1	148,904	1	131,374	1
Debt investments with no active market - noncurrent (Notes 8)	44,708	-	43,560	-	45,413	-
Investments accounted for by the equity method (Note 13)	191,675	1	90,562	-	161,748	1
Property, plant and equipment (Note 14)	1,594,666	7	1,392,017	8	1,256,021	7
Intangible assets (Note 15)	134,501	1	83,043	-	76,035	-
Deferred tax assets (Note 23)	119,944	-	100,889	1	80,820	1
Guarantee deposits paid	834	-	833	-	543	-
Prepayments for investments (Note 12)	-	-	-	-	15,000	-
Other finance assets-noncurrent	-	-	-	-	11,337	-
<b>Total noncurrent assets</b>	<b>2,230,441</b>	<b>10</b>	<b>1,859,808</b>	<b>10</b>	<b>1,779,260</b>	<b>10</b>
<b>TOTAL</b>	<b>\$ 22,457,612</b>	<b>100</b>	<b>\$ 18,363,549</b>	<b>100</b>	<b>\$ 18,082,766</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Short-term borrowings (Note 17)	\$ 89,415	-	\$ 261,360	2	\$ 302,750	2
Notes and accounts payable						
Third parties	1,362,642	6	1,458,386	8	1,826,037	10
Related parties (Note 28)	3,439,749	15	1,882,030	10	2,740,042	15
Other payables (Note 18)	1,852,985	8	1,541,607	8	1,386,862	8
Current tax payable (Note 23)	698,902	3	443,892	2	382,970	2
Current provisions (Note 19)	158,166	1	67,150	-	88,796	1
Other current liabilities (Note 18)	102,958	1	90,714	1	47,514	-
<b>Total current liabilities</b>	<b>7,704,817</b>	<b>34</b>	<b>5,745,139</b>	<b>31</b>	<b>6,774,971</b>	<b>38</b>
<b>NONCURRENT LIABILITIES</b>						
Deferred tax liabilities (Note 23)	943	-	-	-	-	-
Accrued pension costs (Note 20)	33,636	-	31,987	-	21,760	-
Guarantee deposits received	2,458	-	262	-	206	-
<b>Total noncurrent liabilities</b>	<b>37,037</b>	<b>-</b>	<b>32,249</b>	<b>-</b>	<b>21,966</b>	<b>-</b>
<b>Total liabilities</b>	<b>7,741,854</b>	<b>34</b>	<b>5,777,388</b>	<b>31</b>	<b>6,796,937</b>	<b>38</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Notes 21 and 22)</b>						
Capital stock						
Common shares	1,804,740	8	1,801,622	10	1,787,532	10
Advance receipts for common shares	-	-	9,051	-	3,779	-
Total capital stock	1,804,740	8	1,810,673	10	1,791,311	10
Capital surplus						
Additional paid-in capital	3,348,929	15	3,326,030	18	3,220,972	18
Employee stock options	-	-	10,010	-	53,975	-
Expired stock options	227	-	178	-	16	-
Total capital surplus	3,349,156	15	3,336,218	18	3,274,963	18
Retained earnings						
Legal reserve	1,318,937	6	1,049,399	6	787,757	4
Special reserve	9,001	-	6,743	-	14,892	-
Unappropriated earnings	7,551,437	34	6,095,950	33	4,922,911	27
Total retained earnings	8,879,375	40	7,152,092	39	5,725,560	31
Other equities						
Exchange differences on translating foreign operations	(11,241)	-	(9,001)	-	(4,912)	-
Unrealized loss on available-for-sale financial assets	-	-	-	-	(1,831)	-
Total other equities	(11,241)	-	(9,001)	-	(6,743)	-
<b>Total equity attributable to owners of the Parent</b>	<b>14,022,030</b>	<b>63</b>	<b>12,289,982</b>	<b>67</b>	<b>10,785,091</b>	<b>59</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>693,728</b>	<b>3</b>	<b>296,179</b>	<b>2</b>	<b>500,738</b>	<b>3</b>
<b>Total equity</b>	<b>14,715,758</b>	<b>66</b>	<b>12,586,161</b>	<b>69</b>	<b>11,285,829</b>	<b>62</b>
<b>TOTAL</b>	<b>\$ 22,457,612</b>	<b>100</b>	<b>\$ 18,363,549</b>	<b>100</b>	<b>\$ 18,082,766</b>	<b>100</b>

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2013		2012	
	Amount	%	Amount	%
OPERATING REVENUES (Note 28)				
Gross sales	\$ 31,738,050	101	\$ 32,098,111	101
Less: Sales returns and allowances	<u>360,577</u>	<u>1</u>	<u>305,043</u>	<u>1</u>
Net sales	31,377,473	100	31,793,068	100
Service revenue	<u>19,043</u>	<u>-</u>	<u>59,322</u>	<u>-</u>
Total operating revenues	31,396,516	100	31,852,390	100
OPERATING COSTS (Notes 10, 24 and 28)	<u>25,062,064</u>	<u>80</u>	<u>26,700,965</u>	<u>84</u>
GROSS PROFIT	<u>6,334,452</u>	<u>20</u>	<u>5,151,425</u>	<u>16</u>
OPERATING EXPENSES (Note 24)				
Marketing	451,751	2	592,404	2
General and administrative	377,262	1	358,622	1
Research and development	<u>1,644,042</u>	<u>5</u>	<u>1,221,713</u>	<u>4</u>
Total operating expenses	<u>2,473,055</u>	<u>8</u>	<u>2,172,739</u>	<u>7</u>
OPERATING INCOME	<u>3,861,397</u>	<u>12</u>	<u>2,978,686</u>	<u>9</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 24)	156,896	1	(54,930)	-
Share of gains (losses) of associates	121,854	-	(75,330)	-
Other income (Note 24)	85,911	-	48,078	-
Financial costs	<u>(3,278)</u>	<u>-</u>	<u>(2,853)</u>	<u>-</u>
Total nonoperating income and expenses	<u>361,383</u>	<u>1</u>	<u>(85,035)</u>	<u>-</u>
PROFIT BEFORE INCOME TAX	4,222,780	13	2,893,651	9
INCOME TAX EXPENSE (Note 23)	<u>654,802</u>	<u>2</u>	<u>404,578</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>3,567,978</u>	<u>11</u>	<u>2,489,073</u>	<u>8</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR (NET OF INCOME TAX)				
Exchange differences on translating foreign operations	(2,585)	-	(3,663)	-
Unrealized gain on available-for-sale financial assets	-	-	1,831	-
Actuarial gain (loss) on defined benefit plans	641	-	(9,164)	-

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2013		2012	
	Amount	%	Amount	%
Share of other comprehensive loss of associates	\$ -	-	\$ (939)	-
Income tax benefit relating to components of other comprehensive income (Note 23)	<u>350</u>	<u>-</u>	<u>2,071</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(1,594)</u>	<u>-</u>	<u>(9,864)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 3,566,384</u>	<u>11</u>	<u>\$ 2,479,209</u>	<u>8</u>
<b>NET PROFIT ATTRIBUTED TO:</b>				
Owners of the Parent	\$ 3,170,543	10	\$ 2,693,632	9
Non-controlling interests	<u>397,435</u>	<u>1</u>	<u>(204,559)</u>	<u>(1)</u>
	<u>\$ 3,567,978</u>	<u>11</u>	<u>\$ 2,489,073</u>	<u>8</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:</b>				
Owners of the Parent	\$ 3,168,835	10	\$ 2,683,768	9
Non-controlling interests	<u>397,549</u>	<u>1</u>	<u>(204,559)</u>	<u>(1)</u>
	<u>\$ 3,566,384</u>	<u>11</u>	<u>\$ 2,479,209</u>	<u>8</u>
<b>EARNINGS PER SHARE (Note 25)</b>				
Basic	<u>\$ 17.57</u>		<u>\$ 14.99</u>	
Diluted	<u>\$ 17.26</u>		<u>\$ 14.76</u>	

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

RESTATED YEARS ENDED DECEMBER 31, 2013 AND 2012

STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Parent										Non-controlling Interests	Total Equity	
	Capital Stock Issued and Outstanding			Capital Surplus			Retained Earnings			Other Equities			
	Ordinary Shares	Advance Receipts for Ordinary Shares	Additional Paid in Capital	Employee Stock Options	Expired Stock Options	Legal Reserve	Special Reserve	Unappropriated	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets			Total
BALANCE AT JANUARY 1, 2012	\$ 1,787,532	\$ 3,779	\$ 3,220,972	\$ 53,975	\$ 16	\$ 787,757	\$ 14,892	\$ 4,922,911	\$ (4,912)	\$ (1,831)	\$ 10,785,091	\$ 500,738	\$ 11,285,829
Appropriation of 2011 earnings													
Legal reserve	-	-	-	-	-	261,642	-	(261,642)	-	-	-	-	-
Cash dividends - NT\$6.996189 per share	-	-	-	-	-	-	-	(1,259,494)	-	-	(1,259,494)	-	(1,259,494)
Reversal of special reserve	-	-	-	-	-	-	(8,149)	8,149	-	-	-	-	-
Balance after appropriation	1,787,532	3,779	3,220,972	53,975	16	1,049,399	6,743	3,409,924	(4,912)	(1,831)	9,525,597	500,738	10,026,335
Changes in other capital surplus													
Transfer of employee stock options to capital stock on January 13, 2012 - NT\$28.2 per share	180	(507)	605	(278)	-	-	-	-	-	-	-	-	-
Transfer of employee stock options to capital stock on January 13, 2012 - NT\$53.2 per share	615	(3,272)	4,565	(1,908)	-	-	-	-	-	-	-	-	-
Transfer of employee stock options to capital stock on April 27, 2012 - NT\$53.2 per share	11,890	(63,255)	89,649	(38,284)	-	-	-	-	-	-	-	-	-
Transfer of employee stock options to capital stock on August 1, 2012 - NT\$53.2 per share	40	(212)	299	(127)	-	-	-	-	-	-	-	-	-
Transfer of employee stock options to capital stock on August 1, 2012 - NT\$53.2 per share	1,365	(7,030)	9,940	(4,275)	-	-	-	-	-	-	-	-	-
Compensation cost recognized for employee stock options	-	-	-	1,069	-	-	-	-	-	-	1,069	-	1,069
Advance receipts for common stock - employee stock options	-	79,548	-	-	-	-	-	-	-	-	79,548	-	79,548
Expired stock options	-	-	-	(162)	162	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2012	-	-	-	-	-	-	-	2,693,632	-	-	2,693,632	(204,559)	2,489,073
Other comprehensive income (loss) for the year ended December 31, 2012, net of income tax	-	-	-	-	-	-	-	(7,606)	(4,089)	1,831	(9,864)	-	(9,864)
Total comprehensive income (loss) for the year ended December 31, 2012	-	-	-	-	-	-	-	2,686,026	(4,089)	1,831	2,683,768	(204,559)	2,479,209
BALANCE AT DECEMBER 31, 2012	1,801,622	9,051	3,326,030	10,010	178	1,049,399	6,743	6,095,950	(9,001)	-	12,289,982	296,179	12,586,161
Appropriation of 2012 earnings													
Legal reserve	-	-	-	-	-	269,538	-	(269,538)	-	-	-	-	-
Cash dividends - NT\$8 per share	-	-	-	-	-	-	-	(1,443,792)	-	-	(1,443,792)	-	(1,443,792)
Special reserve	-	-	-	-	-	-	2,258	(2,258)	-	-	-	-	-
Balance after appropriation	1,801,622	9,051	3,326,030	10,010	178	1,318,937	9,001	4,380,362	(9,001)	-	10,846,190	296,179	11,142,369
Changes in other capital surplus													
Transfer of employee stock options to capital stock on February 4, 2013 - NT\$51.5 per share	1,757	(9,051)	12,906	(5,612)	-	-	-	-	-	-	-	-	-
Transfer of executed employee stock options to capital stock on February 5, 2013 - NT\$51.5 per share	1,361	-	9,993	(4,349)	-	-	-	-	-	-	7,005	-	7,005
Expired stock options	-	-	-	(49)	49	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2013	-	-	-	-	-	-	-	3,170,543	-	-	3,170,543	397,435	3,567,978
Other comprehensive loss for the year ended December 31, 2013, net of income tax	-	-	-	-	-	-	-	532	(2,240)	-	(1,708)	114	(1,594)
Total comprehensive income for the year ended December 31, 2013	-	-	-	-	-	-	-	3,171,075	(2,240)	-	3,168,835	397,549	3,566,384
BALANCE AT DECEMBER 31, 2013	<u>\$ 1,804,740</u>	<u>\$ -</u>	<u>\$ 3,348,929</u>	<u>\$ -</u>	<u>\$ 227</u>	<u>\$ 1,318,937</u>	<u>\$ 9,001</u>	<u>\$ 7,551,437</u>	<u>\$ (11,241)</u>	<u>\$ -</u>	<u>\$ 14,022,030</u>	<u>\$ 693,728</u>	<u>\$ 14,715,758</u>

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 4,222,780	\$ 2,893,651
Adjustments for:		
Recognition of provisions	223,065	60,417
Share of (gains) losses of associates	(121,854)	75,330
Depreciation	79,636	65,592
Amortization	72,834	63,071
Write-down of inventories	32,948	103,501
Net losses (gains) on foreign currency exchange	31,103	(63,557)
Interest income	(28,553)	(16,411)
Impairment loss recognized on financial assets measured at cost	37,471	10,443
Transfer of prepayments for equipment to expenses	4,620	174
Interest expense	3,278	2,853
Dividend income	(2,016)	(5,706)
Allowance for bad debts	530	42,387
Gain on disposal of investments	(121)	(284)
Gain on disposal of property, plant and equipment	-	(3,411)
Share-based payments	-	1,069
Net changes related to operating assets and liabilities		
(Increase) decrease in financial assets at fair value through profit or loss	(1,244,870)	44,190
Decrease in notes and accounts receivable	53,441	542,099
(Increase) decrease in other receivable	(6,187)	62,181
(Increase) decrease in inventories	(2,807,208)	611,933
Decrease in prepayments	13,002	428,878
Decrease in other current assets	56,692	19,372
Increase(decrease) in notes and accounts payable	1,461,975	(1,225,663)
Increase in other payables	311,459	154,736
Decrease in provisions	(132,049)	(82,063)
Increase in other current liabilities	9,798	41,243
Increase in accrued pension costs	1,649	10,227
Cash generated from operation	2,273,423	3,836,252
Interest paid	(3,359)	(2,844)
Income tax paid	(533,658)	(363,212)
Net cash generated from operating activities	<u>1,736,406</u>	<u>3,470,196</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment	(253,613)	(180,254)
Payments for intangible assets	(124,292)	(70,079)
Increase in debt investments with no active market	(41,834)	(22,266)
Interest received	27,688	16,411
Proceeds of the disposal of investment accounted for by the equity method	20,925	-

(Continued)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Purchase of financial assets carried at cost	\$ (32,930)	\$ (50,526)
Dividends received	2,016	5,706
Proceeds of the capital reduction of financial assets measured at cost	250	-
Increase in refundable deposits	(1)	(290)
Proceeds of the disposal of financial assets measured at cost	-	38,396
Purchase of investment accounted for by the equity method	-	(5,688)
Proceeds of the disposal of property, plant and equipment	-	5,613
Proceeds of the disposal of available-for-sale financial assets	<u>-</u>	<u>2,846</u>
Net cash used in investing activities	<u>(401,791)</u>	<u>(260,131)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	(1,443,792)	(1,259,494)
Decrease in short-term borrowings	(171,945)	(41,390)
Transfer of exercised employee stock options to capital stock	7,005	79,548
Increase in guarantee deposits	<u>2,196</u>	<u>56</u>
Net cash used in financing activities	<u>(1,606,536)</u>	<u>(1,221,280)</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>		
	<u>(32,554)</u>	<u>52,289</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(304,475)	2,041,074
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		
	<u>9,023,951</u>	<u>6,982,877</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 8,719,476</u>	<u>\$ 9,023,951</u>

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

## **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, 2014 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 Accounting Standard 27 “Consolidated and Separate 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

September 21, 2016



## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

We have audited the accompanying restated consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2014 and 2013, and the related restated consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. and its subsidiaries as of December 31, 2014 and 2013, and their consolidated financial performance and their consolidated cash flows for the years then ended, in conformity 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 by the Financial Supervisory Commission (FSC) of the Republic of China.

As stated in Note 4, to conform to Rule No. 1050036477 issued by the FSC, Phison Electronics Corp. acknowledged Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation, Cloud Solution Global Limited and Fast Choice Global Limited) and Twinson Electronics Corporation (100% acquired by Phison Electronics Corp. on December 25, 2014 and renamed as Ostek Corporation) as its controlled entities and included these entities in the consolidated financial statements. Such rule and acknowledgment served as the basis for the restatement of the consolidated financial statements from January 1, 2009 to June 30, 2016. Please refer to Note 4 for the effects of the restatement on the consolidated financial statements.

As stated in Note 31, on August 5, 2016, Phison Electronics Corp. was searched by the Hsinchu District Prosecutors Office for alleged violation of the Securities and Exchange Act, and relevant personnel had been interrogated. The case remains under statutory investigation.

We have also audited the financial statements of the parent company, Phison Electronics Corp., as of and for the years ended December 31, 2014 and 2013, on which we have issued an unqualified report.

September 21, 2016

Notice to Readers

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

## RESTATED CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2014 AND 2013 (In Thousands of New Taiwan Dollars)

ASSETS	2014		2013	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Note 6)	\$ 8,557,923	36	\$ 8,719,476	39
Financial assets at fair value through profit or loss - current (Notes 7)	2,082,695	9	1,759,347	8
Debt investments with no active market - current (Notes 8 and 27)	20,819	-	70,016	-
Notes and accounts receivable				
Third parties (Note 9)	3,807,795	16	3,188,076	14
Related parties (Notes 9 and 25)	247,488	1	339,343	2
Other receivables (Note 9)	372,070	2	261,309	1
Current tax assets (Note 20)	56,877	-	56,877	-
Inventories (Note 10)	5,536,728	23	5,674,803	25
Prepayments	23,524	-	63,550	-
Other current assets	15,633	-	94,374	1
Total current assets	<u>20,721,552</u>	<u>87</u>	<u>20,227,171</u>	<u>90</u>
<b>NONCURRENT ASSETS</b>				
Financial assets measured at cost - noncurrent (Note 11)	388,721	2	144,113	1
Debt investments with no active market - noncurrent (Notes 8 and 27)	-	-	44,708	-
Investments accounted for by the equity method (Note 12)	732,776	3	191,675	1
Property, plant and equipment (Note 13)	1,634,020	7	1,594,666	7
Intangible assets (Note 14)	126,804	1	134,501	1
Deferred tax assets (Note 20)	93,281	-	119,944	-
Guarantee deposits paid	637	-	834	-
Total noncurrent assets	<u>2,976,239</u>	<u>13</u>	<u>2,230,441</u>	<u>10</u>
<b>TOTAL</b>	<u>\$ 23,697,791</u>	<u>100</u>	<u>\$ 22,457,612</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 15)	\$ -	-	\$ 89,415	-
Notes and accounts payable				
Third parties	1,845,687	8	1,362,642	6
Related parties (Note 25)	2,213,827	9	3,439,749	15
Other payables (Note 16)	1,918,251	8	1,852,985	8
Current tax payable (Note 20)	596,369	3	698,902	3
Current provisions (Note 17)	71,128	-	158,166	1
Other current liabilities	222,185	1	102,958	1
Total current liabilities	<u>6,867,447</u>	<u>29</u>	<u>7,704,817</u>	<u>34</u>
<b>NONCURRENT LIABILITIES</b>				
Deferred tax liabilities (Note 20)	7,891	-	943	-
Accrued pension costs (Note 18)	42,458	-	33,636	-
Guarantee deposits received	2,454	-	2,458	-
Total noncurrent liabilities	<u>52,803</u>	<u>-</u>	<u>37,037</u>	<u>-</u>
Total liabilities	<u>6,920,250</u>	<u>29</u>	<u>7,741,854</u>	<u>34</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT (Note 19)</b>				
Capital stock				
Common shares	1,854,740	8	1,804,740	8
Capital surplus				
Additional paid-in capital	4,223,929	18	3,348,929	15
Arising from shares of changes in capital surplus of associates	263,344	1	-	-
Expired stock options	227	-	227	-
Total capital surplus	<u>4,487,500</u>	<u>19</u>	<u>3,349,156</u>	<u>15</u>
Retained earnings				
Legal reserve	1,635,991	7	1,318,937	6
Special reserve	11,241	-	9,001	-
Unappropriated earnings	8,533,064	36	7,551,437	34
Total retained earnings	<u>10,180,296</u>	<u>43</u>	<u>8,879,375</u>	<u>40</u>
Other equity				
Exchange differences on translating foreign operations	(5,056)	-	(11,241)	-
Total equity attributable to owners of the Parent	<u>16,517,480</u>	<u>70</u>	<u>14,022,030</u>	<u>63</u>
<b>NON-CONTROLLING INTERESTS</b>	<u>260,061</u>	<u>1</u>	<u>693,728</u>	<u>3</u>
Total equity	<u>16,777,541</u>	<u>71</u>	<u>14,715,758</u>	<u>66</u>
<b>TOTAL</b>	<u>\$ 23,697,791</u>	<u>100</u>	<u>\$ 22,457,612</u>	<u>100</u>

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

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	2014		2013	
	Amount	%	Amount	%
OPERATING REVENUES (Note 25)				
Gross sales	\$ 32,983,107	101	\$ 31,738,050	101
Less: Sales returns and allowances	<u>294,270</u>	<u>1</u>	<u>360,577</u>	<u>1</u>
Net sales	32,688,837	100	31,377,473	100
Service revenue	<u>130,695</u>	<u>-</u>	<u>19,043</u>	<u>-</u>
Total operating revenues	32,819,532	100	31,396,516	100
OPERATING COSTS (Notes 10, 21 and 25)	<u>27,450,298</u>	<u>84</u>	<u>25,062,064</u>	<u>80</u>
GROSS PROFIT	<u>5,369,234</u>	<u>16</u>	<u>6,334,452</u>	<u>20</u>
OPERATING EXPENSES (Note 21)				
Marketing	519,306	2	451,751	2
General and administrative	386,097	1	377,262	1
Research and development	<u>1,673,799</u>	<u>5</u>	<u>1,644,042</u>	<u>5</u>
Total operating expenses	<u>2,579,202</u>	<u>8</u>	<u>2,473,055</u>	<u>8</u>
OPERATING INCOME	<u>2,790,032</u>	<u>8</u>	<u>3,861,397</u>	<u>12</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 21)	287,382	1	156,896	1
Share of gains of associates	159,287	1	121,854	-
Other income (Note 21)	88,168	-	85,911	-
Financial costs	<u>(2,440)</u>	<u>-</u>	<u>(3,278)</u>	<u>-</u>
Total nonoperating income	<u>532,397</u>	<u>2</u>	<u>361,383</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	3,322,429	10	4,222,780	13
INCOME TAX EXPENSE (Note 20)	<u>541,355</u>	<u>2</u>	<u>654,802</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>2,781,074</u>	<u>8</u>	<u>3,567,978</u>	<u>11</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF INCOME TAX				
Exchange differences on translating foreign operations	(5,415)	-	(2,585)	-
Actual (loss) gain on defined benefit plans	(6,326)	-	641	-

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2014 AND 2013

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

	2014		2013	
	Amount	%	Amount	%
Share of other comprehensive gain of associates	\$ 8,759	-	\$ -	-
Income tax (expense) benefit relating to components of other comprehensive income (Note 20)	<u>(192)</u>	<u>-</u>	<u>350</u>	<u>-</u>
Other comprehensive income (loss) for the period, net of income tax	<u>(3,174)</u>	<u>-</u>	<u>(1,594)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 2,777,900</u>	<u>8</u>	<u>\$ 3,566,384</u>	<u>11</u>
NET PROFIT ATTRIBUTED TO:				
Owners of the parent	\$ 3,201,149	10	\$ 3,170,543	10
Non-controlling interests	<u>(420,075)</u>	<u>( 2)</u>	<u>397,435</u>	<u>1</u>
	<u>\$ 2,781,074</u>	<u>8</u>	<u>\$ 3,567,978</u>	<u>11</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:				
Owners of the parent	\$ 3,202,083	10	\$ 3,168,835	10
Non-controlling interests	<u>(424,183)</u>	<u>( 2)</u>	<u>397,549</u>	<u>1</u>
	<u>\$ 2,777,900</u>	<u>8</u>	<u>\$ 3,566,384</u>	<u>11</u>
EARNINGS PER SHARE New Taiwan dollars; (Note 22)				
Basic	<u>\$ 17.48</u>		<u>\$ 17.57</u>	
Diluted	<u>\$ 17.23</u>		<u>\$ 17.26</u>	

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

RESTATED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
YEARS ENDED DECEMBER 31, 2014 AND 2013  
(In Thousands of New Taiwan Dollars, Unless Stated otherwise)

	Equity Attributable to Owners of the Parent											Total	Non-controlling Interests	Total Equity
	Capital Stock Issued and Outstanding		Capital Surplus					Retained Earnings			Other Equities Exchange Differences on Translating Foreign Operations			
	Ordinary Shares	Advance Receipts for Ordinary Shares	Additional Paid in Capital	Employee Stock Options	Expired Stock Options	Arising from Shares of Changes in Capital Surplus of Associate	Legal Reserve	Special Reserve	Unappropriated					
BALANCE AT JANUARY 1, 2013	\$ 1,801,622	\$ 9,051	\$ 3,326,030	\$ 10,010	\$ 178	\$ -	\$ 1,049,399	\$ 6,743	\$ 6,095,950	\$ (9,001)	\$ 12,289,982	\$ 296,179	\$ 12,586,161	
Appropriation of the 2012 earnings														
Legal reserve	-	-	-	-	-	-	269,538	-	(269,538)	-	-	-	-	
Cash dividends - NT\$8 per share	-	-	-	-	-	-	-	-	(1,443,792)	-	(1,443,792)	-	(1,443,792)	
Special reserve	-	-	-	-	-	-	-	2,258	(2,258)	-	-	-	-	
Balance after appropriation	1,801,622	9,051	3,326,030	10,010	178	-	1,318,937	9,001	4,380,362	(9,001)	10,846,190	296,179	11,142,369	
Changes in other capital surplus														
Transfer of employee stock options to capital stock on February 4, 2013 - NT\$51.5 per share	1,757	(9,051)	12,906	(5,612)	-	-	-	-	-	-	-	-	-	
Transfer of executed employee stock options to capital stock on February 5, 2013 - NT\$51.5 per share	1,361	-	9,993	(4,349)	-	-	-	-	-	-	7,005	-	7,005	
Expired stock options	-	-	-	(49)	49	-	-	-	-	-	-	-	-	
Net profit for the year ended December 31, 2013	-	-	-	-	-	-	-	-	3,170,543	-	3,170,543	397,435	3,567,978	
Other comprehensive income (loss) for the year ended December 31, 2013, net of income tax	-	-	-	-	-	-	-	-	532	(2,240)	(1,708)	114	(1,594)	
BALANCE AT DECEMBER 31, 2013	1,804,740	-	3,348,929	-	227	-	1,318,937	9,001	7,551,437	(11,241)	14,022,030	693,728	14,715,758	
Appropriation of the 2013 earnings														
Legal reserve	-	-	-	-	-	-	317,054	-	(317,054)	-	-	-	-	
Cash dividends - NT\$10.216941 per share	-	-	-	-	-	-	-	-	(1,894,977)	-	(1,894,977)	-	(1,894,977)	
Special reserve	-	-	-	-	-	-	-	2,240	(2,240)	-	-	-	-	
Balance after appropriation	1,804,740	-	3,348,929	-	227	-	1,635,991	11,241	5,337,166	(11,241)	12,127,053	693,728	12,820,781	
Arising from shares of changes in capital surplus of associates	-	-	-	-	-	263,344	-	-	-	-	263,344	-	263,344	
Issue of common shares for cash as of June 20, 2014 - NT\$185 per share	50,000	-	875,000	-	-	-	-	-	-	-	925,000	-	925,000	
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(9,484)	(9,484)	
Net profit for the year ended December 31, 2014	-	-	-	-	-	-	-	-	3,201,149	-	3,201,149	(420,075)	2,781,074	
Other comprehensive income (loss) for the year ended December 31, 2014, net of income tax	-	-	-	-	-	-	-	-	(5,251)	6,185	934	(4,108)	(3,174)	
BALANCE AT DECEMBER 31, 2014	<u>\$ 1,854,740</u>	<u>\$ -</u>	<u>\$ 4,223,929</u>	<u>\$ -</u>	<u>\$ 227</u>	<u>\$ 263,344</u>	<u>\$ 1,635,991</u>	<u>\$ 11,241</u>	<u>\$ 8,533,064</u>	<u>\$ (5,056)</u>	<u>\$ 16,517,480</u>	<u>\$ 260,061</u>	<u>\$ 16,777,541</u>	

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013 (In Thousands of New Taiwan Dollars)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 3,322,429	\$ 4,222,780
Adjustments for:		
Net (gains) losses on foreign currency exchange	(295,455)	31,103
Share of gains of associates	(159,287)	(121,854)
Recognition of provisions	143,811	223,065
Depreciation	91,159	79,636
Amortization	85,425	72,834
Impairment loss recognized on financial assets measured at cost	30,878	37,471
Interest income	(34,085)	(28,553)
Loss on disposal of financial assets measured at cost	24,309	-
(Reversal of write-down) write-down of inventories	(16,366)	32,948
Allowance for bad debts	15,317	530
Loss (gain) on disposal of investments	8,759	(121)
Dividend income	(6,438)	(2,016)
Interest expense	2,440	3,278
Transfer of prepayments for equipment to expenses	-	4,620
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	(323,348)	(1,244,870)
Notes and accounts receivable	(317,286)	55,432
Other receivable	(164,090)	(8,178)
Inventories	154,443	(2,807,208)
Prepayments	(17,451)	13,002
Other current assets	78,741	56,692
Notes and accounts payable	(780,916)	1,461,975
Other payables	63,820	311,459
Provisions	(230,849)	(132,049)
Other current liabilities	115,638	9,798
Accrued pension costs	8,822	1,649
Cash generated from operation	<u>1,800,420</u>	<u>2,273,423</u>
Interest paid	(2,336)	(3,359)
Income tax paid	<u>(611,992)</u>	<u>(533,658)</u>
Net cash generated from operating activities	<u>1,186,092</u>	<u>1,736,406</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets carried at cost	(302,538)	(32,930)
Purchase of investments accounted for by the equity method	(124,354)	-
Decrease (increase) in debt investments with no active market	93,905	(41,834)
Payments for intangible assets	(77,728)	(124,292)
Payments for property, plant and equipment	(68,990)	(253,613)
Interest received	34,115	27,688
Dividends received	6,438	2,016

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013 (In Thousands of New Taiwan Dollars)

	2014	2013
Proceeds of the disposal of investment accounted for by the equity method	\$ 6,003	\$ 20,925
Proceeds of the disposal of financial assets measured at cost	2,743	-
Proceeds of the capital reduction of investments accounted for by the equity method	2,625	-
Decrease (increase) in refundable deposits	197	(1)
Proceeds of the capital reduction of financial assets measured at cost	<u>-</u>	<u>250</u>
Net cash used in investing activities	<u>(427,584)</u>	<u>(401,791)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	(1,894,977)	(1,443,792)
Proceeds of the issue of common shares	925,000	-
Decrease in short-term borrowings	(89,415)	(171,945)
Decrease in non-controlling interests	(9,484)	-
(Decrease) increase in guarantee deposits	(4)	2,196
Transfer of exercised employee stock options to capital stock	<u>-</u>	<u>7,005</u>
Net cash used in financing activities	<u>(1,068,880)</u>	<u>(1,606,536)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>148,819</u>	<u>(32,554)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(161,553)	(304,475)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>8,719,476</u>	<u>9,023,951</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 8,557,923</u>	<u>\$ 8,719,476</u>

The accompanying notes are an integral part of the restated consolidated financial statements. (Concluded)



## **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, 2015 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

September 21, 2016

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

We have audited the accompanying restated consolidated balance sheets of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively referred to as the "Group") as of December 31, 2015 and 2014, and the related restated consolidated statements of comprehensive income, and changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Phison Electronics Corp. and its subsidiaries as of December 31, 2015 and 2014, and their consolidated financial performance and their consolidated cash flows for the years then ended, in conformity 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 by the Financial Supervisory Commission (FSC) of the Republic of China.

As stated in Note 4, to conform to Rule No. 1050036477 issued by the FSC, Phison Electronics Corp. acknowledged Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation, Cloud Solution Global Limited and Fast Choice Global Limited) and Twinson Electronics Corporation (100% acquired by Phison Electronics Corp. on December 25, 2014 and renamed as Ostek Corporation) as its controlled entities and included these entities in the consolidated financial statements. Such rule and acknowledgment served as the basis for the restatement of the consolidated financial statements from January 1, 2009 to June 30, 2016. Please refer to Note 4 for the effects of the restatement on the consolidated financial statements.

As stated in Note 33, on August 5, 2016, Phison Electronics Corp. was searched by the Hsinchu District Prosecutors Office for alleged violation of the Securities and Exchange Act, and relevant personnel had been interrogated. The case remains under statutory investigation.

We have also audited the financial statements of the parent company, Phison Electronics Corp., as of and for the years ended December 31, 2015 and 2014, on which we have issued an unqualified report.

September 21, 2016

Notice to Readers

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

## RESTATED CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

ASSETS	2015		2014	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 12,405,596	44	\$ 8,557,923	36
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 27)	2,226,804	8	2,082,695	9
Debt investments with no active market - current (Notes 4, 8 and 30)	20,408	-	20,819	-
Notes and accounts receivable				
Third parties (Notes 4 and 9)	4,063,528	14	3,807,795	16
Related parties (Notes 4, 9 and 28)	370,224	1	247,488	1
Other receivables (Note 9)	384,324	1	372,070	2
Current tax assets (Notes 4 and 22)	829	-	56,877	-
Inventories (Notes 4 and 10)	5,251,376	19	5,536,728	23
Prepayments	61,174	-	23,524	-
Other current assets	39,358	-	15,633	-
<b>Total current assets</b>	<b>24,823,621</b>	<b>87</b>	<b>20,721,552</b>	<b>87</b>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current (Notes 4 and 11)	295,950	1	-	-
Financial assets measured at cost - non-current (Notes 4 and 12)	605,219	2	388,721	2
Investments accounted for by the equity method (Notes 4 and 14)	708,755	2	732,776	3
Property, plant and equipment (Notes 4 and 15)	1,637,395	6	1,634,020	7
Intangible assets (Notes 4 and 16)	198,623	1	126,804	1
Deferred tax assets (Notes 4 and 22)	145,843	1	93,281	-
Guarantee deposits paid	3,381	-	637	-
<b>Total non-current assets</b>	<b>3,595,166</b>	<b>13</b>	<b>2,976,239</b>	<b>13</b>
<b>TOTAL</b>	<b>\$ 28,418,787</b>	<b>100</b>	<b>\$ 23,697,791</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 17)	\$ 196,950	1	\$ -	-
Notes and accounts payable				
Third parties	1,091,580	4	1,845,687	8
Related parties (Note 28)	3,164,580	11	2,213,827	9
Other payables (Note 18)	2,332,344	8	1,918,251	8
Current tax payable (Notes 4 and 22)	654,254	2	596,369	3
Current provisions (Notes 4 and 19)	149,852	1	71,128	-
Other current liabilities	210,352	1	222,185	1
<b>Total current liabilities</b>	<b>7,799,912</b>	<b>28</b>	<b>6,867,447</b>	<b>29</b>
<b>NON-CURRENT LIABILITIES</b>				
Deferred tax liabilities (Notes 4 and 22)	1,858	-	7,891	-
Net defined benefit liabilities - non-current (Notes 4 and 20)	66,901	-	42,458	-
Guarantee deposits received	254	-	2,454	-
<b>Total non-current liabilities</b>	<b>69,013</b>	<b>-</b>	<b>52,803</b>	<b>-</b>
<b>Total liabilities</b>	<b>7,868,925</b>	<b>28</b>	<b>6,920,250</b>	<b>29</b>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY (Note 21)</b>				
Capital stock				
Common shares	1,973,740	7	1,854,740	8
Capital surplus	6,514,569	23	4,487,500	19
Retained earnings				
Legal reserve	1,956,106	7	1,635,991	7
Special reserve	5,056	-	11,241	-
Unappropriated earnings	9,990,216	35	8,533,064	36
Total retained earnings	11,951,378	42	10,180,296	43
Other equity	(111,358)	(1)	(5,056)	-
<b>Total equity attributable to owners of the Company</b>	<b>20,328,329</b>	<b>71</b>	<b>16,517,480</b>	<b>70</b>
<b>NON-CONTROLLING INTERESTS</b>	<b>221,533</b>	<b>1</b>	<b>260,061</b>	<b>1</b>
<b>Total equity</b>	<b>20,549,862</b>	<b>72</b>	<b>16,777,541</b>	<b>71</b>
<b>TOTAL</b>	<b>\$ 28,418,787</b>	<b>100</b>	<b>\$ 23,697,791</b>	<b>100</b>

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

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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

	2015		2014	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4 and 28)				
Gross sales	\$ 37,702,656	101	\$ 32,983,107	101
Less: Sales returns and allowances	<u>393,644</u>	<u>1</u>	<u>294,270</u>	<u>1</u>
Net sales	37,309,012	100	32,688,837	100
Service revenue	<u>100,165</u>	<u>-</u>	<u>130,695</u>	<u>-</u>
Total operating revenues	37,409,177	100	32,819,532	100
OPERATING COSTS (Notes 4, 10, 23 and 28)	<u>29,781,713</u>	<u>80</u>	<u>27,450,298</u>	<u>84</u>
GROSS PROFIT	<u>7,627,464</u>	<u>20</u>	<u>5,369,234</u>	<u>16</u>
OPERATING EXPENSES (Notes 23 and 28)				
Marketing	544,408	2	519,306	2
General and administrative	461,053	1	386,097	1
Research and development	<u>2,395,099</u>	<u>6</u>	<u>1,673,799</u>	<u>5</u>
Total operating expenses	<u>3,400,560</u>	<u>9</u>	<u>2,579,202</u>	<u>8</u>
OPERATING INCOME	<u>4,226,904</u>	<u>11</u>	<u>2,790,032</u>	<u>8</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 23)	134,119	-	287,382	1
Share of gains (losses) of associates (Notes 2 and 14)	(20,736)	-	159,287	1
Other income (Note 23)	136,008	1	88,168	-
Financial costs	<u>(3,031)</u>	<u>-</u>	<u>(2,440)</u>	<u>-</u>
Total nonoperating income and expenses	<u>246,360</u>	<u>1</u>	<u>532,397</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	4,473,264	12	3,322,429	10
INCOME TAX EXPENSE (Notes 4 and 22)	<u>576,571</u>	<u>2</u>	<u>541,355</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>3,896,693</u>	<u>10</u>	<u>2,781,074</u>	<u>8</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	(22,094)	-	(6,326)	-

(Continued)

## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

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

	2015		2014	
	Amount	%	Amount	%
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 22)	3,756	-	1,075	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(32,764)	-	(5,415)	-
Unrealized gain (loss) on available-for-sale financial assets	(84,750)	-	-	-
Share of other comprehensive gain of associates	-	-	8,759	-
Income tax benefit (expense) relating to items that may be reclassified subsequently to profit or loss (Note 22)	<u>4,414</u>	<u>-</u>	<u>(1,267)</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(131,438)</u>	<u>-</u>	<u>(3,174)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 3,765,255</u>	<u>10</u>	<u>\$ 2,777,900</u>	<u>8</u>
NET PROFIT ATTRIBUTED TO:				
Owners of the Parent	\$ 4,000,009	10	\$ 3,201,149	10
Non-controlling interests	<u>(103,316)</u>	<u>-</u>	<u>(420,075)</u>	<u>(2)</u>
	<u>\$ 3,896,693</u>	<u>10</u>	<u>\$ 2,781,074</u>	<u>8</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:				
Owners of the Parent	\$ 3,875,369	10	\$ 3,202,083	10
Non-controlling interests	<u>(110,114)</u>	<u>-</u>	<u>(424,183)</u>	<u>(2)</u>
	<u>\$ 3,765,255</u>	<u>10</u>	<u>\$ 2,777,900</u>	<u>8</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 24)				
Basic	<u>\$ 20.41</u>		<u>\$ 17.48</u>	
Diluted	<u>\$ 20.12</u>		<u>\$ 17.23</u>	

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

(Concluded))

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

**RESTATED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(In Thousands of New Taiwan Dollars)**

	Equity Attributable to Owners of the Parent						Other Equity		Non-controlling Interests	Total Equity
	Ordinary Shares	Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Total		
			Legal Reserve	Special Reserve	Unappropriated Earnings					
BALANCE AT JANUARY 1, 2014	\$ 1,804,740	\$ 3,349,156	\$ 1,318,937	\$ 9,001	\$ 7,551,437	\$ (11,241)	\$ -	\$ 14,022,030	\$ 693,728	\$ 14,715,758
Appropriation of the 2013 earnings										
Legal reserve	-	-	317,054	-	(317,054)	-	-	-	-	-
Special reserve	-	-	-	2,240	(2,240)	-	-	-	-	-
Cash dividends - NT\$10.216941 per share	-	-	-	-	(1,894,977)	-	-	(1,894,977)	-	(1,894,977)
Issue of common shares for cash as of June 20, 2014 - NT\$185 per share	50,000	875,000	-	-	-	-	-	925,000	-	925,000
Arising from share of changes in capital surplus of associates	-	263,344	-	-	-	-	-	263,344	-	263,344
Non-controlling interests	-	-	-	-	-	-	-	-	(9,484)	(9,484)
Net profit for the year ended December 31, 2014	-	-	-	-	3,201,149	-	-	3,201,149	(420,075)	2,781,074
Other comprehensive income (loss) for the year ended December 31, 2014, net of income tax	-	-	-	-	(5,251)	6,185	-	934	(4,108)	(3,174)
BALANCE AT DECEMBER 31, 2014	1,854,740	4,487,500	1,635,991	11,241	8,533,064	(5,056)	-	16,517,480	260,061	16,777,541
Appropriation of the 2014 earnings										
Legal reserve	-	-	320,115	-	(320,115)	-	-	-	-	-
Reversal of special reserve	-	-	-	(6,185)	6,185	-	-	-	-	-
Cash dividends - NT\$11.2 per share	-	-	-	-	(2,210,589)	-	-	(2,210,589)	-	(2,210,589)
Issue of common shares for cash on February 13, 2015 - NT\$180 per share	119,000	2,023,000	-	-	-	-	-	2,142,000	-	2,142,000
Change in equity from the consideration received in excess of the carrying amount of the subsidiaries' net assets during disposal or acquisition	-	4,069	-	-	-	-	-	4,069	-	4,069
Non-controlling interests	-	-	-	-	-	-	-	-	71,586	71,586
Net profit for the year ended December 31, 2015	-	-	-	-	4,000,009	-	-	4,000,009	(103,316)	3,896,693
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(18,338)	(21,552)	(84,750)	(124,640)	(6,798)	(131,438)
BALANCE AT DECEMBER 31, 2015	<u>\$ 1,973,740</u>	<u>\$ 6,514,569</u>	<u>\$ 1,956,106</u>	<u>\$ 5,056</u>	<u>\$ 9,990,216</u>	<u>\$ (26,608)</u>	<u>\$ (84,750)</u>	<u>\$ 20,328,329</u>	<u>\$ 221,533</u>	<u>\$ 20,549,862</u>

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

## RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 4,473,264	\$ 3,322,429
Adjustments for:		
Net gains on foreign currency exchange	(203,344)	(295,455)
Recognition of provisions	180,250	143,811
Depreciation	108,778	91,159
Amortization	105,779	85,425
Allowance for bad debts	61,698	15,317
Impairment loss recognized on financial assets	46,811	30,878
Dividend income	(42,656)	(6,438)
Interest income	(38,099)	(34,085)
Share of losses (gains) of associates	20,736	(159,287)
Reversal of write-down of inventories	(13,062)	(16,366)
Financial costs	3,031	2,440
Loss on disposal of financial assets measured at cost	1,614	24,309
Loss on sale of property, plant and equipment	8	-
Loss on disposal of investments accounted for by the equity method	-	8,759
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	(144,109)	(323,348)
Notes and accounts receivable	(402,417)	(317,286)
Other receivable	(11,053)	(164,090)
Inventories	298,437	154,443
Prepayments	(50,530)	(17,451)
Other current assets	(23,725)	78,741
Notes and accounts payable	186,578	(780,916)
Other payables	412,403	63,820
Provisions	(101,526)	(230,849)
Other current liabilities	(12,273)	115,638
Accrued pension costs	2,349	8,822
Cash generated from operation	4,858,942	1,800,420
Interest paid	(2,971)	(2,336)
Income tax paid	(512,785)	(611,992)
Net cash generated from operating activities	<u>4,343,186</u>	<u>1,186,092</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Payment for available-for-sale financial assets	(380,700)	-
Purchase of financial assets measured at cost	(273,060)	(302,538)
Payments for intangible assets	(177,598)	(77,728)
Payments for property, plant and equipment	(99,450)	(68,990)
Dividends received	42,656	6,438
Interest received	37,792	34,115
Proceeds of the disposal of financial assets measured at cost	8,137	2,743
Proceeds of the capital reduction of investments accounted for by the equity method	4,298	2,625

(Continued)



## PHISON ELECTRONICS CORP. AND SUBSIDIARIES

### RESTATED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In Thousands of New Taiwan Dollars)

	2015	2014
(Increase) decrease in refundable deposits	(2,744)	197
Decrease in debt investments with no active market	411	93,905
Proceeds of the disposal of investment accounted for by the equity method	-	6,003
Purchase of investments accounted for by the equity method	<u>-</u>	<u>(124,354)</u>
Net cash used in investing activities	<u>(840,258)</u>	<u>(427,584)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	(2,210,589)	(1,894,977)
Proceeds of the issue of common shares	2,142,000	925,000
Increase (decrease) in short-term borrowings	198,396	(89,415)
Decrease in guarantee deposits	(2,200)	(4)
Increase (decrease) in non-controlling interests	<u>75,655</u>	<u>(9,484)</u>
Net cash generated from (used in) financing activities	<u>203,262</u>	<u>(1,068,880)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	<u>141,483</u>	<u>148,819</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,847,673	(161,553)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>8,557,923</u>	<u>8,719,476</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 12,405,596</u>	<u>\$ 8,557,923</u>

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

(Concluded)

## 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"), which comprise the balance sheets as of December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2016 and 2015, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### 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 Financial Statements section of our report. We are independent of the Corporation 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 financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the 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 Corporation's financial statements for year 2016 are stated as follows:

#### Sales revenue recognition

The operating revenue, in New Taiwan dollars ("NT\$"), of the Corporation amounted to NT\$43,678,547 thousand, and its growth rate is higher than previous years. Sales failing to fulfill criteria for revenue recognition may result in a significant impact on the financial statements. Therefore, the recognition on sales revenue has been identified as a key audit matter.

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

1. Understood and tested the process of the design and implementation of relevant internal 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.

#### Related party transaction identification and information

As stated in Note 25 to the accompanying financial statements, as recorded in the minutes of meeting of the Corporation's board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the Chairman of the Corporation, that the operational management of Everspeed Technology Group ("ETG") is under the substantial control of the Chairman and should be considered a related party of the Corporation. The Corporation did not originally hold any interest in ETG. For the long-term development and enhancement of the integrity of the Corporation's operating structure, the board of directors resolved on September 21, 2016 to acquire 100% equity interest in ETG from the shareholders of Everspeed Technology Limited, the parent company of ETG, on September 30, 2016, and this event was accounted for as an equity transaction. Consequently this matter is identified as a key audit matter. For information about related party transactions, refer to Note 28 to the accompanying financial statement.

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

1. Understood and tested the design and implementation of relevant controls over the management of related party transactions.
2. Obtained transaction details between the Corporation and ETG, including types of transactions, amounts and accounts involved in order to verify the consistency of the transactions and to confirm that the transactions have been disclosed in the corresponding notes in the accompanying financial statement.
3. Confirmed the accuracy of the accounting treatments of the aforementioned equity transactions.

#### **Emphasised Matter**

As stated in Note 33 to the accompanying financial statements, the Corporation is under statutory investigation for an alleged violation of the Securities and Exchange Act. The investigation was ongoing as of the date of this report. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation'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 Corporation 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 Corporation's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Corporation'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 Corporation'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 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 Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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 statements 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 financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 20, 2017

Notice to Readers

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

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

# PHISON ELECTRONICS CORP.

## BALANCE SHEETS

DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

ASSETS	2016		2015	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 13,552,188	43	\$ 10,833,163	39
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 27)	1,126,910	4	2,185,673	8
Debt investments with no active market - current (Notes 4, 8 and 30)	21,793	-	20,408	-
Notes and accounts receivable				
Third parties (Notes 4 and 9)	4,401,667	14	4,017,339	15
Related parties (Notes 4, 9 and 28)	363,065	1	341,114	1
Other receivables (Note 9)	367,720	1	353,813	1
Inventories (Notes 4 and 10)	5,220,905	17	5,250,825	19
Prepayments	66,693	-	38,352	-
Other current assets	7,229	-	18,666	-
<b>Total current assets</b>	<b>25,128,170</b>	<b>80</b>	<b>23,059,353</b>	<b>83</b>
<b>NON-CURRENT ASSETS</b>				
Available-for-sale financial assets - non-current (Notes 4 and 11)	372,051	1	295,950	1
Financial assets measured at cost - non-current (Notes 4 and 12)	501,187	1	456,077	2
Investments accounted for by the equity method (Notes 4 and 13)	2,594,470	8	1,893,754	7
Property, plant and equipment (Notes 4 and 14)	2,392,803	8	1,629,662	6
Intangible assets (Notes 4 and 15)	217,763	1	174,308	1
Deferred tax assets (Notes 4 and 21)	218,523	1	145,622	-
Guarantee deposits paid	1,544	-	1,532	-
<b>Total non-current assets</b>	<b>6,298,341</b>	<b>20</b>	<b>4,596,905</b>	<b>17</b>
<b>TOTAL</b>	<b>\$ 31,426,511</b>	<b>100</b>	<b>\$ 27,656,258</b>	<b>100</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term borrowings (Note 16)	\$ 580,500	2	\$ 196,950	1
Notes and accounts payable				
Third parties	1,734,372	6	1,091,561	4
Related parties (Note 28)	2,123,721	7	3,166,665	11
Other payables (Note 17)	2,662,812	8	1,841,170	7
Tax payable (Notes 4 and 21)	729,492	2	645,057	2
Provisions (Notes 4 and 18)	344,076	1	149,852	-
Other current liabilities	185,420	1	169,205	1
<b>Total current liabilities</b>	<b>8,360,393</b>	<b>27</b>	<b>7,260,460</b>	<b>26</b>
<b>NON-CURRENT LIABILITIES</b>				
Net defined benefit liabilities - non-current (Notes 4 and 19)	72,725	-	66,901	-
Guarantee deposits received	568	-	568	-
<b>Total non-current liabilities</b>	<b>73,293</b>	<b>-</b>	<b>67,469</b>	<b>-</b>
<b>Total liabilities</b>	<b>8,433,686</b>	<b>27</b>	<b>7,327,929</b>	<b>26</b>
<b>EQUITY (Notes 20 and 23)</b>				
Share capital				
Common shares	1,970,740	6	1,973,740	7
Capital surplus	6,652,449	21	6,514,569	24
Retained earnings				
Legal reserve	2,356,107	8	1,956,106	7
Special reserve	111,358	-	5,056	-
Unappropriated earnings	11,928,136	38	9,990,216	36
Total retained earnings	14,395,601	46	11,951,378	43
Other equity	(25,965)	-	(111,358)	-
<b>Total equity</b>	<b>22,992,825</b>	<b>73</b>	<b>20,328,329</b>	<b>74</b>
<b>TOTAL</b>	<b>\$ 31,426,511</b>	<b>100</b>	<b>\$ 27,656,258</b>	<b>100</b>

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

# PHISON ELECTRONICS CORP.

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

	2016		2015	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 28)				
Gross sales	\$ 44,200,297	101	\$ 37,292,758	101
Less: Sales returns and allowances	<u>587,201</u>	<u>1</u>	<u>321,863</u>	<u>1</u>
Net sales	43,613,096	100	36,970,895	100
Other operating revenue	<u>65,451</u>	<u>-</u>	<u>78,031</u>	<u>-</u>
Total operating revenue	43,678,547	100	37,048,926	100
OPERATING COSTS (Notes 4, 10, 22 and 28)	<u>34,471,226</u>	<u>79</u>	<u>29,523,645</u>	<u>80</u>
GROSS PROFIT	<u>9,207,321</u>	<u>21</u>	<u>7,525,281</u>	<u>20</u>
OPERATING EXPENSES (Notes 22)				
Marketing	675,116	2	517,448	2
General and administrative	473,374	1	401,199	1
Research and development	<u>3,142,385</u>	<u>7</u>	<u>2,307,267</u>	<u>6</u>
Total operating expenses	<u>4,290,875</u>	<u>10</u>	<u>3,225,914</u>	<u>9</u>
OPERATING INCOME	<u>4,916,446</u>	<u>11</u>	<u>4,299,367</u>	<u>11</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 22)	83,960	-	171,850	1
Share of gains (losses) of subsidiaries and associates (Notes 2 and 13)	418,925	1	(10,081)	-
Other income (Note 22)	114,920	1	103,270	-
Financial costs	<u>(2,053)</u>	<u>-</u>	<u>(3,031)</u>	<u>-</u>
Total nonoperating income and expenses	<u>615,752</u>	<u>2</u>	<u>262,008</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	5,532,198	13	4,561,375	12
INCOME TAX EXPENSE (Notes 4 and 21)	<u>665,206</u>	<u>2</u>	<u>561,366</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>4,866,992</u>	<u>11</u>	<u>4,000,009</u>	<u>11</u>
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss				

(Continued)

# PHISON ELECTRONICS CORP.

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

	2016		2015	
	Amount	%	Amount	%
Remeasurement of defined benefit plan	(2,475)	-	(22,094)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 21)	421	-	3,756	-
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive loss of subsidiaries and associates	(48,443)	-	(25,966)	-
Unrealized gain (loss) on available-for-sale financial assets	125,601	-	(84,750)	(1)
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 21)	<u>8,235</u>	<u>-</u>	<u>4,414</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>83,339</u>	<u>-</u>	<u>(124,640)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,950,331</u>	<u>11</u>	<u>\$ 3,875,369</u>	<u>10</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 23)				
Basic	<u>\$ 24.67</u>		<u>\$ 20.41</u>	
Diluted	<u>\$ 24.35</u>		<u>\$ 20.12</u>	

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

(Concluded)



**PHISON ELECTRONICS CORP.**

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

	Common Shares	Capital Surplus	Retained Earnings			Other Equity		Treasury Shares	Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets		
BALANCE AT JANUARY 1, 2015	\$ 1,854,740	\$ 4,487,500	\$ 1,635,991	\$ 11,241	\$ 8,533,064	\$ (5,056)	\$ -	\$ -	\$ 16,517,480
Appropriation of the 2014 earnings									
Legal reserve	-	-	320,115	-	(320,115)	-	-	-	-
Reversal from special reserve	-	-	-	(6,185)	6,185	-	-	-	-
Cash dividends - NT\$11.2 per share	-	-	-	-	(2,210,589)	-	-	-	(2,210,589)
Issue of common shares for cash on February 13, 2015 - NT\$180 per share	119,000	2,023,000	-	-	-	-	-	-	2,142,000
Changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	-	4,069	-	-	-	-	-	-	4,069
Net profit for the year ended December 31, 2015	-	-	-	-	4,000,009	-	-	-	4,000,009
Other comprehensive loss for the year ended December 31, 2015, net of income tax	-	-	-	-	(18,338)	(21,552)	(84,750)	-	(124,640)
BALANCE AT DECEMBER 31, 2015	1,973,740	6,514,569	1,956,106	5,056	9,990,216	(26,608)	(84,750)	-	20,328,329
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)
Changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	-	147,375	-	-	-	-	-	-	147,375
Treasury shares	-	-	-	-	-	-	-	(64,722)	(64,722)
Cancelation of treasury shares	(3,000)	(9,495)	-	-	(52,227)	-	-	64,722	-
Net profit for the year ended December 31, 2016	-	-	-	-	4,866,992	-	-	-	4,866,992
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(2,054)	(40,208)	125,601	-	83,339
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

The accompanying notes are an integral part of the financial statements.  
(With Deloitte & Touche auditors' report dated March 20, 2017)

# PHISON ELECTRONICS CORP.

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

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 5,532,198	\$ 4,561,375
Adjustments for:		
Recognition of provisions	408,268	180,250
Depreciation	118,860	105,040
Amortization	121,189	104,871
Allowance for bad debts	123,645	62,574
Net loss (gain) on foreign currency exchange	128,819	(59,305)
Dividend income	(38,867)	(42,656)
Interest income	(32,490)	(36,026)
Inventory write-downs	8,598	15,000
Impairment loss recognized on financial assets measured at cost	65,880	10,812
Share of (gains) losses of subsidiaries and associates	(418,925)	10,081
Financial costs	2,053	3,031
Loss on disposal of financial assets measured at cost	-	1,614
(Gains) losses on disposal of property, plant and equipment	(41)	8
Gains on deconsolidation of subsidiaries	(45,649)	-
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	1,058,763	(151,207)
Notes and accounts receivable	(596,289)	(209,137)
Other receivables	(19,939)	(59,324)
Inventories	21,322	114,817
Prepayments	(34,434)	(44,235)
Other current assets	11,437	(18,493)
Notes and accounts payable	(421,488)	267,946
Other payables	820,726	374,604
Provisions	(214,044)	(101,526)
Other current liabilities	20,526	(10,055)
Net defined benefit liability	3,348	2,349
Cash generated from operations	6,623,466	5,082,408
Interest paid	(1,709)	(2,971)
Income tax paid	(645,016)	(387,109)
Net cash generated from operating activities	<u>5,976,741</u>	<u>4,692,328</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments accounted for by the equity method	(137,210)	(877,922)
Purchase of available-for-sale financial assets	-	(380,700)
Proceeds of the capital reduction of available-for-sale financial assets	49,500	-
Purchase of financial assets measured at cost	(110,990)	(226,633)
Payments for intangible assets	(166,401)	(176,015)
Payments for property, plant and equipment	(879,499)	(96,112)
Dividends received	38,867	42,656
Interest received	34,763	35,700

(Continued)

# PHISON ELECTRONICS CORP.

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

	2016	2015
Proceeds of the disposal of investments accounted for by the equity method	-	11,830
Proceeds of the disposal of financial assets measured at cost	-	8,137
Proceeds of the capital reduction of investments accounted for by the equity method	-	4,298
Proceeds from disposal of property, plant and equipment	41	-
Increase in refundable deposits	(12)	(1,155)
Increase in debt investments with no active market	<u>(1,385)</u>	<u>(95)</u>
Net cash used in investing activities	<u>(1,172,326)</u>	<u>(1,656,011)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	(2,368,488)	(2,210,589)
Proceeds of the issue of common shares	-	2,142,000
Increase short-term borrowings	380,386	198,396
Decrease in guarantee deposits	-	(2,136)
Purchase of treasury shares	<u>(64,722)</u>	<u>-</u>
Net cash (used in) generated from financing activities	<u>(2,052,824)</u>	<u>127,671</u>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>(32,566)</u>	<u>102,409</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,719,025	3,266,397
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>10,833,163</u>	<u>7,566,766</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 13,552,188</u>	<u>\$ 10,833,163</u>

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

(Concluded)

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

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

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA  
Chairman

March 20, 2017

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Phison Electronics Corp.

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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

#### Sales revenue recognition

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

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

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

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

#### Controlled entity transactions upon consolidation

As stated in Note 26 to the accompanying consolidated financial statements, as recorded in the minutes of meeting of the Corporation's board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the Chairman of the Corporation, that the operational management of Everspeed Technology Group ("ETG") is under the substantial control of the Chairman and should be considered a related party of the Corporation. The Corporation received Rule No. 1050036477 issued by the FSC mandating the acknowledgement of ETG as a controlled entity of the Corporation and the inclusion of the entity into the Group's consolidated financial statements. The Corporation did not originally hold any interest in ETG. For the long-term development and enhancement of the integrity of the Corporation's operating structure, the board of directors resolved on September 21, 2016, to acquire 100% equity interest in ETG from the shareholders of Everspeed Technology Limited, the parent company of ETG, on September 30, 2016. In accordance with the aforementioned Rule, ETG is included in the consolidated financial statements as a controlled entity, and this event was accounted for as an equity transaction. Consequently this matter is identified as a key audit matter.

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

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

#### **Emphasised Matters**

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

#### **Other Matter**

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

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

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

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

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

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

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

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

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

conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 20, 2017

#### Notice to Readers

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

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



# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

(Continued)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

	2016		2015 (Restated)	
	Amount	%	Amount	%
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 22)	421	-	3,756	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(48,919)	-	(32,764)	-
Unrealized gain (loss) on available-for-sale financial assets	125,601	-	(84,750)	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 22)	<u>8,235</u>	<u>-</u>	<u>4,414</u>	<u>-</u>
Other comprehensive income (loss) for the year, net of income tax	<u>82,863</u>	<u>-</u>	<u>(131,438)</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,884,706</u>	<u>11</u>	<u>\$ 3,765,255</u>	<u>10</u>
NET PROFIT (LOSS) ATTRIBUTED TO:				
Owners of the Corporation	\$ 4,866,992	11	\$ 4,000,009	10
Non-controlling interests	<u>(65,149)</u>	<u>-</u>	<u>(103,316)</u>	<u>-</u>
	<u>\$ 4,801,843</u>	<u>11</u>	<u>\$ 3,896,693</u>	<u>10</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTED TO:				
Owners of the Corporation	\$ 4,950,331	11	\$ 3,875,369	10
Non-controlling interests	<u>(65,625)</u>	<u>-</u>	<u>(110,114)</u>	<u>-</u>
	<u>\$ 4,884,706</u>	<u>11</u>	<u>\$ 3,765,255</u>	<u>10</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 24)				
Basic	<u>\$ 24.67</u>		<u>\$ 20.41</u>	
Diluted	<u>\$ 24.35</u>		<u>\$ 20.12</u>	

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

(Concluded)

**PHISON ELECTRONICS CORP. AND SUBSIDIARIES**

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

	Equity Attributable to the Corporation						Other Equity		Total	Non-controlling Interests	Total Equity
	Common Shares	Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Treasury Shares			
			Legal Reserve	Special Reserve	Unappropriated Earnings						
BALANCE AT JANUARY 1, 2015 (AUDITED AFTER RESTATED)	\$ 1,854,740	\$ 4,487,500	\$ 1,635,991	\$ 11,241	\$ 8,533,064	\$ (5,056)	\$ -	\$ -	\$ 16,517,480	\$ 260,061	\$ 16,777,541
Appropriation of the 2014 earnings											
Legal reserve	-	-	320,115	-	(320,115)	-	-	-	-	-	-
Reversal from special reserve	-	-	-	(6,185)	6,185	-	-	-	-	-	-
Cash dividends - NT\$11.2 per share	-	-	-	-	(2,210,589)	-	-	-	(2,210,589)	-	(2,210,589)
Issue of common shares for cash on February 13, 2015 - NT\$180 per share	119,000	2,023,000	-	-	-	-	-	-	2,142,000	-	2,142,000
Changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	-	4,069	-	-	-	-	-	-	4,069	-	4,069
Non-controlling interests	-	-	-	-	-	-	-	-	-	71,586	71,586
Net profit (loss) for the year ended December 31, 2015	-	-	-	-	4,000,009	-	-	-	4,000,009	(103,316)	3,896,693
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(18,338)	(21,552)	(84,750)	-	(124,640)	(6,798)	(131,438)
BALANCE AT DECEMBER 31, 2015 (AUDITED AFTER RESTATED)	1,973,740	6,514,569	1,956,106	5,056	9,990,216	(26,608)	(84,750)	-	20,328,329	221,533	20,549,862
Appropriation of the 2015 earnings											
Legal reserve	-	-	400,001	-	(400,001)	-	-	-	-	-	-
Special reserve	-	-	-	106,302	(106,302)	-	-	-	-	-	-
Cash dividends - NT\$12 per share	-	-	-	-	(2,368,488)	-	-	-	(2,368,488)	-	(2,368,488)
Non-controlling interests	-	-	-	-	-	-	-	-	-	4,577	4,577
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	-	-	(7,710)	(7,710)
Changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	-	147,375	-	-	-	-	-	-	147,375	(147,375)	-
Treasury shares	-	-	-	-	-	-	-	(64,722)	(64,722)	-	(64,722)
Cancelation of treasury shares	(3,000)	(9,495)	-	-	(52,227)	-	-	64,722	-	-	-
Net profit (loss) for the year ended December 31, 2016	-	-	-	-	4,866,992	-	-	-	4,866,992	(65,149)	4,801,843
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(2,054)	(40,208)	125,601	-	83,339	(476)	82,863
BALANCE AT DECEMBER 31, 2016	<u>\$ 1,970,740</u>	<u>\$ 6,652,449</u>	<u>\$ 2,356,107</u>	<u>\$ 111,358</u>	<u>\$ 11,928,136</u>	<u>\$ (66,816)</u>	<u>\$ 40,851</u>	<u>\$ -</u>	<u>\$ 22,992,825</u>	<u>\$ 5,400</u>	<u>\$ 22,998,225</u>

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

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

(Continued)

# PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

(Concluded)

**[Comparison Table for Amendments to Articles of the Company]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 5	<p>The capital sum of company is NT\$2.6 billion which is divided into 260 million shares with each of NT\$10, and the Board of Directors is authorized to issue the unissued shares in installments.</p> <p>The capital sum of company retains NT\$160 million which is divided into 160 million shares with each of NT\$10 and used for share subscription warrants issued to employees, and the shares shall be issued in installments according to resolutions of the Board of Directors.</p>	Article 5	<p>The capital sum of company is <u>NT\$2.8 billion</u> which is divided into <u>280 million</u> shares with each of NT\$10, and the Board of Directors is authorized to issue the unissued shares in installments.</p> <p>The capital sum of company retains NT\$160 million which is divided into 160 million shares with each of NT\$10 and used for share subscription warrants issued to employees, and the shares shall be issued in installments according to resolutions of the Board of Directors.</p>	Amend according to company operating requirements
Article 21	<p>The Articles of the Company were formulated on October 24, 2000.</p> <p>The Articles of the Company were firstly amended on November 21, 2000.</p> <p>The Articles of the Company were secondly amended on September 5, 2001.</p> <p>The Articles of the Company were thirdly amended on February 15, 2002.</p> <p>The Articles of the Company were fourthly amended on April 9, 2002.</p> <p>The Articles of the Company were fifthly amended on June 25, 2002.</p> <p>The Articles of the Company were sixthly amended on March 26, 2003.</p> <p>The Articles of the Company were</p>	Article 21	<p>The Articles of the Company were formulated on October 24, 2000.</p> <p>The Articles of the Company were firstly amended on November 21, 2000.</p> <p>The Articles of the Company were secondly amended on September 5, 2001.</p> <p>The Articles of the Company were thirdly amended on February 15, 2002.</p> <p>The Articles of the Company were fourthly amended on April 9, 2002.</p> <p>The Articles of the Company were fifthly amended on June 25, 2002.</p> <p>The Articles of the Company were sixthly amended on March 26, 2003.</p> <p>The Articles of the Company were</p>	Add the number of amendments and date of amendment

	<p>seventhly amended on November 12, 2003.  The Articles of the Company were eighthly amended on June 15, 2004.  The Articles of the Company were ninthly amended on March 17, 2005.  The Articles of the Company were tenthly amended on June 16, 2005.  The Articles of the Company were eleventhly amended on June 14, 2006.  The Articles of the Company were twelfthly amended on November 1, 2006.  The Articles of the Company were thirteenthly amended on June 13, 2007.  The Articles of the Company were fourteenthly amended on June 13, 2008.  The Articles of the Company were fifteenthly amended on May 8, 2009.  The Articles of the Company were sixteenthly amended on June 15, 2010.  The Articles of the Company were seventeenthly amended on June 15, 2011.  The Articles of the Company were eighteenthly amended on June 11, 2013.  The Articles of the Company were nineteenthly amended on June 17, 2014.  The Articles of the Company were twentiethly amended on June 2, 2015.  The Articles of the Company were twenty-firstly amended on June 15, 2016.</p>		<p>seventhly amended on November 12, 2003.  The Articles of the Company were eighthly amended on June 15, 2004.  The Articles of the Company were ninthly amended on March 17, 2005.  The Articles of the Company were tenthly amended on June 16, 2005.  The Articles of the Company were eleventhly amended on June 14, 2006.  The Articles of the Company were twelfthly amended on November 1, 2006.  The Articles of the Company were thirteenthly amended on June 13, 2007.  The Articles of the Company were fourteenthly amended on June 13, 2008.  The Articles of the Company were fifteenthly amended on May 8, 2009.  The Articles of the Company were sixteenthly amended on June 15, 2010.  The Articles of the Company were seventeenthly amended on June 15, 2011.  The Articles of the Company were eighteenthly amended on June 11, 2013.  The Articles of the Company were nineteenthly amended on June 17, 2014.  The Articles of the Company were twentiethly amended on June 2, 2015.  The Articles of the Company were twenty-firstly amended on June 15, 2016.  <u>The Articles of the Company will be twenty-secondly amended on June 13, 2017.</u></p>	
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**[Comparison Table for Amendments to Procedures for Acquisition or Disposal of Assets]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 4	<p>Evaluation Procedure: The price determination method and reference basis for acquisition and disposal of assets of the Company shall comply with the following regulations:</p> <p>1. Securities: For acquisition and disposal of securities, the most recent financial statements audited and certified or checked and approved by accountants from the Company before the day of the event shall be taken as the reference for evaluating the transaction price, and the transaction price shall be determined as follows:</p> <p>(1) For acquisition and disposal of securities bought or sold at the centralized trading market or at the places of business of securities firms, determine according to the transaction price at that time.</p> <p>(2) For acquisition and disposal of securities not bought or sold at the centralized trading market or at the places of business of securities firms, decide with consideration of net value per share, profit-making ability, future expanding potential and others and according to the transaction price at that time, or decide by referring to the current market interest rate, face interest rate, debtor's credit and others.</p> <p>Where the transaction amount reaches 20%</p>	Article 4	<p>Evaluation Procedure: The price determination method and reference basis for acquisition and disposal of assets of the Company shall comply with the following regulations:</p> <p>1. Securities: For acquisition and disposal of securities, the most recent financial statements audited and certified or checked and approved by accountants from the Company before the day of the event shall be taken as the reference for evaluating the transaction price, and the transaction price shall be determined as follows:</p> <p>(1) For acquisition and disposal of securities bought or sold at the centralized trading market or at the places of business of securities firms, determine according to the transaction price at that time.</p> <p>(2) For acquisition and disposal of securities not bought or sold at the centralized trading market or at the places of business of securities firms, decide with consideration of net value per share, profit-making ability, future expanding potential and others and according to the transaction price at that time, or decide by referring to the current market interest rate, face interest rate, debtor's credit and others.</p> <p>Where the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company shall engage a certified public accountant to render an opinion on the</p>	Amend according to the newly revised Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>of more of paid-in capital or NT\$300 million or more, the Company shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; If the certified public accountant needs to adopt a professional report, the certified public accountant shall comply with the provisions of Statement of Auditing Standards No. 20 published by the Accounting Research and Development Foundation (hereafter referred to as the "ARDF").This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by regulations of the Financial Supervisory Commission (hereafter referred to as the "FSC").</p> <p>2. Real Property or Other Fixed Assets: Transaction term and price for acquisition or disposal of real property shall be referred to the publicly announced current value, appraisal value, neighboring or closely value of real property and others; the acquisition or disposal of other fixed assets should be conducted after collecting relevant price information and based on inquiry, parity, negotiation or tender. In acquiring or disposing real property or other fixed assets where the transaction amount reaches 20% of the company's paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or</p>		<p>reasonableness of the transaction price before the date of the occurrence; If the certified public accountant needs to adopt a professional report, the certified public accountant shall comply with the provisions of Statement of Auditing Standards No. 20 published by the Accounting Research and Development Foundation (hereafter referred to as the "ARDF").This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by regulations of the Financial Supervisory Commission (hereafter referred to as the "FSC").</p> <p>2. Real Property or Other Fixed Assets: Transaction term and price for acquisition or disposal of real property shall be referred to the publicly announced current value, appraisal value, neighboring or closely value of real property and others; the acquisition or disposal of other fixed assets should be conducted after collecting relevant price information and based on inquiry, parity, negotiation or tender. In acquiring or disposing real property or other fixed assets where the transaction amount reaches 20% of the company's paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of business machinery and equipment, shall obtain an appraisal report in advance from a professional appraiser before the date of the occurrence and shall further comply with the following provisions:</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>acquiring or disposing of business machinery and equipment, shall obtain an appraisal report in advance from a professional appraiser before the date of the occurrence and shall further comply with the following provisions:</p> <p>(1) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.</p> <p>(2) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</p> <p>(3) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, except in the case when the appraisal results of acquiring an asset are higher than the transaction amount, or when the appraisal results of disposing an asset are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ARDF and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:</p> <p>i. The discrepancy between the appraisal result and the transaction amount is 20%</p>		<p>(1) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.</p> <p>(2) Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</p> <p>(3) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, except in the case when the appraisal results of acquiring an asset are higher than the transaction amount, or when the appraisal results of disposing an asset are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ARDF and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:</p> <p>i. The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.</p> <p>ii. The discrepancy between the appraisal result and the transaction amount is 10% or more of the transaction amount.</p> <p>(4) Where an appraisal from professional appraisers is conducted before a contract</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>or more of the transaction amount.</p> <p>ii. The discrepancy between the appraisal result and the transaction amount is 10% or more of the transaction amount.</p> <p>(4) Where an appraisal from professional appraisers is conducted before a contract execution date, no more than three months may pass between the date of the appraisal report and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.</p> <p>3. Memberships or Intangible Assets: Acquisition or disposal of memberships shall be conducted after collecting relevant price information and based on inquiry or parity; Acquisition or disposal of intangible assets shall also be conducted after collecting relevant price information and the transaction price shall be decided based on laws related to careful evaluation and contract content. Where the Company acquires or disposes of membership or intangible assets and the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; the certified public accountant shall comply with the provisions of Statement of Auditing Standards No. 20</p>		<p>execution date, no more than three months may pass between the date of the appraisal report and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.</p> <p>3. Memberships or Intangible Assets: Acquisition or disposal of memberships shall be conducted after collecting relevant price information and based on inquiry or parity; Acquisition or disposal of intangible assets shall also be conducted after collecting relevant price information and the transaction price shall be decided based on laws related to careful evaluation and contract content. Where the Company acquires or disposes of membership or intangible assets and the transaction amount reaches 20% of more of paid-in capital or NT\$300 million or more, the Company, unless transacting with a government agency, shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; the certified public accountant shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.</p> <p>3-1.The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, and “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal report</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>published by the ARDF.</p> <p>3-1.The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, and “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items for which an appraisal report from a professional appraiser or a certified public accountant opinion has been obtained need not be counted toward the transaction amount.</p> <p>4. Other Major Assets Acquisition or disposal of creditor rights in financial institution, derivatives, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law or other major assets shall be conducted after collecting relevant price information depending on trading assets targets, and the transaction price shall be decided based on laws related to careful evaluation and contract content.</p> <p>5.Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or certified public accountant opinion.</p>		<p>from a professional appraiser or a certified public accountant opinion has been obtained need not be counted toward the transaction amount.</p> <p>4. Other Major Assets Acquisition or disposal of creditor rights in financial institution, derivatives, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law or other major assets shall be conducted after collecting relevant price information depending on trading assets targets, and the transaction price shall be decided based on laws related to careful evaluation and contract content.</p> <p>5.Where the Company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or certified public accountant opinion.</p>	
Article 5	<p>Operating Procedure</p> <p>I. Authorization Limit and Level</p> <p>(1) For acquisition or disposal of assets by the Company, the undertaker shall consolidate the information such as reason of acquisition or disposal, target object, counterpart,</p>	Article 5	<p>Operating Procedure</p> <p>I. Authorization Limit and Level</p> <p>(1) For acquisition or disposal of assets by the Company, the undertaker shall consolidate the information such as reason of acquisition or disposal, target object, counterpart, transfer</p>	Amend according to company operating requirements.

Current Articles		Amended Articles				Amendment Explanation																																																																																		
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	transfer price, payment conditions and price reference basis and submit to the Authority for approval depending on trading assets items. The regulations related to authorization limit and level of derivatives or others shall refer to the “Procedures for Engaging in Derivatives Trading” of company.		price, payment conditions and price reference basis and submit to the Authority for approval depending on trading assets items. The regulations related to authorization limit and level of derivatives or others shall refer to the “Procedures for Engaging in Derivatives Trading” of company.																																																																																					
	<table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th rowspan="2">Amount</th> <th colspan="3">Authority</th> </tr> <tr> <th>Board of Directors</th> <th>Chairman</th> <th>General Manager</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Long-term securities investment (including long-term equity investment)</td> <td>Below 80 million (including)</td> <td></td> <td></td> <td>Approval</td> </tr> <tr> <td>80 million (excluding) ~ 180 million (including)</td> <td></td> <td>Approval</td> <td>Review</td> </tr> <tr> <td>Over 180 million (excluding)</td> <td>Approval</td> <td>Review</td> <td>Review</td> </tr> <tr> <td rowspan="3">Short-term securities investment</td> <td>Total amount per level below 100 million (including)</td> <td></td> <td></td> <td>Approval</td> </tr> <tr> <td>Total amount per level 100 million (excluding) ~ 250 million (including)</td> <td></td> <td>Approval</td> <td>Review</td> </tr> <tr> <td>Total amount per level over 250 million (excluding)</td> <td>Approval</td> <td>Review</td> <td>Review</td> </tr> </tbody> </table>	Item	Amount	Authority			Board of Directors	Chairman	General Manager	Long-term securities investment (including long-term equity investment)	Below 80 million (including)			Approval	80 million (excluding) ~ 180 million (including)		Approval	Review	Over 180 million (excluding)	Approval	Review	Review	Short-term securities investment	Total amount per level below 100 million (including)			Approval	Total amount per level 100 million (excluding) ~ 250 million (including)		Approval	Review	Total amount per level over 250 million (excluding)	Approval	Review	Review		<table border="1"> <thead> <tr> <th rowspan="2">Item</th> <th rowspan="2">Amount</th> <th colspan="4">Authority</th> </tr> <tr> <th>Board of Directors</th> <th>Chairman</th> <th>General Manager</th> <th>Division Chief</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Long-term securities investment (including long-term equity investment)</td> <td>Below 80 million (including)</td> <td></td> <td></td> <td>Approval</td> <td>Review</td> </tr> <tr> <td>80 million (excluding) ~ <u>260 million</u> (including)</td> <td></td> <td>Approval</td> <td>Review</td> <td>Review</td> </tr> <tr> <td>Over <u>260 million</u>(excluding)</td> <td>Approval</td> <td>Review</td> <td>Review</td> <td>Review</td> </tr> <tr> <td rowspan="3">Short-term securities investment</td> <td>Total amount per level below 100 million (including)</td> <td></td> <td></td> <td>Approval</td> <td>Review</td> </tr> <tr> <td>Total amount per level 100 million (excluding) ~ <u>300 million</u> (including)</td> <td></td> <td>Approval</td> <td>Review</td> <td>Review</td> </tr> <tr> <td>Total amount per level over 300 million (excluding)</td> <td>Approval</td> <td>Review</td> <td>Review</td> <td>Review</td> </tr> <tr> <td>Real property</td> <td>Below 100000 (excluding)</td> <td></td> <td></td> <td></td> <td>Approval</td> </tr> </tbody> </table>	Item	Amount	Authority				Board of Directors	Chairman	General Manager	Division Chief	Long-term securities investment (including long-term equity investment)	Below 80 million (including)			Approval	Review	80 million (excluding) ~ <u>260 million</u> (including)		Approval	Review	Review	Over <u>260 million</u> (excluding)	Approval	Review	Review	Review	Short-term securities investment	Total amount per level below 100 million (including)			Approval	Review	Total amount per level 100 million (excluding) ~ <u>300 million</u> (including)		Approval	Review	Review	Total amount per level over 300 million (excluding)	Approval	Review	Review	Review	Real property	Below 100000 (excluding)				Approval			
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	Real property	Below 100 million (including)		Approval	Review	100000 (including) ~ 100 million (including)		Approval	Review	Review		
		Over 100 million (excluding)	Approval	Review	Review		Over 100 million (excluding)	Approval	Review	Review		Review
	Other fixed assets	Below 30 million (including)			Approval	Other fixed assets	Below 100000 (excluding)					Approval
		30 million (excluding) ~ 80 million (including)		Approval	Review		100000 (including) ~ 30 million (including)			Approval		Review
		Over 80 million (excluding)	Approval	Review	Review		30 million (excluding) ~ 100 million (including)		Approval	Review		Review
		Below 20 million (including)		Approval	Review		Over 100 million (excluding)	Approval	Review	Review		Review
	Memberships	Over 20 million (excluding)	Approval	Review	Review	Memberships	Below 20 million (including)		Approval	Review		Review
		Below 20 million (including)			Approval		Over 20 million (excluding)	Approval	Review	Review		Review
	Intangible assets	Below 20 million (including)			Approval	Intangible assets	Below 30 million (including)			Approval		Review
		20 million (excluding) ~ 80 million (including)		Approval	Review		30 million (excluding) ~ 100 million (including)		Approval	Review		Review
		Over 80 million (excluding)	Approval	Review	Review		Over 100 million (excluding)	Approval	Review	Review		Review
	Creditor rights in financial institution	Below 80 million (including)		Approval	Review	Creditor rights in financial institution	Below 100 million (including)		Approval	Review		Review
		Over 80 million (excluding)	Approval	Review	Review		Over 100 million (excluding)	Approval	Review	Review		Review

Current Articles						Amended Articles						Amendment Explanation	
Item	Content					Item	Content						
	Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law	Shall not be decided by resolution of the Board of Shareholders according to laws	Approval	Review	Review		Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law	Shall not be decided by resolution of the Board of Shareholders according to laws	Approval	Review	Review	Review	
		Shall be decided by resolution of the Board of Shareholders according to laws	Review	Review	Review			Shall be decided by resolution of the Board of Shareholders according to laws	Review	Review	Review	Review	
		Other major assets	Below 80 million (including)		Approval	Review		Other major assets	Below <u>100 million</u> (including)		Approval	Review	
		Over 80 million (excluding)	Approval	Review	Review		Over <u>100 million</u> (excluding)	Approval	Review	Review	Review		
	(2) Pursuant to the Procedures or other laws and regulations, the acquisition or disposal of assets by the Company shall be submitted to the Board of directors for its approval. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors. Where the position of Independent Director has been established in						(2) Pursuant to the Procedures or other laws and regulations, the acquisition or disposal of assets by the Company shall be submitted to the Board of directors for its approval. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors. Where the position of Independent Director has been established in accordance with the						



Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>accordance with the provisions of the Act, when the asset acquisition or disposal is submitted for discussion by the Board of Directors according to the preceding provisions, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p>The resolution of Board of Directors specified herein shall be approved by more than half of all directors with more than two-thirds of all directors being present.</p> <p>2. Execution Unit</p> <p>The acquisition or disposal of assets by the Company shall be executed by the following units:</p> <p>(1) Long-term investment in securities, memberships, intangible assets, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law and other major assets: appraised and executed by the project team through directing of General Manager or Chairman.</p> <p>(2) Short-term investment in securities, derivatives and creditor rights in financial institution: appraised and executed by Finance Department.</p> <p>(3) Real property: undertaken by General Affair Department.</p>		<p>provisions of the Act, when the asset acquisition or disposal is submitted for discussion by the Board of Directors according to the preceding provisions, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p><u>Where an Audit Committee has been established in accordance with the provisions of the Act, the acquisition or disposal of major assets and derivatives shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 22.</u></p> <p>The resolution of Board of Directors specified herein shall be approved by more than half of all directors with more than two-thirds of all directors being present.</p> <p>2. Execution Unit</p> <p>The acquisition or disposal of assets by the Company shall be executed by the following units:</p> <p>(1) Long-term investment in securities, memberships, intangible assets, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law and other major assets: appraised and executed by the project team through directing of General</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>(4) Other fixed assets: undertaken by requisition unit with General Admin. Department.</p> <p>(5) Public announcement and declaration: the public announcement and declaration personnel engage the undertaker to consolidate relevant information of public announcement and declaration and manage wholly.</p> <p>3. Transaction Process The transaction process and operation for acquisition or disposal of assets shall comply with relevant laws and provisions related to internal control system of the Company.</p>		<p>Manager or Chairman.</p> <p>(2) Short-term investment in securities, derivatives and creditor rights in financial institution: appraised and executed by Finance Department.</p> <p>(3) Real property: undertaken by General Affair Department.</p> <p>(4) Other fixed assets: undertaken by requisition unit with General Admin. Department.</p> <p>(5) Public announcement and declaration: the public announcement and declaration personnel engage the undertaker to consolidate relevant information of public announcement and declaration and manage wholly.</p> <p>3. Transaction Process The transaction process and operation for acquisition or disposal of assets shall comply with relevant laws and provisions related to internal control system of the Company.</p>	
Article 6	<p>Total Assets and Individual Limit The total amount of non-operating use real property or securities acquired by the Company and each subsidiary and the limit of individual securities are as follows:</p> <p>1. Total amount of real property acquired by the Company for non-operating use shall not be higher than 20% of the net value; total amount of real property acquired by each subsidiary for non-operating use shall not be higher than 20% of its net value.</p> <p>2. Total amount of long-term and short-term securities investment acquired by the Company</p>	Article 6	<p>Total Assets and Individual Limit The total amount of non-operating use real property or securities acquired by the Company and each subsidiary and the limit of individual securities are as follows:</p> <p>1. Total amount of real property acquired by the Company for non-operating use shall not be higher than 20% of <u>shareholders' equity</u>. Total amount of long-term and short-term securities investment acquired by the Company shall not be higher than 100% of <u>shareholders' equity</u>. The amount of individual security acquired by the Company shall not be higher than 40% of</p>	Amend according to company operating requirements.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>shall not be higher than 100% of the net value; total amount of long-term and short-term securities investment acquired the each subsidiary shall not be higher than 100% of its net value (for a subsidiary which is specialized in investment, it shall not be higher than 150% of its net value).</p> <p>3. The amount of individual security acquired by the Company shall not be higher than 40% of the net value; the amount of individual security acquired by each subsidiary shall not be higher than 100% of its net value (for a subsidiary which is specialized in investment, it shall not be higher than 150% of its net value).</p>		<p><u>shareholders' equity.</u></p> <p>2. Total amount of real property acquired by each subsidiary for non-operating use shall not be higher than 20% of <u>shareholders' equity or paid-in capital.</u> Total amount of long-term and short-term securities investment acquired the each subsidiary shall not be higher than 100% of <u>shareholders' equity or paid-in capital</u> (for a subsidiary which is specialized in investment, it shall not be higher than 150% of <u>shareholders' equity or paid-in capital</u>).The amount of individual security acquired by acquired by each subsidiary shall not be higher than 100% of <u>shareholders' equity or paid-in capital</u> (for a subsidiary which is specialized in investment, it shall not be higher than 150% of <u>shareholders' equity or paid-in capital</u>).For the <u>shareholders' equity or paid-in capital mentioned above, the larger will prevail.</u></p> <p>3. <u>The foregoing shareholders' equity refers to the equity belong to parent company owner in the most recent financial statements audited and certified or checked and approved by accountants before the Company and each subsidiary acquire assets; if the subsidiary is a nonpublic company, it refers to the shareholders' equity in the most recent financial statements of the subsidiary which are audited and certified or checked and approved by accountants; for the subsidiary without the most recent financial statements audited and certified or checked and approved by accountants, it refers to the shareholders' equity in its own most recent financial statements.</u></p>	
Article 9	Resolution Procedure	Article 9	Resolution Procedure	Amend according to

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>In acquiring or disposing real property from a Related Party, or in acquiring or disposing any other asset than the real property with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds, the following information shall be recognized by Audit Committee, and be submitted for approval from Board of Director and before signing any trading contracts and making payments:</p> <ol style="list-style-type: none"> <li>1. The purpose, necessity and anticipated benefits of the asset acquisition or disposal.</li> <li>2. The reason for choosing the Related Party as a trading counterparty.</li> <li>3. In acquiring or disposing real property from a Related Party shall comply with the relevant information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with the provisions of Article 10 and 11.</li> <li>4. The date and price at which the Related Party originally acquired the real property, the original counterparty and the trading counterparty's relationship with the Company and the Related Party.</li> <li>5. Monthly cash flow forecasts for the year commencing from the month of anticipated signing of the contract and evaluation of the necessity of the transaction and reasonableness of the use of proceeds.</li> <li>6. Obtain an appraisal report in advance from a</li> </ol>		<p>In acquiring or disposing real property from a Related Party, or in acquiring or disposing any other asset than the real property with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds issued by <u>securities investment trust enterprise</u>, the following information shall be recognized by Audit Committee, and be submitted for approval from Board of Director and before signing any trading contracts and making payments:</p> <ol style="list-style-type: none"> <li>1. The purpose, necessity and anticipated benefits of the asset acquisition or disposal.</li> <li>2. The reason for choosing the Related Party as a trading counterparty.</li> <li>3. In acquiring or disposing real property from a Related Party shall comply with the relevant information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with the provisions of Article 10 and 11.</li> <li>4. The date and price at which the Related Party originally acquired the real property, the original counterparty and the trading counterparty's relationship with the Company and the Related Party.</li> <li>5. Monthly cash flow forecasts for the year commencing from the month of anticipated signing of the contract and evaluation of the necessity of the transaction and reasonableness of the use of proceeds.</li> <li>6. Obtain an appraisal report in advance from a</li> </ol>	the newly revised Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>professional appraiser or engage a certified public accountant to render an opinion pursuant to the preceding paragraph.</p> <p>7. Restrictive and other important stipulations associated with the transaction.</p> <p>The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the Board and recognized by the Audit Committee need not be counted toward the transaction amount.</p> <p>In acquiring or disposing of business machinery and equipment between the Company and its subsidiaries or between each of its subsidiaries, the Board of Directors may first authorize the Chairman to execute within a certain amount in accordance with the provisions of Subparagraph 1, Paragraph 1 of Article 5, and shall report at the most recent meeting of the Board of Directors for ratification.</p> <p>Where the position of Independent Director has been established in accordance with the Securities Exchange Act, when the procedures are submitted for discussion by the Board of Directors according to Paragraph 1, the Board of Directors shall take into full consideration each Independent Director’s opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p>		<p>professional appraiser or engage a certified public accountant to render an opinion pursuant to the preceding paragraph.</p> <p>7. Restrictive and other important stipulations associated with the transaction.</p> <p>The amount of transactions above shall be calculated in compliance with the procedures set out in paragraph 2 of Article 19, “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the Board and recognized by the Audit Committee need not be counted toward the transaction amount.</p> <p>In acquiring or disposing of business machinery and equipment between the Company and its subsidiaries or between each of its subsidiaries, the Board of Directors may first authorize the Chairman to execute within a certain amount in accordance with the provisions of Subparagraph 1, Paragraph 1 of Article 5, and shall report at the most recent meeting of the Board of Directors for ratification.</p> <p>Where the position of Independent Director has been established in accordance with the <u>provisions</u> of Securities Exchange Act, when the procedures are submitted for discussion by the Board of Directors according to Paragraph 1, the Board of Directors shall take into full consideration each Independent Director’s opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p><u>Where an Audit Committee has been established in accordance with the issues which shall be recognized by Audit Committee according to</u></p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<u>Paragraph 1 shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution, and shall be subject to mutatis mutandis application of the provisions of Paragraph 4 and 5, Article 20.</u>	
Article 13	<p>Resolution Procedure</p> <p>1. The Company that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the Board of Directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation and passage.</p> <p>2. The Company participating in a merger, demerger, acquisition, or transfer of shares shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion referred to in preceding paragraph when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply.</p> <p>Where the shareholders meeting of any one of</p>	Article 13	<p>Resolution Procedure</p> <p>1. The Company that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the Board of Directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board of Directors for deliberation and passage. <u>However, for the merger of a subsidiary which directly or indirectly holds 100% issued shares or capital sum, or the merger between subsidiaries which directly or indirectly hold 100% issued shares or capital sum, the opinion on the reasonableness issued by experts pursuant to the preceding paragraph shall be avoided.</u></p> <p>2. The Company participating in a merger, demerger, acquisition, or transfer of shares shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the shareholders meeting and include it along with the expert opinion referred to in preceding paragraph when sending shareholders notification of the shareholders meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another</p>	Amend according to the newly revised Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>the companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders meeting, this Company participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.</p> <p>3. The Company participating in a merger, demerger, or acquisition shall convene a board of directors meeting and shareholders meeting on the day of the transaction to resolve matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent. The Company participating in a transfer of shares shall call a board of directors meeting on the day of the transaction, unless another act provides otherwise or the authority is notified in advance of extraordinary circumstances and grants consent.</p> <p>When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall prepare a full written record of the following information and retain it for five years for reference:</p> <p>(1) Basic identification data for personnel: Including the occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or</p>		<p>act exempts a company from convening a shareholders meeting to approve the merger, demerger, or acquisition, this restriction shall not apply.</p> <p>Where the shareholders meeting of any one of the companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the shareholders meeting, this Company participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next shareholders meeting.</p> <p>3. The Company participating in a merger, demerger, or acquisition shall convene a board of directors meeting and shareholders meeting on the day of the transaction to resolve matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent. The Company participating in a transfer of shares shall call a board of directors meeting on the day of the transaction, unless another act provides otherwise or the authority is notified in advance of extraordinary circumstances and grants consent.</p> <p>When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall prepare a full written record of the following information and retain it for five years for reference:</p> <p>(1) Basic identification data for personnel: Including the occupational titles, names, and</p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.</p> <p>(2) Dates of material events: Including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a board of directors meeting.</p> <p>(3) Important documents and minutes: Including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of board of directors meetings.</p> <p>When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall, in two days of passage of a resolution by the board of directors, report (in the prescribed format and via the Internet-based information system) the information set out in subparagraphs 1 and 2 of the preceding paragraph to the FSC for recordation.</p> <p>Where the Company participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the Company shall sign an agreement with such company whereby the latter is required to abide by the provisions of Paragraph 3 and 4 of this Article.</p>		<p>national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.</p> <p>(2) Dates of material events: Including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a board of directors meeting.</p> <p>(3) Important documents and minutes: Including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of board of directors meetings.</p> <p>When participating in a merger, demerger, acquisition, or transfer of shares, the Company shall, in two days of passage of a resolution by the board of directors, report (in the prescribed format and via the Internet-based information system) the information set out in subparagraphs 1 and 2 of the preceding paragraph to the FSC for recordation.</p> <p>Where the Company participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the Company shall sign an agreement with such company whereby the latter is required to abide by the provisions of Paragraph 3 and 4 of this Article.</p>	



Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 19	<p>Public Announcement and Declaration Procedure</p> <p>In acquiring or disposing of assets, should any of the following conditions occur after the filing and public announcement of transactions, the Company needs to file and make public announcement at the website specified by FSC accordingly in two days from the Date of the Event by using the prescribed format according to the nature:</p> <ol style="list-style-type: none"> <li>1. Acquisition or disposal real property from a Related Party, or in acquiring or disposing any other asset than the real property with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more; Provided, however, that this shall not apply to the trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds.</li> <li>2. Merger, demerger, acquisition, or transfer of shares.</li> <li>3. The loss of trading derivatives reaches the limit for all or individual contract set forth in the Procedures for Financial Derivatives Transactions.</li> <li>4. Where an asset transaction other than any of those referred to in the preceding three subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% of paid-in capital or NT\$300 million or more; provided, this shall not apply to the following circumstances:</li> </ol>	Article 19	<p>Public Announcement and Declaration Procedure</p> <p>In acquiring or disposing of assets, should any of the following conditions occur after the filing and public announcement of transactions, the Company needs to file and make public announcement at the website specified by FSC accordingly in two days from the Date of the Event by using the prescribed format according to the nature:</p> <ol style="list-style-type: none"> <li>1. Acquisition or disposal real property from a Related Party, or in acquiring or disposing any other asset than the real property with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more; Provided, however, that this shall not apply to the trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds <u>issued by securities investment trust enterprise</u>.</li> <li>2. Merger, demerger, acquisition, or transfer of shares.</li> <li>3. The loss of trading derivatives reaches the limit for all or individual contract set forth in the Procedures for Financial Derivatives Transactions.</li> <li>4 Where the type of asset acquired or disposed is equipment for business use and the trading counterparty is not a Related Party, <u>the transaction amount shall meet one of the following conditions:</u> <ol style="list-style-type: none"> <li>(1) <u>For the public companies with paid-in capital less than NT\$10 billion,</u> the transaction amount is NT\$ 500 million or more.</li> <li>(2) For the public companies with paid-in capital</li> </ol> </li> </ol>	Amend according to the newly revised Regulations Governing the Acquisition and Disposal of Assets by Public Companies.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>(1) Trading of government bonds.</p> <p>(2) Trading of securities in the stock exchange at home and abroad or on an exchange by a company which is specialized in investment, or taking up of securities in the primary market by a securities dealer according to relevant regulations.</p> <p>(3) Trading of bonds under repurchase/resale agreements and the purchase or redemption of domestic money market funds.</p> <p>(4) Where the type of asset acquired or disposed is equipment for business use, the trading counterparty is not a Related Party, and the transaction amount is <u>less than</u> NT\$500 million.</p> <p>(5) Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Company expects to invest in the transaction is <u>less than</u> NT\$500 million.</p> <p>The amount of transactions above shall be calculated as follows:</p> <ol style="list-style-type: none"> <li>1. The amount of any individual transaction.</li> <li>2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.</li> <li>3. The cumulative transaction amount of real estate acquisitions and disposals (cumulative acquisitions and disposals, respectively) within</li> </ol>		<p><u>more than NT\$10 billion, the transaction amount is NT\$1 billion or more.</u></p> <p><u>5.</u> Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Company expects to invest in the transaction reaches NT\$500 million.</p> <p><u>6.</u> Where an asset transaction other than any of those referred to in the preceding <u>five</u> subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% of paid-in capital or NT\$300 million or more; provided, this shall not apply to the following circumstances:</p> <ol style="list-style-type: none"> <li>(1) Trading of government bonds.</li> <li>(2) Trading of securities in the stock exchange at home and abroad or on an exchange by a company which is specialized in investment, or taking up of <u>straight corporate bonds and general financial bonds without equity offered and issued</u> in the <u>domestic</u> primary market, or taking up of securities <u>by a securities dealer who is as advising/recommending securities firm listed company at emerging stock market according to relevant regulations of Taipei Exchange for demands of underwriting business.</u></li> <li>(3) Trading of bonds under repurchase/resale agreements and the purchase or redemption of domestic money market funds <u>issued by securities investment trust enterprise.</u></li> </ol>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	<p>the same development project within the preceding year.</p> <p>4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.</p> <p>“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with the Procedures need not be counted toward the transaction amount.</p> <p>The Company shall, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a domestic public company up to the end of the previous month in accordance with relevant regulations by the tenth day of each month, and enter the information at the website for declaration specified by FSC.</p> <p>Should there be any mistake or missing in the Company's required public announcements, the Company needs to repeat its public announcement on all items.</p> <p>The Company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the company headquarters, where they shall be retained for 5 years except where another act provides otherwise.</p>		<p>The amount of transactions above shall be calculated as follows:</p> <ol style="list-style-type: none"> <li>1. The amount of any individual transaction.</li> <li>2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.</li> <li>3. The cumulative transaction amount of real estate acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year.</li> <li>4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.</li> </ol> <p>“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with the Procedures need not be counted toward the transaction amount.</p> <p>The Company shall, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a domestic public company up to the end of the previous month in accordance with relevant regulations by the tenth day of each month, and enter the information at the website for declaration specified by FSC.</p> <p>Should there be any mistake or missing in the Company's required public announcements, the Company needs to repeat its public announcement on all items <u>within two days after getting known about it.</u></p>	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			The Company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the company headquarters, where they shall be retained for 5 years except where another act provides otherwise.	

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 22	<p>Amendment</p> <p>The Company shall establish the Procedures according to relevant regulations and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.</p> <p>Where the position of Independent Director has been established in accordance with the Securities Exchange Act, when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p>The public announcement and declaration shall be made according to relevant regulations when the Procedures are amended.</p>	Article 22	<p>Amendment</p> <p>The Company shall establish the Procedures according to relevant regulations and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.</p> <p>Where the position of Independent Director has been established in accordance with the <u>provisions</u> of Securities Exchange Act, when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p><u>Where an Audit Committee has been established in accordance with the provisions of Securities Exchange Act, establishment or amendment of the procedure for acquisition and disposal of assets shall be approved by more than half of all Audit Committee members and submitted to the Board of Directors for a resolution.</u></p> <p><u>If approval of more than half of all Audit Committee members as required in the preceding paragraph is not obtained, the Procedures may implemented if approved by more than two-thirds of all directors, provided that the resolution of the Audit Committee is recorded in the minutes of the Board of Directors meeting.</u></p> <p><u>The terms "all audit committee members" in Paragraph 3 and "all directors" in the Paragraph 4 shall be calculated as the actual number of persons currently holding those positions.</u></p> <p>The public announcement and declaration shall be made according to relevant regulations when the Procedures are amended.</p>	Amend according to company operating requirement and revise relevant words.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 23	Addition to this article	Article 23	<u>Where an Audit Committee has been established in accordance with the provisions of Securities Exchange Act, the provisions for supervisors according to Paragraph 3 of Article 14-4 of Securities Exchange Act are applicable to the Audit Committee.</u> <u>Where an Audit Committee has been established in accordance with the provisions of Securities Exchange Act, provisions for supervisors according to Paragraph 4 of Article 14-4 of Securities Exchange Act are applicable to the independent director members of Audit Committee.</u>	Amend according to company operating requirements.
Article 23	Other Important Issues Any other matters not set forth in the Procedures or any doubts in application shall be dealt with in accordance with the applicable laws, rules, and regulations; for matters not specified by law, rules, and regulations, they shall be dealt with in accordance with relevant provisions of the Company or decided by discussion of the Board of Directors.	<u>Article 24</u>	Other Important Issues Any other matters not set forth in the Procedures or any doubts in application shall be dealt with in accordance with the applicable laws, rules, and regulations; for matters not specified by law, rules, and regulations, they shall be dealt with in accordance with relevant provisions of the Company or decided by discussion of the Board of Directors.	Change of article number.

**[Comparison Table for Amendments to Procedures for Lending Funds to Other Parties]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 1	<p>Purpose To be the basis for procedures for lending funds to other parties of the Company, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act and the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies” of Financial Supervisory Commission (hereafter referred to as the “FSC”).</p>	Article 1	<p>Purpose To be the basis for procedures for lending funds to other parties of the Company, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (<u>hereinafter referred to as “the Act”</u>) and the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies” of Financial Supervisory Commission (hereafter referred to as the “FSC”).</p>	Add the abbreviation of Financial Supervisory Commission.
Article 14	<p>Implementation and Amendment The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment. When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the approvals or objects and reasons for objects shall be</p>	Article 14	<p>Implementation and Amendment The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment. When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the approvals or objects and reasons for objects shall be</p>	Amend according to company operating requirements.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	recorded in the minutes of the Board Meeting.		recorded in the minutes of the Board Meeting. <u>After Audit Committee has been established in accordance with laws, the provisions according to Paragraph 3 of Article 14-4 of Securities Exchange Act are applicable to the Audit Committee .</u> <u>provisions according to Paragraph 4 of Article 14-4 of Securities Exchange Act are applicable to the independent director members of Audit Committee;</u> <u>and it shall perform relevant responsibilities and authorities according to Article 14-5 of Securities Exchange Act and provisions for supervisors of the Procedures are applicable to the Audit Committee.</u>	



**[Comparison Table for Amendments to Procedures for Endorsement and Guarantee]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 1	<p>Purpose To strengthen the financial management of endorsements and guarantees and reduce the risk of operation, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act and the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies” of Financial Supervisory Commission (hereafter referred to as the “FSC”).</p>	Article 1	<p>Purpose To strengthen the financial management of endorsements and guarantees and reduce the risk of operation, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act (<u>hereinafter referred to as “the Act”</u>)and the “Guidelines for Lending of Capital, Endorsements and Guarantees by Public Companies” of Financial Supervisory Commission (hereafter referred to as the “FSC”).</p>	Add the abbreviation of Financial Supervisory Commission.
Article 15	<p>Implementation and Amendment The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment. When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the approvals or</p>	Article 15	<p>Implementation and Amendment The Procedures shall be submitted to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors. Where any director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the dissenting opinion to the Supervisors and report to the shareholders meeting for discussion, and the same to amendment. When the procedures are submitted to the Board of Directors, the opinion of each independent director shall be considered fully, and the approvals or</p>	Amend according to company operating requirements.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
	objects and reasons for objects shall be recorded in the minutes of the Board Meeting.		objects and reasons for objects shall be recorded in the minutes of the Board Meeting. <u>After Audit Committee has been established in accordance with laws, the provisions according to Paragraph 3 of Article 14-4 of Securities Exchange Act are applicable to the Audit Committee .</u> <u>provisions according to Paragraph 4 of Article 14-4 of Securities Exchange Act are applicable to the independent director members of Audit Committee; and it shall perform relevant responsibilities and authorities according to Article 14-5 of Securities Exchange Act and provisions for supervisors of the Procedures are applicable to the Audit Committee.</u>	

**[Comparison Table for Amendments to Procedures for Engaging in Derivatives Trading]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 10	<p>Amendment</p> <p>The Company shall establish the Procedures according to relevant regulations and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.</p> <p>Where the position of Independent Director has been established, when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p>	Article 10	<p>Amendment</p> <p>The Company shall establish the Procedures according to relevant regulations and submit to the Supervisors and report to shareholders meeting for approval after passing of Board of Directors, and the same to amendment. Where any director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to the Supervisors.</p> <p>Where the position of Independent Director has been established, when the Procedures are submitted for discussion by the Board of Directors according to the preceding paragraphs, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.</p> <p><u>After Audit Committee has been established in accordance with laws, the provisions according to Paragraph 3 of Article 14-4of Securities Exchange Act are applicable to the Audit Committee .</u></p> <p><u>provisions according to Paragraph 4 of</u></p>	Amend according to company operating requirement and add the abbreviation of Financial Supervisory Commission.

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
			<u>Article 14-4 of Securities Exchange Act are applicable to the independent director members of Audit Committee; and it shall perform relevant responsibilities and authorities according to Article 14-5 of Securities Exchange Act and provisions for supervisors of the Procedures are applicable to the Audit Committee.</u>	

**[Comparison Table for Amendments to the Rules of Procedure for shareholders Meeting]**

Current Articles		Amended Articles		Amendment Explanation
Item	Content	Item	Content	
Article 2	The present shareholders or their agents shall hold the attending certificates; <u>sign on the autograph book or provide the sign cards instead of signing, and the presenting shares shall be calculated accordingly.</u>	Article 2	The present shareholders or their agents shall hold the attending certificates; provide the sign cards instead of signing, and <u>the presenting shares shall be calculated according to the number of sign cards by shares of exercising their voting rights electronically.</u>	Amend according to exercising their voting rights electronically.
Article 22	The Rules were formulated on March 26, 2003. The Rules were firstly amended on June 14, 2006.	Article 22	The Rules were formulated on March 26, 2003. The Rules were firstly amended on June 14, 2006. <u>The Rules will be secondly amended on June 13, 2017.</u>	Add the number of amendments and date of amendment.

**Details for Release of the New Directors from Non-Competition Restrictions**

Directors of the Company	Companies released from non-competition restrictions	Position
Khein Seng Pua	Lian Xu Dong investment Corporation	Director Representative and President
	Ostek Corporation	Director Representative and President
	Phisontech Electronics Taiwan Corporation	Director Representative and President
	Memoryexchange Corporation	Director Representative and President
	Kingston Solutions Inc.	Director Representative
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Director
	Global Flash Limited	Director
	EpoStar Electronics (BVI) Corporation	Director
	Core Storage Electronic (Samoa) Limited	Director
	Esi Technology Ltd.	Director
	Hycon Technology Corporation	Director
	Cheng He Investment Co., Ltd	Director
Cheek Kong Aw Yong	Lian Xu Dong investment Corporation	Director Representative
	Phisontech Electronics Taiwan Corporation	Director Representative
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Director
	Global Flash Limited	Director
	Core Storage Electronic (Samoa) Limited	Director
Tzung Horng Kuang	Emtops Electronics Corporation	Director Representative and President
	Microtops Design Corporation	Director Representative
	Ostek Corporation	Director Representative
	Phison Electronics Japan Corporation	President
	Power Flash (Samoa) Limited	Director
Chih Jen Hsu	Phisontech Electronics Taiwan Corp.	Director Representative
Toshiba Memory Semiconductor Taiwan Corporation	Powertech Technology Inc.	Director

# IX Appendixes

[Appendix 1]

## Phison Electronics Corporation Rules of Procedure for Shareholders Meeting

- Article 1: Unless otherwise provided in the Applicable Listing Rules and the Law, the general meetings of the Company shall be held in accordance with the Company Act and the Articles of the Company.
- Article 2: Each Shareholder, or the proxy appointed by a Shareholder, shall attend the general meeting with the attendance card, and sign in the register or submit the sign card, using which to count the attendance equity.
- Article 3: All general meetings shall be convened at the Company or such venues convenient for Shareholders' attendance and suitable for convention, and shall not begin earlier than 9:00 a.m. or later than 3:00 p.m.
- Article 4: The Company may appoint its lawyer(s), accountant(s) or other relevant person(s) to be present at a general meeting.  
All supporting staff for the general meeting shall wear an identification badge or arm-band.
- Article 5: The Company shall record, consecutively by audio and video, the whole process of the general meeting, which shall be kept at least for one year.
- Article 6: If the number of Shares represented by the attending Shareholders has constituted more than an aggregate of one-half (1/2) of all Shares in issue, the chairman shall call the general meeting. If the number of Shares represented by the attending Shareholders has not yet constituted the quorum at the time scheduled for the general meeting, the chairman may postpone the time for the meeting. The postponements shall be limited to two times at most, and the general meeting shall not be postponed for more than one hour in total. If after two postponements the number of Shares represented by the attending Shareholders has not yet constituted more than one-third (1/3) of all Shares in issue, "a tentative resolution may be passed if the

number of Shares represented by the attending Shareholders has already constituted more than an aggregate of one-half (1/2) of all Shares in issue” in accordance with the Article 175 of the Company Act. If the number of Shares represented by the attending Shareholders has already constituted the quorum, the chairman may put the tentative resolution(s) already passed to the Shareholders' resolution again for voting in the meeting in accordance with the Article 174 of the Company Act.

Article 7: The agenda of general meeting shall be set by the Board of Directors if the meeting is convened by the Board of Directors. Unless otherwise approved in the general meeting, the general meeting shall proceed in accordance with the agenda.

The preceding paragraph applies to circumstances where the general meeting is convened by any person, other than the Board of Directors, entitled to convene such general meeting.

Unless otherwise resolved at the general meeting, the chairman cannot announce adjournment of the general meeting before all items (including Extemporary Motions) listed in the agenda are resolved.

After a meeting is adjourned, Shareholders shall not elect a chairman and resume the meeting at the same or another venue. In case that the chairman adjourns the general meeting in violation of the Rules, other members of the Board of Directors shall promptly assist the attending Shareholders to elect, by a majority of votes represented by attending Shareholders present in the general meeting, another person to serve as chairman to continue the general meeting in accordance with due procedures.

Article 7-1: In accordance with the Applicable Listing Rules, any Shareholders who individually or collectively hold one percent (1%) or more of the total number of issued Shares of the Company may submit to the Company a proposal for discussion at the Annual General Shareholders Meeting.

Prior to the book closure date before a Annual General Shareholders Meeting is held, the Company shall publicly announce that it will receive shareholder proposals, and the location and time



period for their submission; the period for submission of shareholder proposals may not be less than 10 days.

Under any of the following circumstances, the board of directors of the Company may exclude the proposal submitted by a shareholder from the list of proposals to be discussed at a regular general meeting:

1. Where the subject (the issue) of the said proposal cannot be settled or resolved by a resolution to be adopted at the general meeting;
2. Where the number of shares of the Company in the possession of the shareholder making the said proposal is less than one percent (1%) of the total number of outstanding shares at the time when the share transfer registration is suspended by the company;
3. Where the said proposal is submitted on a day beyond the deadline fixed and announced by the company for accepting shareholders' proposals.
4. Any proposal to be submitted by a shareholder containing more than one item or three hundred (300) words (including punctuation marks), or not in writing.

Prior to the date for issuance of notice of a general meeting, the Company shall inform the Shareholders who submitted proposals of the proposal screening results. At the general meeting the Board of Directors shall explain the reasons for exclusion of any shareholder proposals not included in the agenda, which shall not otherwise list in the meeting agenda and minutes.

Article 8: The Chairman, if any, of the Board of Directors shall preside as chairman at every general meeting of the Company convened by the Board of Directors. In case the Chairman is on leave or absent or can not exercise his/her power and authority for any cause, the vice Chairman shall take the Chairman's position. In the absence of such a vice Chairman or the deputy Chairman is on leave or absent or can not exercise his/her power and authority for any cause, the Chairman shall designate one of the other Directors to act on his/her behalf; in the absence of such a designation, the Directors shall elect from

among themselves an acting chairman for the meeting. For a general meeting convened by any other person having the convening right, such person shall act as the chairman of that meeting.

Article 9: During the general meeting, the chairman may, at his or her discretion, set time for intermission.

Article 10: For proposals not included in the meeting agenda, it's no need to discuss or vote. For discussion on proposals, the chairman shall announce an end of discussion at an appropriate time, and shall announce to stop the discussion.

Article 11: When a Shareholder attending the general meeting wishes to speak, a speech note should be filled out with summary of the speech, the Shareholder's account number (or the number of attendance card) and the account name of the Shareholder. The sequence of speeches shall be determined by the chairman.

Article 12: Any Shareholder (including natural persons and corporates) makes speech shall not exceed five minutes. However, the speech time can be extended once with the chairman's consent. Any Shareholder (including natural persons and corporates) may not speak more than twice concerning the same item. When a corporate is entrusted to attend the general meeting, the corporate may appoint only one representative to attend. If a corporate Shareholder has appointed two or more representatives to attend the general meeting, only one representative can speak for each agenda item.

Article 13: After the speech of any Shareholder, the Chairman may make response by him or herself or appoint an appropriate person to respond.

Article 14: If any shareholder's speech is over time or beyond the scope of the agenda, the Chairman may prevent the Shareholder from making speech. The Chairman shall ask the Shareholder who violate the Rules, disobey the chairman's correction, impede the process of the meeting and do not comply after being asked to stop to leave the meeting venue.

Article 15: The Chairman shall submit an item for a vote if the agenda item has announced to be concluded or cease to discuss.

Article 16: Except as otherwise provided under the Company Act and/or the Company's Articles of Incorporation, a resolution shall be adopted with the approval of more than one-half of the votes of the shareholders present.

If, in the course of the vote, no objections are made by the shareholders present after inquiry by the chairperson are cast against a proposal, such proposal is deemed to be adopted with the same effect as if it had been adopted through a voting process.

Article 17: The chairman shall appoint persons responsible for checking and counting ballots during votes on agenda items. However, the persons responsible for checking ballots must be Shareholders. The resolution result shall be announced immediately after the vote-counting procedure is completed, and shall be recorded.

Article 18: In case of an amendment proposal or substitute proposal to an original proposal, the chairman shall decide on the order of vote together with the original proposal. However, if one of the proposals has been approved, the others shall be deemed overruled and no further vote is required.

For the written proposal submitted by the shareholders in accordance with the provisions of Article 172.1 of the Company Act, if it is put into the proposal in the general meeting and is the same type as the proposal submitted by the board of directors, then the proposals shall be incorporated into one and dealt with using the preceding rules.

The chairman shall decide on the discussion and the order of vote for each proposal in Extemporaneous Motions proposed by the Shareholders.

Article 19: The chairman may direct inspectors (or security guards) to assist in preserving the order at the meeting venue. Inspectors (or security guards) shall wear an arm-band with the word "Inspector" when assisting in preserving the order at the meeting venue.

Article 20: In case of any air-raid alarm, the meeting shall be suspended and make an evacuation for the persons, after the alarm is released, the meeting shall be held again.

Article 21: These Rules, and any amendments hereto, shall be implemented after approval by a general meeting.

Article 22: These rules were established on March 26, 2003.

The first amendment is made on June 14, 2006.

**Phison Electronics Corporation**  
**Procedures of Election of Directors and Supervisors**

Article 1: The elections of directors and supervisors shall be conducted in accordance with these Procedures.

Article 2: The board of directors shall prepare separate ballots for directors and supervisors in numbers corresponding to the directors or supervisors to be elected. The number of voting rights associated with each ballot shall be specified on the ballots, which shall then be distributed to the attending shareholders at the general meeting. The shareholder account numbers and the attendance card numbers printed on the ballots may be used instead of recording the names of voting shareholders.

Article 3: The cumulative voting method shall be used for election of the directors and supervisors at this Corporation. Each share will have voting rights in number equal to the directors or supervisors to be elected, and may be cast for a single candidate or split among multiple candidates.

Article 3-1: Elections of both directors (including independent directors) and supervisors at this Corporation shall be conducted in accordance with the candidate nomination system and procedures set out in Article 192-1 and 216-1 of the Company Act.

If the Company sets up the Audit Committee in accordance with Article 13-2 of the Articles of the Company, then the provisions of the Procedures concerning the supervisors shall cease to apply.

Article 4: The specified number of directors and supervisors, according to the ballot statistics results, with the voting rights separately calculated for independent and non-independent directors or supervisor. Those receiving ballots representing the highest numbers of voting rights will be elected sequentially according to their respective numbers of votes. When two or more persons receive the same number of votes, thus exceeding the specified number of positions, they shall draw lots to determine the winner, with the chair drawing lots on behalf of any person not in attendance.

If a shareholder is elected as a director or a supervisor at the same time, he shall, at his discretion, act as a director or a supervisor, and his / her vacancy shall be filled by the candidate with highest numbers of votes.

Article 5: Before the election begins, the chairman shall appoint a number of persons with shareholder status to perform the respective duties of vote monitoring and counting personnel. However the vote monitoring personnel shall have the shareholder status.

Article 6: The ballot boxes shall be prepared by the board of directors and publicly checked by the vote monitoring personnel before voting commences.

Article 7: If a candidate is a shareholder, a voter must enter the candidate's account name and shareholder account number in the "candidate" column of the ballot; for a non-shareholder, the voter shall enter the candidate's full name and identity card number. However, when the candidate is a governmental organization or juristic-person shareholder, the name of the governmental organization or juristic-person shareholder shall be entered in the column for the candidate's account name in the ballot paper, or both the name of the governmental organization or juristic-person shareholder and the name of its representative may be entered. When there are multiple representatives, the names of each respective representative shall be entered.

Article 8: A ballot is invalid under any of the following circumstances:

1. The ballot was not prepared by using these procedures.
2. A blank ballot is placed in the ballot box.
3. The writing is unclear and indecipherable or has been altered.
4. The candidate whose name is entered in the ballot is a shareholder, but the candidate's account name and shareholder account number do not conform with those given in the shareholder register, or the candidate whose name is entered in the ballot is a non-shareholder, and a cross-check shows that the candidate's name and identity card number do not match.
5. Other words or marks are entered in addition to the candidate's account (name) or shareholder account number (or identity card number) and the number of voting rights allotted.
6. No candidate's account (name) or shareholder account number (or identity card number) is entered.

- Article 9: The directors are elected by independent directors and non-independent directors together, but the votes shall be counted separately for electing them respectively.
- Article 10: The voting rights shall be calculated on site immediately after the end of the poll, and the results of the calculation, including the list of persons elected as directors or supervisors and the numbers of votes with which they were elected, shall be announced by the chairman on the site.  
The ballots for the election referred to in the preceding paragraph shall be sealed with the signatures of the monitoring personnel and kept in proper custody for at least one year. If, however, a shareholder files a lawsuit pursuant to Article 189 of the Company Act, the ballots shall be retained until the conclusion of the litigation.
- Article 11: The election of candidate who is disqualified by the Paragraphs 3 and 4 of Article 26-3 of the Taiwan Securities Exchange Act shall be ineffective.
- Article 12: The board of directors of the Company shall issue notifications to the persons elected as directors or supervisors.
- Article 13: Things that are not stipulated in the Procedures, shall be carried out in accordance with the Company Act, the Articles of the Company of the Company and the relevant laws and regulations.
- Article 14: These Procedures, and any amendments hereto, shall be implemented after approval by a general meeting.

**Articles of the Company  
of  
Phison Electronics Corporation**

Chapter I General

Article 1: The Company shall be incorporated under the Company Act, and its name shall be Phison Electronics Corporation.

Article 2: The business of the Company is as follows:

- (1) CC01080 Electronic Parts and Components Manufacturing
- (2) I301010 Software Design Services
- (3) F218010 Retail Sale of Computer Software
- (4) F119010 Wholesale of Electronic Materials
- (5) F219010 Retail of Electronic Materials
- (6) CE01030 Photographic and Optical Equipment Manufacturing
- (7) CC01120 Data Storage Media Manufacturing and Duplicating
- (8) I501010 Product Designing
- (9) F401010 International Trade
- (10) ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval and transfers the investment

Article 2-1: Any external guarantee needed for the business of the Company, shall be carried out in accordance with the Procedures for Endorsement and Guarantee of the Company.

Article 2-2: The total investment to other company will not limit to the maximum 40 % of the amount of paid-up share capital as the regulation of Company Act Article 13

Article 3: The headquarters of the Company is located in Hsinchu County, Taiwan. The Company may establish branches or subsidiaries in Taiwan or overseas as the Company may require upon resolution by the board of directors of the Company.

Article 4: Deleted.

Section 2 Shares



Article 5: The capital sum of company is NT\$2.6 billion which is divided into 260 million shares with each of NT\$10, and the Board of Directors is authorized to issue the unissued shares in installments.

The capital sum of company retains NT\$160 million which is divided into 160 million shares with each of NT\$10 and used for share subscription warrants issued to employees, and the shares shall be issued in installments according to resolutions of the Board of Directors.

Article 6: Deleted.

Article 7: The Company's shares shall be registered and numbered, and shall bear the signatures or personal seals of at least three directors, and be issued upon certification in accordance with the law. After the public offering of shares, the Company may issue Shares without printing share certificates. Any share certificate of the Company, if any, shall not be the bearer certificate. The shares issued by the Company shall be the ones without printing share certificates and should be registered in Central Securities Depository.

Article 8: Registration for the transfer of shares shall be completed sixty (60) days before the date of each annual general shareholders meeting, thirty (30) days before the date of each special meeting, or five (5) days before the date on which dividends, bonus, or any other distributions will be paid or made by the Company.

The motioned period shall be calculated from the meeting convened day or the base date.

Article 8-1: The Company's shares shall be handled according to the "Regulations Governing the Administration of Shareholder Service of Public Companies" prescribed by the competent authority.

### Section III Shareholders' Meeting

Article 9: There are two types of shareholders' meeting of the Company, the annual meeting and special meeting. Annual meetings shall be convened by the Board of Directors annually within six(6) months after the end of each fiscal year. Special meetings shall be convened as required in accordance with applicable laws and regulations.

Article 10: A shareholder who is unable to attend the shareholders' meeting may authorize another person to attend as proxy using the form provided by the Company affixed with the seal that such shareholder left in the Company's safekeeping, which sets forth the scope of the authorization. The proxy process is governed by Article 177 of the Company Act and the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" prescribed by the competent authority.

Article 11: Each shareholder is entitled to one vote for each share held, in addition to those things that are stipulated in Paragraph 3 of Article 157 and Article 179 of the Company Act.

Article 11-1: Shareholders meetings are convened by the Board of Directors the shareholders' meetings shall be presided by the Chairman of the Board. If the Chairman of the Board is on leave or unable to exercise his powers and duties for any reason, the chairperson of the meetings shall be appointed by the directors among them. If the meeting is convened by a person with the authority to convene other than the Board of Directors, such person shall act as the chairperson at that meeting; if there are more than one person with the authority to convene, the chairperson for the meeting shall be appointed from among them.

Article 12: Except as otherwise provided by applicable law, the shareholders' resolutions shall be adopted upon the approval of a majority of the voting shares present at the meeting, which is attended by holders or proxies of a majority of the total issued and outstanding shares of the Company.

Article 12-1: The meeting of the Board of Directors shall be noticed to each director and supervisor 7 days prior to its convene and may be called in case of emergency. The meeting of the Board of Directors shall be convened by delivery a notice in writing or via E-mail or fax.

#### Section IV Directors and Supervisors

Article 13: The Company shall have 7 to 11 directors and 3 supervisors, which shall be conducted in accordance with the candidate nomination system. The directors and supervisors shall be elected from the list of candidates by the shareholders' meetings and hold office for three years; re-elected may serve consecutive terms.

The total number of shares registered held by all directors and supervisors shall not be less than the amount specified in the Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public Companies.

Article 13-1: There shall be at least two independent directors among the number of directors to be elected referred to in the preceding paragraph, and the independent directors shall represent at least one-fifth of the Board. The independent directors shall be elected at the shareholders' meeting using the candidate nomination system and from among a list of candidates.

The restrictions on professional qualifications, share ownership, concurrent positions held, the manner of nomination, the election of the independent directors, and other related matters shall comply with applicable laws and regulations prescribed by the competent authority.

Article 13-2: The Board of Directors of the Company shall decide whether or not to set up the Audit Committee by resolution. If the Audit Committee is set up, the provisions of the Articles of the Company of the supervisors shall cease to apply within the term of the Audit Committee.

The composition, competence matters, procedure rules and other matters to be observed of the audit committee of the Company, shall be handled in accordance with the relevant provisions of the Competent Authority.

Article 14: The Board of Directors is organized by the directors and presided by the chairman, who is elected at the Shareholders' meeting with two-thirds directors present and approval of majority of directors.

Article 15: If the Chairman of the Board is on leave or unable to exercise his powers and duties for any reason, the chairperson of the meetings shall be appointed pursuant to Article 208 of the Company Act. The board of directors shall be presided by the Chairman. The proceedings of the board of directors shall be conducted in accordance with the Procedure Rules of the Board of Directors of the Company.

The directors should attend in person. In case a meeting of the board of directors is preceded via visual communication network, then the directors taking part in such a visual communication meeting shall be deemed to have attended the meeting in person. A director may appoint a proxy to

attend in his/her/its behalf by executing a power of attorney printed by the company stating therein the scope of power authorized to the proxy. A shareholder may only execute one power of attorney and appoint one proxy only.

Article 16: The remuneration of the chairman, directors and supervisors, shall be determined by a board of directors according to the engagement and the contribution to the operating conditions of the Company by the chairman, directors and supervisors and the level of the same industry.

The Company may purchase liability insurance for the directors and supervisors during their tenures, which shall cover their liabilities arising from the performance of their duties.

#### Section V Managers

Article 17: The Company shall have one Managers. The appointment, removal and payment shall be handled in accordance with Article 29 of Company Act.

#### Section VI Accounting

Article 18: The board of directors shall, at the end of each fiscal year, prepare the annual business report, the financial statements, and the Proposal for Distribution of Profits or loss make-up proposal, the supervisors thirty day prior to the shareholder's meeting, for auditing and endorsement and submit them to its shareholders for approval or to the shareholders' meeting for ratification.

Article 19: In the event of any profit for the year, the 8% to 19% of profits shall be paid to the employee of the Company and not more than 1.5% shall be paid to the directors and supervisors as remuneration. However, if there are any accumulated losses by the Company, the make-up amount should be retained in advance.

The employee may be paid in stock or cash, which shall include the employee of subsidiaries who meet certain conditions. The remuneration of directors and supervisors shall be made in cash only.

The above mentioned profit, refers to the pre-tax benefits deducted the distribution of employees' remuneration and the remuneration of directors and supervisors.

The distribution of employees' remuneration and the remuneration of directors and supervisors, shall be determined by the board of directors by more than two-thirds of the directors attending and the majority of the directors' consent, and shall be report to the Shareholders' meeting.

Article 19-1: The Company shall first set aside an amount to pay any business income tax due, offset the losses of previous years, and set aside ten percent (10%) of the residual amount as the legal reserve; however, the statutory residual amount that has reached the total amount of paid-in capital of the Company, is not subject to the limits. And shall, pursuant to applicable laws and regulations, set aside a portion of the after-tax earnings for its special reserve. For the earnings available for distribution together with the retained earnings from the previous year, the Board of Directors shall keep appropriate reserve based on the actual operating conditions and propose a profit distribution plan for approval at the shareholders' meeting to distribute the bonus to the shareholders.

The dividend distribution policy of the Company is subject to the current and future investment environment, capital requirements, domestic and international competition status and capital budget, taking into account shareholders' equity, balanced dividend and long-term financial plan of the Company, according to the proposed distribution plan of the board of directors, and shall be submitted to the shareholders' meeting. The dividend distribution of the Company's shareholders shall be distributed in cash or stock, and the proportion of the shareholders' cash dividends shall not be less than 10% of the total dividends of the shareholders.

## Section VII Supplementary Provisions

Article 20: Matters not specified in this Articles of the Company shall be governed by the Company Act.

Article 21: The Articles of the Company were adopted on October 24, 2000

The Articles of the Company were firstly amended on on November 21, 2000

The Articles of the Company were secondly amended on September 5, 2001

The Articles of the Company were thirdly amended on February 15, 2002

The Articles of the Company were fourthly amended on April 9, 2002

The Articles of the Company were fifthly amended on June 25, 2002

The Articles of the Company were sixthly amended on March 26, 2003

The Articles of the Company were seventhly amended on November 12, 2003

The Articles of the Company were eighthly amended on June 15, 2004

The Articles of the Company were ninthly amended on March 17, 2005

The Articles of the Company were tenthly amended on June 16, 2005

The Articles of the Company were eleventhly amended on June 14, 2006

The Articles of the Company were twelfthly amended on November 1, 2006

The Articles of the Company were thirteenthly amended on June 13, 2007

The Articles of the Company were fourteenthly amended on June 13, 2008

The Articles of the Company were fifteenthly amended on May 8, 2009

The Articles of the Company were sixteenthly amended on June 15, 2010

The Articles of the Company were seventeenthly amended on June 15, 2011

The Articles of the Company were eighteenthly amended on June 11, 2013

The Articles of the Company were nineteenthly amended on June 17, 2014

The Articles of the Company were twentiethly amended on June 2, 2015

The Articles of the Company were twenty-firstly amended on June 15, 2016

**Procedures for acquisition or disposal of assets  
for  
Phison Electronics Corporation  
(Before revised)**

**Section I General**

**Article 1 Purpose and basis**

To strengthen the company's assets management and implement the information disclosure, pursuant to the provisions of Article 36 of the Securities Exchange Act (hereinafter referred to as the "SEA") and Regulations Governing the Acquisition and Disposal of Assets by Public Companies (hereinafter referred to as the "Principles"), these Procedures are established (hereinafter referred to as the "Procedures").

**Article 2 Applicable scope**

Matters related to the acquisition or disposal of assets for the Company and its subsidiaries, shall be carried out according to Principles and the provisions of the Procedures, unless otherwise provided by other laws and regulations.

**Article 3 Scope of assets and terminology**

1. The scope of assets mentioned in the Procedures is as follows:

- (1) long-term and short-term investment in stock bond, corporate bond, financial debenture, securities of outstanding fund, depositary receipt, call (put) warrant, beneficiary securities, and asset backed securities.
- (2) Real estate property (including land, house, building, investment property, tenure, and construction business inventory) and equipment.
- (3) Membership certificate.
- (4) Intangible asset: including patency, copyright, trade mark right, and franchise.
- (5) Financial institutes' debentures (including account receivable, foreign exchange buying discount, loan, and non-accrual debt).
- (6) Financial derivatives.
- (7) Asset acquired or disposed due to legal merger, division, acquisition, or receiving shares.
- (8) Other major assets.

2 Definitions:

- (1) Derivatives: Forward contract, option contract, future contract, leverage contract, swap contract, and the composite contract of the above, of which value derive from asset, interest rate, exchange rate, index, or other interests. A forward contract shall exclude insurance policy, performance deed, after-

sale service agreement, long-term lease contract, and long-term merchandise procurement/sale agreement.

- (2) Asset acquired or disposed die to legal merger, division, acquisition, or receiving shares: Assets acquired from or disposed through merger, division, or acquisition in accordance with Business Mergers and Acquisitions Act, Financial Holding Company Act, Financial Institutions Merger Act, or other laws and regulations, or receiving IPO shares of other company (herein after referred to as Received Shares) in accordance with Article 156-8 of the Company Act.
  - (3) Stakeholders/subsidiary: As the Regulations the Preparation of Financial Reports by Securities Issuers may define.
  - (4) Professional appraiser: Real estate property appraiser or other professionals legally permitted for practicing appraisal on real estate property and other fixed assets.
  - (5) Actual occurrence date: a contract execution date, payment date, completion date, ownership transfer date, board of directors' resolution date, or date on which a counterparty and transaction amount become definitely certain, whichever happens earlier. However, for investment that requires approval from the competent authority, an actual occurrence date shall be either the date abovementioned or the date of the said approval, whichever happens earlier.
  - (6) Investment in Mainland China area: An investment made in Mainland China in compliance with the Regulations Governing Approval for Investment or Technical Cooperation in Mainland China Area stipulated by the Investment Commission, Ministry of Economic Affairs.
3. For the valuation report obtained by the Company or the opinion of the accountants, solicitors or securities underwriters, the professional appraisers and the valuers, the accountants, solicitors or securities underwriters and the dealing party shall not be a relative.

## **Section II Acquisition or Disposal of Assets**

### **Article 4 Evaluation Procedure:**

The pricing method for acquisition or disposal of the assets should be processed in accordance with the following provisions:

#### **1. Securities**

Acquiring or disposing of securities shall first obtain financial statements of the issuing company for the most recent period, certified or reviewed by a certified public accountant, for reference in appraising the transaction price before the date of the occurrence, and shall determine the transaction price as follows:



- (1) Acquiring or disposing of trading securities in the concentrated marketing or securities business center, shall decide in accordance with the transaction price at that time.
- (2) For acquiring or disposing of securities that are not in the concentrated marketing or securities business center, the price shall be decided with consideration of net value per share, profit-making ability, future expanding potential and the transaction price at that time, or taking reference of market interest rate, bond coupon rate and debtor credit at then.

If the dollar amount of the transaction is 20 percent of the company's paid-in capital or NT\$ 300 million or more, the company shall also engage a certified public accountant to provide an opinion regarding the reasonableness of the transaction price before the date of the occurrence. If the certified public accountant needs to adopt a professional report, shall comply with the provisions of Statement of Auditing Standards No. 20 published by the Accounting Research And Development Foundation (hereinafter referred to as the ARDF). This requirement does not apply, however, to publicly quoted prices of securities that have an active market, or where otherwise provided by regulations of the Financial Supervisory Commission R.O.C. (Taiwan) (hereinafter referred to as the FSC).

## 2. Real estate property or equipment:

Transaction term and price for acquisition or disposal of real property shall be referred to the publicly announced current value, appraisal value, neighboring or closely value of real property and others. The acquisition or disposal of other fixed assets should first collect related price information and be based on inquiry, parity, negotiation or tender.

In acquiring or disposing real property or other fixed assets where the transaction amount reaches 20% of the company's paid-in capital or NT\$ 300 million or more, the company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of business machinery and equipment, shall obtain an appraisal report in advance from a professional appraiser before the date of the occurrence and shall further comply with the following provisions:

- (1) Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.
- (2) Where the transaction amount is NT\$ 1 billion or more, appraisals from two or more professional appraisers shall be obtained.

(3) Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, except in the case when the appraisal results of acquiring an asset are higher than the transaction amount, or when the appraisal results of disposing an asset are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published by the ARDF and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:

1. The discrepancy between the appraisal result and the transaction amount is 20% or more of the transaction amount.
2. The discrepancy between the appraisal result and the transaction amount is 10% or more of the transaction amount.

(4) Where an appraisal from professional appraisers is conducted before a contract execution date, no more than three months may pass between the date of the appraisal report and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.

### 3. Memberships or intangible assets:

The acquisition or disposal of memberships shall first collect related price information and be based on inquiry or tender; the acquisition or disposal of intangible assets shall first collect related price information and carefully assess the relevant laws and contract contents to determine the transaction price.

Where the company acquires or disposes of membership or intangible assets and the transaction amount reaches 20% or more of paid-in capital or NT\$ 300 million or more, in addition to transaction with the government agencies, the company shall engage a certified public accountant to render an opinion on the reasonableness of the transaction price before the date of the occurrence; the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.

3.1 The method for calculating the preceding transaction amount shall comply with the provisions of paragraph 2 of Article 19. And the "within one year" refers to one year from the actual date of acquisition of the real property, however the part that has obtained an appraisal report in advance from a professional appraiser or engaged a certified public accountant to render an opinion pursuant to the procedure rules, shall not be included.

#### 4. Other major assets

Acquisition or disposal of creditor rights in financial institution, derivatives, assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law or other major assets shall be conducted after collecting relevant price information depending on trading assets targets, and the transaction price shall be decided based on laws related to careful evaluation and contract content.

5. Where the company acquires or disposes of assets through court auction procedures, the evidentiary documentation issued by the court may be substituted for the appraisal report or certified public accountant opinion.

### Article 5 Operating Procedure

#### 1. Authorization Limit and Level

(1) For acquisition or disposal of assets by the Company, the undertaker shall consolidate the information such as reason of acquisition or disposal, target object, counterpart, transfer price, payment conditions and price reference basis and submit to the Authority for approval depending on trading assets items. The authorization limit and level of the derivatives, shall be in accordance with “Procedures for Engaging in Derivatives Trading”.

Item	Amount	Authority		
		Board of Directors	Chairman	General Manager
Long-term securities investment (including long-term equity investment)	Below 80 million (including)			Approval
	80 million (excluding) ~ 180 million (including)		Approval	Review
	Over 180 million (excluding)	Approval	Review	Review
Short-term securities investment	Total amount per level below 100 million (including)			Approval
	Total amount per level 100 million (excluding) ~ 250 million (including)		Approval	Review
	Total amount per level over 250 million (excluding)	Approval	Review	Review
Real property	Below 100 million (including)		Approval	Review
	Over 100 million (excluding)	Approval	Review	Review
Other fixed assets	Below 30 million (including)			Approval
	30 million (excluding) ~ 80 million (including)		Approval	Review
	Over 80 million (excluding)	Approval	Review	Review
Memberships	Below 20 million (including)		Approval	Review
	Over 20 million (excluding)	Approval	Review	Review
Intangible assets	Below 20 million (including)			Approval
	20 million (excluding) ~ 80 million (including)		Approval	Review
	Over 80 million (excluding)	Approval	Review	Review
Creditor rights in financial	Below 80 million (including)		Approval	Review

institution	Over 80 million (excluding)	Approval	Review	Review
Assets acquired or disposed of in connection with mergers, demergers, acquisitions, or transfer of shares in accordance with acts of law	Shall not be decided by resolution of the Board of Shareholders according to laws	Approval	Review	Review
	Shall be decided by resolution of the Board of Shareholders according to laws	Review	Review	Review
Other major assets	Below 80 million (including)		Approval	Review
	Over 80 million (excluding)	Approval	Review	Review

(2) Acquiring or disposing of assets should be submitted to the board of directors for approval in accordance with these procedures or other laws. Where any Director expresses dissent and it is contained in the minutes or a written statement, the company shall submit the dissenting opinion to each supervisor.

Where the position of Independent Director has been established in accordance with the preceding provisions, when the acquiring or disposing of asset transaction is submitted for discussion by the Board of Directors, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.

For the procedures are adopted or amended by the resolutions at the meetings of directors, the meeting shall be presented with two-thirds of all directors, and be approved by more than half of the presented directors.

## 2. Implementation Unit

The implementation unit of the Company's acquisition or disposal of assets is as follows:

- (1) Long-term investment in stock bond; memberships or intangible assets; assets due to legal merger, division, acquisition, or receiving shares, and other assets: shall be assessed and implemented by the project team directed by the general manager or chairman.
- (2) Short-term investment in stock bond; derivatives and financial institutes' debentures; shall be assessed and implemented by the Accounting Department.
- (3) Real estate property: shall be responsible by the General Affair Department.
- (4) Other fixed assets: undertaken by requisition unit with General Admin. Department.

(5) Public announcement and declaration: the public announcement and declaration personnel engage the undertaker to consolidate relevant information of public announcement and declaration and manage wholly.

### 3. Transaction Process

The transaction process and operation for acquisition or disposal of assets shall comply with relevant laws and provisions related to internal control system of the Company.

## Article 6 Total Assets and Individual Limit

The total amount of non-operating use real property or securities acquired by the Company and each subsidiary and the limit of individual securities are as follows:

1. Total amount of real property acquired by the Company for non-operating use shall not be higher than 20% of the net value; total amount of real property acquired by each subsidiary for non-operating use shall not be higher than 20% of its net value.
2. Total amount of long-term and short-term securities investment acquired by the Company shall not be higher than 100% of the net value; total amount of long-term and short-term securities investment acquired the each subsidiary shall not be higher than 100% of its net value (for a subsidiary which is specialized in investment, it shall not be higher than 150% of its net value).
3. The amount of individual security acquired by the Company shall not be higher than 40% of the net value; the amount of individual security acquired by each subsidiary shall not be higher than 100% of its net value (for a subsidiary which is specialized in investment, it shall not be higher than 150% of its net value).

## Article 7 Control on procedures for the acquisition or disposal of assets of subsidiaries

1. The Company shall urge the Subsidiaries to prepare and execute the Disposal Procedure for the Acquisition or Disposal of the Assets. After this procedure adopted by the subsidiaries' Board of Directors, it shall be submitted to the Board of Directors of the Company. The same shall apply to the amendment of this procedure.
2. Control on procedures for the acquisition or disposal of assets of subsidiaries by the Company, shall be handled in accordance with relevant laws and Internal Control System of the Company.
3. The subsidiaries of the Company are not domestic public offering companies, thus the acquisition or disposal of assets shall be reported or announced by the Company in accordance with the provisions of Section 5.

The foresaid subsidiaries reach 20 % of paid-in capital or 10% of total assets and their information required to be reported in accordance with the provisions of paragraph 1 of Article 19, it is determined by the paid-in capital or total assets of the company.

### **Section III Procedures for Related Party Transactions**

#### **Article 8 Scope**

In acquiring or disposing of assets with a Related Party not only practice in accordance with the provisions of the previous section and this section, and regulated by below-mentioned resolution procedures, evaluation of the reasonableness of the transaction terms and others, but also in the case when the transaction amount reaches 10% of more of the total assets, the company shall obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion in accordance with the provisions of the previous Section.

The method for calculating the preceding transaction amount shall comply with the Paragraph 3.1 of Article 4.

Besides, determine the Related Party in accordance with the formal law and consider the substance relationship.

#### **Article 9 Resolution procedures**

In acquiring or disposing real property from a Related Party, or in acquiring or disposing any other asset than the real property with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$ 300 million or more, the following information shall be recognized by supervisors, and be submitted for approval from Board of Director and before signing any trading contracts and making payments:

1. The purpose, necessity and anticipated benefits of the asset acquisition or disposal.
2. The reason for choosing the Related Party as the trading counterparty.
3. In acquiring or disposing real property from a Related Party shall comply with the relevant information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with the provisions of Article 10 and 11.
4. The date and price at which the Related Party originally acquired the real property, the original counterparty and the trading counterparty's relationship with the company and the Related Party.
5. Monthly cash flow forecasts for the year commencing from the month of anticipated signing of the contract and evaluation of the necessity of the transaction and reasonableness of the use of proceeds.
6. Obtain an appraisal report in advance from a professional appraiser or engage a certified public accountant to render an opinion pursuant to the preceding paragraph.
7. Restrictive and other important stipulations associated with the transaction.

The method for calculating the preceding transaction amount shall comply with the provisions of Paragraph 2 of Article 19, and the “within one year” refers to one year from the actual date of acquisition of the real property, which has been passed by the Board of Directors and recognized by the supervisors after submitted to avoid to be included again.

In acquiring or disposing of business machinery and equipment between the company and its subsidiaries or between each of its subsidiaries, the Board of Directors may first authorize the chairperson to execute within a certain amount in accordance with the provisions of paragraph 1 of Article 5, and shall report at the most recent meeting of the Board of Directors for ratification.

Where the position of Independent Director has been established in accordance with the provisions of the Securities Exchange Act, when the procedures are submitted for discussion by the Board of Directors, the Board of Directors shall take into full consideration each Independent Director’s opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.

#### Article 10 Assessment procedures

The company acquires real property from a related party shall evaluate the reasonableness of the transaction costs by the following means:

1. Based upon the related party’s transaction price plus necessary interest on funding and the costs to be duly borne by the buyer in accordance with the law. “Necessary interest on funding” is imputed as the weighted average interest rate on borrowing in the year the company purchases the property; provided, it may not be higher than the maximum non-financial industry lending rate announced by the Ministry of Finance.
2. Total loan value appraisal from a financial institution where the related party has previously created a mortgage on the property as security for a loan; provided, the actual cumulative amount loaned by the financial institution shall have been 70% or more of the financial institution's appraised loan value of the property and the period of the loan shall have been one year or more. However, this shall not apply where the financial institution is a related party of one of the trading counterparties.

Where land and structures thereupon are combined as a single property purchased in one transaction, the transaction costs for the land and the structures may be separately appraised in accordance with either of the means listed in the preceding paragraph.

The company acquires real property from a related party and appraises the cost of the real property in accordance with the provisions of paragraphs 1 and 2 of this Article shall also engage a CPA to check the appraisal and render a specific opinion.

The company shall also comply with the provisions of Article 9 when acquiring real property from a Related Party, and one of the following circumstances exists, the acquisition shall be conducted in accordance with the provisions of paragraphs 1 to 3 of Article 9 do not apply:

1. The related party acquired the real property through inheritance or as a gift.
2. More than five years will have elapsed from the time the related party signed the contract to obtain the real property to the signing date for the current transaction.
3. The real property is acquired through signing of a joint development contract with the related party, or engaging others to build on its own land, engaging the related party to build on rented land.

Article 11 Procedures 1 in case of the assessment result uniformly lower than the transaction price

When the results of the company's appraisal conducted in accordance with the paragraphs 1 and 2 of the preceding Article are uniformly lower than the transaction price, the matter shall be handled in compliance with the provisions of Article 12. However, where the following circumstances exist, objective evidence has been submitted and specific opinions on reasonableness have been obtained from a professional real property appraiser and a CPA has been obtained, this restriction shall not apply:

1. Where the related party acquired undeveloped land or leased land for development, it may submit proof of compliance with one of the following conditions:
  - (1) Where undeveloped land is appraised in accordance with the means in the preceding Article, and structures according to the related party's construction cost plus reasonable construction profit are valued in excess of the actual transaction price. The "Reasonable construction profit" shall be deemed the average gross operating profit margin of the related party's construction division over the most recent three years or the gross profit margin for the construction industry for the most recent period as announced by the Ministry of Finance, whichever is lower.
  - (2) Completed transactions by unrelated parties within the preceding year involving other floors of the same property or neighboring or closely valued parcels of land, where the land area and transaction terms are similar after calculation of reasonable price discrepancies in floor or area land prices in accordance with standard property market practices.



- (3) Completed leasing transactions by unrelated parties for other floors of the same property from within the preceding year, where the transaction terms are similar after calculation of reasonable price discrepancies among floors in accordance with standard property leasing market practices.
2. Where the company acquires real property from a related party provides evidence that the terms of the transaction are similar to the terms of transactions completed for the acquisition of neighboring real property of a similar size by unrelated parties within the preceding year.

Completed transactions for neighboring real property in the preceding paragraph in principle refers to real property on the same or an adjacent block and within a distance of no more than 500 meters or parcels close in publicly announced current value; transaction for similarly sized real property in principle refer to transactions completed by unrelated parties for real property with an area of no less than 50% of the property in the planned transaction; within one year refers to one year from the actual date of acquisition of the real property.

Article 12 Procedures 2 in case of the assessment result uniformly lower than the transaction price

Where the company acquires real property from a related party and the results of appraisals conducted in accordance with the provisions of the Article 10 and Article 11 are uniformly lower than the transaction price, the following steps shall be taken.

1. The difference between the real property transaction price and the appraised costs shall be set aside as a special reserve in accordance with the provisions of the paragraph 1, Article 41 of the Securities Exchange Act and may not be distributed or used for capital increase or issuance of bonus shares. If an investor that has investment in the company and adopts the equity method for such investment and is a public company, it shall also set aside a special reserve under paragraph 1, Article 41 of the Securities Exchange Act in relation to its share of the above special reserve set aside by the company in proportion to its shareholding.
2. Supervisors shall comply with the provisions of Article 218 of the Company Act.
3. The circumstances of handling under the provisions of paragraphs 1 and 2 of this Article shall be reported to General Meeting and the detailed contents of the transaction disclosed in the annual report and prospectus.

If the company set aside a special reserve under the preceding paragraph, the company shall not utilize such special reserve until it has recognized a loss due to

price decline for the assets it purchased at a premium, or they have been disposed of, or adequate compensation has been made, or the original condition has been restored, or there is other evidence confirming that it is not unreasonable to do so, and the Financial Supervisory Commission R.O.C. (Taiwan) has agreed with the utilization.

When the company obtains real property from a related party, it shall also comply with the provisions of paragraph 1 and paragraph 2 of this Article if there is other evidence indicating that the acquisition was not an arm length transaction.

#### **Section IV Procedures for Conduct a Merger, Demerger, Acquisition or Transfer of Shares**

##### **Article 13 Resolution procedures**

1. The company conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the Board Meeting to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the Board Meeting for deliberation and passage.
2. The company shall prepare a public report to shareholders detailing important contractual content and matters relevant to the merger, demerger, or acquisition prior to the General Shareholders' Meeting and include it along with the expert opinion referred to in paragraph 1 in this Article when sending shareholders notification of the General Meeting for reference in deciding whether to approve the merger, demerger, or acquisition. Provided, where a provision of another act exempts a company from convening a General Meeting to approve the merger, demerger, or acquisition, this restriction shall not apply.

Otherwise, where the General Shareholders' Meeting of any one of the companies participating in a merger, demerger, or acquisition fails to convene or pass a resolution due to lack of a quorum, insufficient votes, or other legal restriction, or the proposal is rejected by the General Shareholders' Meeting, the companies participating in the merger, demerger or acquisition shall immediately publicly explain the reason, the follow-up measures, and the preliminary date of the next General Shareholders' Meeting.

3. The company participating in a merger, demerger, or acquisition shall convene a Board Meeting and General Meeting on the day of the transaction to resolve matters relevant to the merger, demerger, or acquisition, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.

The company participating in a transfer of shares shall call a Board Meeting on the day of the transaction, unless another act provides otherwise or the FSC is notified in advance of extraordinary circumstances and grants consent.

When participating in a merger, demerger, acquisition, or transfer of another company's shares, the company shall prepare a full written record of the following information and retain it for five years for reference:

- (1) Basic identification data for personnel: Including the occupational titles, names, and national ID numbers (or passport numbers in the case of foreign nationals) of all persons involved in the planning or implementation of any merger, demerger, acquisition, or transfer of another company's shares prior to disclosure of the information.
- (2) Dates of material events: Including the signing of any letter of intent or memorandum of understanding, the hiring of a financial or legal advisor, the execution of a contract, and the convening of a board of directors meeting.
- (3) Important documents and minutes: Including merger, demerger, acquisition, and share transfer plans, any letter of intent or memorandum of understanding, material contracts, and minutes of Board Meeting.

When participating in a merger, demerger, acquisition, or transfer of another company's shares, a company that is listed on an exchange or has its shares traded on an OTC market shall, within two days counting from the date of passage of a resolution by the Board of Directors, report (in the prescribed format and via the Internet-based information system) the information set out in this paragraph 1. (1) - (2) to the FSC for recordation.

Where any of the company participating in a merger, demerger, acquisition, or transfer of another company's shares is neither listed on an exchange nor has its shares traded on an OTC market, the company(s) so listed or traded shall sign an agreement with such company whereby the latter is required to abide by the provisions of paragraphs 3 and 4.

#### Article 14 Non-disclosure commitment

Every person participating in or privy to the plan for merger, demerger, acquisition, or transfer of shares shall issue a written undertaking of confidentiality and may not disclose the content of the plan prior to public disclosure of the information and may not trade, in their own name or under the name of another person, in any share or other equity security of any company related to the plan for merger, demerger, acquisition, or transfer of shares.

#### Article 15 Alter principles of the share exchange ratio or acquisition price

The companies participating in a merger, demerger, acquisition, or transfer of shares may not arbitrarily alter the share exchange ratio or acquisition price unless under the below-listed circumstances, and shall stipulate the circumstances permitting alteration in the contract for the merger, demerger, acquisition, or transfer of shares:

1. Conduct cash capital increase, issuance of convertible corporate bonds, or the issuance of bonus shares, issuance of corporate bonds with warrants, preferred shares with warrants, stock warrants, or other equity based securities.
2. An action, such as a disposal of major assets that affects the company's financial operations.
3. An event, such as a major disaster or major change in technology, that affects shareholder equity or share price.
4. An adjustment where any of the companies participating in the merger, demerger, acquisition, or transfer of shares from another company, buys back treasury share.
5. An increase or decrease in the number of entities or companies participating in the merger, demerger, acquisition, or transfer of shares.
6. Other terms/ conditions that the contract stipulates may be altered and that have been publicly disclosed.

#### Article 16 Contents of a contract

The contract for participation by a public company in a merger, demerger, acquisition, or of shares shall record the rights and obligations of the companies participating in the merger, demerger, acquisition, or transfer of shares, and shall also record the following:

1. Handling of breach of contract.
2. Principles for the handling of equity-type securities previously issued or treasury share previously bought back by any company that is extinguished in a merger or that is demerged.
3. The amount of treasury share participating companies are permitted under law to buy back after the record date of calculation of the share exchange ratio, and the principles for handling thereof.
4. The manner of handling changes in the number of participating entities or companies.
5. Preliminary progress schedule for plan execution, and anticipated completion date.
6. Scheduled date for convening the legally mandated General Meeting if the plan exceeds the deadline without completion, and relevant procedures.

Article 17 Changes of companies participated in

After public disclosure of the information, if any company participating in the merger, demerger, acquisition, or share transfer intends further to carry out a merger, demerger, acquisition, or share transfer with another company, all of the participating companies shall carry out anew the procedures or legal actions that had originally been completed toward the merger, demerger, acquisition, or share transfer; except that where the number of participating companies is decreased and a participating company's General Shareholders' Meeting has adopted a resolution authorizing the board of directors to alter the limits of authority, such participating company may be exempted from calling another General Shareholders' Meeting to resolve on the matter anew.

Article 18 Disposal of a company that is not a public one

Where any of the companies participating in a merger, demerger, acquisition, or transfer of shares is not a public company, the public company(s) shall sign an agreement with the non-public company whereby the latter is required to abide by the provisions of paragraphs 3 of Article 13 and Article 14 and Article 17.

**Section V Procedures for the Information Disclosure**

Article 19 Public Announcement and Declaration Procedure

In acquiring or disposing of assets, should any of the following conditions occur after the filing and public announcement of transactions, the Company needs to file and make public announcement at the website specified by FSC accordingly in two days from the Date of the Event by using the prescribed format according to the nature:

1. Acquisition or disposal real property from a Related Party, or in acquiring or disposing any other asset than the real property with a Related Party and also the transaction amount reaches 20% of paid-in capital, 10% of the total assets or NT\$300 million or more; Provided, however, that this shall not apply to the trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of domestic money market funds.
2. Merger, demerger, acquisition, or transfer of shares.
3. The loss of trading derivatives reaches the limit for all or individual contract set forth in the Procedures for Financial Derivatives Transactions.

4. Where an asset transaction other than any of those referred to in the preceding three subparagraphs, a disposal of receivables by a financial institution, or an investment in the mainland China area reaches 20% of paid-in capital or NT\$300 million or more; provided, this shall not apply to the following circumstances:

- (1) Trading of government bonds.
- (2) Trading of securities in the stock exchange at home and abroad or on an exchange by a company which is specialized in investment, or taking up of securities in the primary market by a securities dealer according to relevant regulations.
- (3) Trading of bonds under repurchase/resale agreements and the purchase or redemption of domestic money market funds.
- (4) Where the type of asset acquired or disposed is equipment for business use, the trading counterparty is not a Related Party, and the transaction amount is less than NT\$500 million.
- (5) Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Company expects to invest in the transaction is less than NT\$500 million.

The amount of transactions above shall be calculated as follows:

1. The amount of any individual transaction.
2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.
3. The cumulative transaction amount of real estate acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year.
4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.

“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with the Procedures need not be counted toward the transaction amount.

The Company shall, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a domestic public company up to the end of the previous month in accordance with relevant regulations by the tenth day of each month, and enter the information at the website for declaration specified by FSC.

Should there be any mistake or missing in the Company's required public announcements, the Company needs to repeat its public announcement on all items.

The Company acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the company headquarters, where they shall be retained for 5 years except where another act provides otherwise.

#### Article 20 Other important matters

The Company shall, within one of the following circumstances, within two days from the date of the occurrence of the transaction in accordance with the provisions of the preceding Article, declare the relevant information on the designated website of the FSC:

1. The contract signed related to the original transaction has been changed, terminated or rescinded.
2. The merger, demerger, acquisition, or transfer of shares has not been completed according to the contracted schedule.
3. The contents of original public announcement have changed.

For the 10 percent related to the total assets specified in the procedures, it is calculated based on the total amount of the assets in the most recent individual or separate financial statements prepared by the Regulations Governing the Preparation of Financial Reports by Securities Issuers..

If the shares with no value or not valued at NT\$10 per share, the amount of the transaction amount of 20% of the paid-in capital of the Company shall be calculated based on 10% of the equity attributable to the owners of the parent company.

### **Section VI Supplementary Provisions**

#### Article 21 Penalties

Any director, supervisor and manager of the Company who violates the procedures promulgated by the FSC or the provisions of this procedure and causes the Company to be subject to significant damage, shall be dismissed.

The company's persons-in-charge breach of these operating procedures, shall be handled in accordance with Procedures for management on employee of the Company.

#### Article 22 Revision procedure

This procedure shall be established by the Company according to related provisions, which shall be submitted to the each supervisor after passed at the board meeting for approval by the shareholders' meeting. The same shall apply to the amendment of the procedure. Where any Director expresses dissent and it is contained in a written statement, the company shall submit the dissenting opinion to each supervisor.

Where the position of Independent Director has been established in accordance with the provisions of the Securities Exchange Act, when the procedures are submitted for discussion by the Board of Directors, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.

The public announcement and declaration shall be made according to relevant regulations when the Procedures are amended.

#### Article 23 Other Important Issues

Any other matters not set forth in the Procedures or any doubts in application shall be dealt with in accordance with the applicable laws, rules, and regulations; for matters not specified by law, rules, and regulations, they shall be dealt with in accordance with relevant provisions of the Company or decided by discussion of the Board of Directors.



**Phison Electronics Corporation**  
**Procedures for Lending Funds to Other Parties**  
**(Before revised)**

Article 1 Purpose

To be the basis for procedures for lending funds to other parties of the Company, the Procedures are formulated specially according to Paragraph 1, Article 36 of Securities Exchange Act and the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" of Financial Supervisory Commission (hereafter referred to as the "FSC").

Article 2 Entities to which the Company may loan funds

According the Article 15 of Company Act. The Company and its Subsidiaries shall not loan funds to any of its shareholders or any other person except under the following circumstances:

1. Where an inter-company or inter-firm business transaction calls for a loan arrangement.
2. Where an inter-company or inter-firm short-term financing facility is necessary, provided that such financing amount shall not exceed 20% of the lender's net worth.

The term "short-term" as used in the preceding paragraph means one year, or where the Company's operating cycle exceeds one year, one operating cycle , which one is longer.

The term "financing amount" as used in Sub-paragraph 2, Paragraph 1 of this Article means the cumulative balance of the Company's and Subsidiaries' short-term financing.

Each inter-company loan of funds between foreign companies in which the Company holds, directly or indirectly, 100% of the voting shares shall not exceed 20% of the net worth of the Company. Each individual loan shall not exceed 10% of the net worth of the Company, and the term of each loan extended by the Company and its Subsidiaries shall not exceed one year; Where funds are lent to a company or business with short-term financial need, The accumulated total of loans granted shall not exceed 20% of the net worth of the Company. Each individual loan shall not exceed 10% of the net worth of the Company, and the term of each loan extended by the Company and its Subsidiaries shall not exceed one year. The interest rate shall be not less than the Company's highest funding costs. The interest shall be payable monthly or make lump-sum payment on due.

### Article 3 Evaluation standards for loaning funds to others

Where funds are lent to others, in addition to paragraph 2 of Article 4 that should be followed, it shall be evaluated in accordance with the following standards:

1. Lending funds to a company or business due to its business relationship with the Company, the evaluation is that whether the lending amount is equivalent to the business amount between the them.
2. Loan may be granted due to short-term financing need only under one of the following circumstances: procurement of materials or turnover of operations.

### Article 4 Accumulated total of loans granted and amount of an individual loan granted by the Company

1. The accumulated total of loans granted shall not exceed 40% of the net worth of the Company; provided, however where funds are lent to a company or business with short-term financing need, the accumulated total of such loans shall not exceed 20% of the net worth of the Company.
2. The amount of an individual loan granted by the Company to a company or business with business relationship with the Company shall not exceed the business transaction amount in the past year between the parties. "Business transaction amount" refers to the amount of purchase or sale between the parties, whichever is higher. Each individual loan shall not exceed 10% of the net worth of the Company.
3. Where funds are lent to a company or business with short-term financial need, each individual loan shall not exceed 10% of the net worth of the Company.

### Article 5 Duration of loans and calculation of interest

1. The term of each loan extended by the Company and its Subsidiaries shall not exceed one year.
2. The interest rate shall be not less than the Company's highest funding costs. The interest shall be payable monthly; under special circumstances, the Company may adjust the interest rate with the approval of the Board of Directors.

### Article 6 Procedures for handling loans of funds

#### 1. Application and review procedures

Any lending of the Company's funds shall be evaluated with and subject to the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" announced by the Taiwan securities regulatory authority and the Procedures, and then submitted, together with the result of the evaluation made as described in the Article 7, to the Board of Directors for its approval and no delegation shall be made to any person in this regard.

When fund lending to Subsidiaries is contemplated by the Company or its Subsidiary, an approval from the Board shall be obtained, and the Chairman shall be authorized to handle the matter within the Board's approved amount of fund lending to the same party and the lending is authorized in installment or revolver within one year.

For the amount as mentioned in the preceding paragraph, in addition to the provisions of Paragraph 4 of Article 2, the amount of the credit granted by the Company or its subsidiaries to a single enterprise shall not exceed 10% of the net value of the Company's most recent financial statements.

When fund-lending to other parties, the board of directors shall take into full consideration each independent director's opinion; independent directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the board of directors' meeting.

## 2. Lending Notice

After the approval of the loan case, the financial department shall promptly inform the borrower by letter or by telephone, to describe the loan conditions of the Company in detail, including the amount, term, interest rate, collateral and guarantor, etc., to let the borrower sign a confirmation the time limit, and to carry out the guarantee (pledge) mortgage and the cross collateral procedures of the guarantor, according to which the funds will then be released.

## 3. Sign Confirmation

For lending cases, the financial department shall draw up the contract terms, which shall then be audited by the competent department, and sent to the legal staff or legal counsel for review after approval, and then apply for the signing process.

The contents of the contract should be consistent with the approved terms of the loan. After the borrower and the joint guarantor sign on the contract, the financial department shall complete the cross collateral procedures.

## 4. Acquisition of collateral and security

(1) Where any collateral is needed in the loan release conditions, the borrower shall provide the collateral and the legal procedures for mortgage and/or lien must be fulfilled to protect the Company's interest.

(2) All collateral, except land and securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The insurance policy shall be filled with the original loan approval conditions of the Company; If the insured building has not been set with the number, the other address should be with the lot and location number.

- (3) The financial department shall inform the borrower to continue to buy the insurance before the expiry of the insured period.
5. After the loan case is approved and the contract is signed by the borrower and the promissory note is sent for deposit (or installment repayment), and after the collateral (pledge) charge set registration is completed, and all the procedures are checked without errors, the funds can be released.
6. Documentation and custody  
The Company shall set up a book for reviewing for the loan procedures. The object and amount concerned with the funds lending, the approval date by the board of directors, the release date of funds, as well as the matters that should be carefully evaluated according to the provisions of the paragraph 1 of Article 1 shall be recorded in detail for review.

#### Article 7 Detailed review procedures

When the Company lends the funds, the following review procedures shall be carried out:

1. Evaluation of the necessity and rationality of funds lending to other parties  
When the borrower applies for borrowing funds from the Company, the financial department shall first get know of its purpose for funds and assess the necessity and rationality of funds lending to other parties.
2. Credit and risk assessment of the lending parties
  - (1) For first time lending, the borrower shall submit the company's data such as the approval letter of the change registration and the change registration form, the profit business registration certificate and the copy of the ID card of the person in charge, as well as the necessary financial data to the Company to apply for the financing amount in writing.  
After accepting of the application by the Company, the financial department shall investigate and evaluate the business, financial status, solvency and credit, profitability and borrowing purposes of the loan, and prepare reports.
  - (2) If it is a continuing borrower, in principle, the credit shall be done once a year. If it is a major case, depending on the actual needs, the investigation of credit shall be done once every six months.
  - (3) If the borrower is in good financial condition and the annual financial statements have been entrusted to the accountant to complete the financing visa, it shall continually use the survey report for more than 1 year and less than 2 years, and shall refer to the visa report loan and lending case audited by the accountant.
3. Acquisition of collateral and the appraisal value of collateral

When lending the funds to other parties by the Company, in addition to the subsidiaries, the Company shall obtain the guaranteed promissory notes of the same amount and, if necessary, apply for the mortgage of personal property or real estate property and shall, in advance, carry out the assessment of the personal property or real estate property value of the proposed mortgage.

For the above creditor rights security, if the debtor takes the individual or company with considerable resources and credit in lieu of the provision of collateral as the guarantee, the board of directors shall carry out it by taking into account of the credit report by the financial department; for the debtor takes a company as the guarantee, attention shall be paid to that whether there is any guarantee terms in the Articles of the Company.

4. Assessment on the impact towards the Company's operating risk, financial position and shareholders' equity

(1) After the investigation and evaluation of credit information, if the assessment result for the borrower credit is not good, the funds shouldn't be lent to the borrower, the financial department shall reply the borrower the reason why not grant the funds after approval as soon as possible.

(2) For the case with good investigation result of credit and with legitimate purpose, the financial department shall fill in the letter of credit and review the report, assess the reason, the use, the purpose, the amount, the benefit, the value of the collateral, the credit and the operation condition, and assess the impact on the Company's operating risk, financial position and shareholders' equity. After the formulation of the interest rate and the deadline, it shall be submitted to the general manager and the chairman for approval, and then submitted to the board of directors for handling by resolutions.

Article 8 Subsequent measures for control and management of loans, Procedures for handling delinquent creditor's rights

1. Once drawdown on a loan has been made, the financial, business and relevant credit conditions of the borrower and the guarantor shall be regularly monitored. Where collateral is provided, changes in its values shall be noted, and any material change thereto shall be immediately reported to the Chairman and be dealt with according to the relevant instruction. At two months before the expiry of the loan allocated, the borrower should be notified to pay off the principal and interest or carry out the extension procedures.

2. When the borrower is making a repayment upon or prior to maturity, the interest shall first be calculated and repaid together with the principal, before the cancellation and return of the relevant evidence of claim to the borrow or the cancellation of the mortgage registration.

3. The borrower shall pay the principal and interest when the loan is due. If the borrower is failure to pay the loan in due and needs to postpone the payment, it is necessary to make a request in advance and report to the board of directors for approval. The extension of each loan shall not be more than three months and shall only be subject to an extension and the period for the total amount of the loan (including the extension period) shall not exceed one year. The Company may make punishment and recourse against the offender as to the collateral or guarantor according to the law.

#### Article 9 Procedures for controlling and managing loans of funds to others by Subsidiaries

1. Where a Subsidiary of the Company proposes to grant a loan to a third party, the Company shall require the Subsidiary to establish procedures for granting of loans in accordance with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC and shall conform to such procedures.
2. When fund-lending to other parties is contemplated by the Subsidiary of the Company, the Subsidiary shall provide related information to the Company and take into account of the relevant personnel before carrying out the fund-lending procedures.
3. After the loan is granted by the subsidiary, the subsidiary shall regularly report the follow-up situation of the loan amount to the Company.

#### Section 10 Information Disclosure

1. The company shall announce and report the previous month's loan balances of the Company and its subsidiaries by the 10th day of each month.
2. The company whose loans of funds reach one of the following levels shall announce and report such event within two days from its occurrence:
  - (1) The aggregate balance of loans to others by the public company and its subsidiaries reaches 20 percent or more of the public company's net worth as stated in its latest financial statement.
  - (2) The balance of loans by the public company and its subsidiaries to a single enterprise reaches 10 percent or more of the public company's net worth as stated in its latest financial statement.
  - (3) The amount of new loans of funds by the public company or its subsidiaries reaches NT\$10 million or more, and reaches 2 percent or more of the public company's net worth as stated in its latest financial statement.

If there is any reporting and announcement required for the Company's subsidiary which is not a Taiwan public company, the Company will follow the requirement on behalf of its subsidiary.

3. The Company shall make sufficient provision based on the condition of its lending profile, adequately disclose information in the financial statements, and provide external auditors with necessary information for conducting due auditing.

#### Article 11 Penalties

If the Company and its Subsidiaries' managers and persons-in-charge violate the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC or the Procedures, the audit personnel or the authority director shall promptly report the violation to the general manager or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.

#### Article 12 Audit

Internal auditors shall perform auditing on the Procedures and the implementation of the Procedures every quarter and produce written auditing reports. Should there be any violation found, a written report is needed to notify each supervisor.

#### Article 13 Miscellaneous

1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for the preparation of financial statements by the issuer of securities.
2. The net value referred in the procedures, shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for preparation of the Regulations Governing the Preparation of Financial Reports by Securities Issuers.
3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.
4. Actual occurrence date: a contract execution date, payment date, board of directors' resolution date, or date on which a counterparty and transaction amount become definitely certain, whichever happens earlier.
5. Should a borrower no longer satisfy the criteria set forth in the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC or the Procedures or there be any excess over the lending limit due to unexpected changes of the Company or its Subsidiaries, a corrective plan has to be provided to the supervisors and the proposed correction actions should be implemented within the period specified in such plan.

Article 14 Implementation and Amendment

After approved by the Board of Directors, these procedures shall be transferred to each supervisor and submitted by the Shareholders' meeting for approval. Where any Director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the documents related to the dissent to the supervisors and the Shareholders' meeting for discussion. The same shall apply to the amendment of these procedures.

The comments of each of the Independent Director shall be fully considered by the Board of Directors during deliberations of the Procedures pursuant to the preceding subparagraph, and the concurring or objecting position of the Independent Directors and any objection reasons shall be clearly recorded in the Board of Directors meeting minutes.

Article 15 Other important matters

In case of matters that are not specified in the procedures or the suitability is in doubt, they shall be handled in accordance with the relevant laws and regulations, for things that are not stipulated in the laws and regulations, they should be carried out according to the relevant provisions of the Company or decided by the board of directors by resolutions.



**Phison Electronics Corporation**  
**Procedures for Endorsement and Guarantee**  
**(Before revised)**

Article 1 Purpose

These procedures are promulgated pursuant to Article 36-1 of the Securities Exchange Act and the provisions of "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by Financial Supervisory Commission R.O.C. (Taiwan) (hereinafter referred to as the FSC).

Article 2 Scope

1. The scope of endorsements/guarantees used herein is as follow:
  - (1) Financing endorsements/guarantees, including:
    - i . Bill discount financing.
    - ii . Endorsements/guarantees for another companies for their financing needs.
    - iii . Endorsements/guarantees to the notes issued by the Company to nonfinancial institutions and entities for the Company's own financing needs.
  - (2) Endorsements/guarantees of custom duties due from the Company or other companies.
  - (3) Other endorsements/guarantees that are not classified as prior two types.
2. The lien or mortgage provided by the Company against its assets and properties for guaranteeing another company's loan, shall be carried out in accordance with the Procedures.

Article 3 Entities for which the Company may make endorsement or guarantees

1. The Company may make endorsements/guarantees for the following companies:
  - (1) A company with which the Company does business.
  - (2) A company in which the Company directly and indirectly holds more than 50% of the voting shares.
  - (3) A company that directly and indirectly holds more than 50% of the voting shares in the Company.
2. Companies in which the Company holds, directly or indirectly, 90%, or more of the voting shares may make endorsements/guarantees for each other, and the amount of endorsements or guarantees may not exceed 10% of the net worth of the Company; provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

3. Where a public company fulfills its contractual obligations by providing mutual endorsements/guarantees for another company in the same industry or for joint builders for purposes of undertaking a construction project, or where all capital contributing shareholders make endorsements/ guarantees for their jointly invested company in proportion to their shareholding percentages, or where companies in the same industry provide among themselves joint and several security for a performance guarantee of a sales contract for pre-construction homes pursuant to the Consumer Protection Act for each other, such endorsements/guarantees may be made free of the restriction of the preceding two paragraphs. Capital contribution referred to in the preceding paragraph shall mean capital contribution directly by the public company, or through a company in which the public company holds 100% of the voting shares.
4. "Capital contribution" referred to in the preceding sentence shall mean capital contributed directly by the Company, or through a company in which the Company holds 100% of the voting shares.

#### Article 4 Evaluation criteria for endorsements/guarantees

Where an endorsement/guarantee is made due to needs arising from business dealings, in addition to Article 5 that should be followed, evaluation standards shall be specified for determining whether the amount of an endorsement/guarantee is commensurate the total amount of trading between the two companies.

#### Article 5 The ceilings on amount of endorsement/guarantee

The amount of endorsement/guarantee provided by the Company is subject to the following limits:

1. The aggregate amount of endorsements/guarantees provided by the Company shall not exceed 40% of the net worth of the most recent financial statements audited and approved by the accountant of the Company.
2. The amount of endorsements/guarantees provided by the Company for any single entity shall not exceed 20% of the net worth of the most recent financial statements audited and approved by the accountant of the Company.
3. The endorsement or guarantee amount should not exceed past 12 months of total amount of transactions from the company with which the Company does business (The amount of business transactions refers to the amount of purchase or sales between the two parties, whichever is higher) and shall not exceed 20% of the net worth of the most recent financial statements audited and approved by the accountant of the Company.

The amount of endorsement/guarantee provided by the Company and its subsidiaries is subject to the following limits:

1. The aggregate amount of endorsements/guarantees provided by the Company shall not exceed 40% of the net worth of the most recent financial statements audited by the accountant of the Company.
2. The amount of endorsements/guarantees provided by the Company for any single entity shall not exceed 20% of the net worth of the most recent financial statements audited and approved by the accountant of the Company.
3. The endorsement or guarantee amount should not exceed past 12 months of total amount of transactions from the company with which the Company does business (The amount of business transactions refers to the amount of purchase or sales between the two parties, whichever is higher) and shall not exceed 20% of the net worth of the most recent financial statements audited and approved by the accountant of the Company.

#### Article 6 Procedures for handling endorsement/guarantee

##### 1. Application and review procedures

- (1). If the other company applies for endorsements/guarantees to the Company, the financial department shall first contact with it to know the purpose and the amount of endorsements/guarantees, check relevant documents, and shall review them carefully according to Article 7, and prepare the credit and review reports. A pre-determined limit may be delegated to the Chairperson by the Board of Directors to facilitate execution according to Article 9 and such endorsement /guarantee shall be reported to the most coming Board of Directors' Meeting for ratification.
- (2). If the Company handles the endorsement/guarantee due to its own business or operating requirements, the financial department shall first check relevant documents, and shall review them carefully according to Article 7, and prepare the credit and review reports. A pre-determined limit may be delegated to the Chairperson by the Board of Directors to facilitate execution according to Article 9 and such endorsement /guarantee shall be reported to the most coming Board of Directors' Meeting for ratification.

##### 2. Notice of endorsement/guarantee

After approval of endorsement/guarantee, the financial department shall inform the guaranteed company by letter or by telephone, and ask the company who needs to obtain collateral by assessment to carry out the (pledge) mortgage procedures within the time limit, only after then can the relevant documents such as the endorsement/guarantee contract or the guarantee bill submit to the chop custody person or issue notes.

### 3. Acquisition of collateral and security

- (1). Where any collateral is needed in handling endorsement/guarantee, the Company shall handle the pledge or mortgage to protect the rights of the Company.
- (2). All collateral, except land and securities, shall be covered by property damage insurance. For vehicles, comprehensive insurance shall be procured. The insured amount shall, in principle, be not less than the replacement cost of the collateral. The insurance policy shall be filled with the original endorsement and guarantee conditions of the Company; If the insured building has not been set with the number, the other address should be with the lot and location number.
- iii. The financial department shall inform the endorsement guarantor to continue to buy the insurance before the expiry of the insured period.

### 4. Documentation and custody

The Company shall establish and maintain a memorandum book for its endorsement/guarantee activities and record in detail the following information for the record: the entity for which the endorsement/guarantee is made, the amount, the date of passage by the Board of Directors or of authorization by the Chairperson of the board, the date the endorsement/guarantee is made, and the matters to be carefully evaluated under paragraph 1 of Article 9-1.

## Article 7 Detailed review procedures

When the Company deals with endorsement/guarantee, the following review procedures shall be followed:

### 1. The necessity and rationality of endorsement and guarantee

When the third company applies for endorsement and guarantee from the Company or the Company needs for endorsement and guarantee due to its own business or operating requirements, the financial department shall first get know of its purpose and assess the necessity and rationality of the endorsement and guarantee.

### 2. Credit and risk assessment on endorsement/guarantee

(1) For first time endorsement/guarantee, the endorsement company shall submit the company's data such as the approval letter of the change registration and the change registration form, the profit business registration certificate and the copy of the ID card of the person in charge, as well as the necessary financial data to the Company to apply for the endorsement/guarantee in writing.

After accepting the application by the Company, the financial department shall investigate, evaluate and issue reports as to the purpose of the business, financial status and endorsement/guarantee purpose of the guaranteed object by.

- (2) If it is a continuing endorsement/guarantee, in principle, the credit shall be done once a year. If it is a major case, depending on the actual needs, the investigation of credit shall be done once every six months.
3. Acquisition of collateral and the appraisal value of collateral
- The Company shall request the guaranteed entity to provide the promissory notes and the mortgage of personal property or real estate property as guarantee and shall, in advance, carry out the assessment of the personal property or real estate property value of the proposed mortgage.
- For the above creditor rights security, if the debtor takes the individual or company with considerable resources and credit in lieu of the provision of collateral as the guarantee, the board of directors shall carry out it by taking into account of the credit report by the financial department.
4. Assessment on the impact towards the Company's operating risk, financial position and shareholders' equity
- (1) After the investigation and evaluation of credit information, if the assessment result of credit for the guaranteed entity is not good, for whom the Company do not intend to make endorsement/guarantee, the financial department shall reply the guaranteed entity the refuse reason after approval as soon as possible.
- (2) For the case with good investigation result of credit and with legitimate purpose, the financial department shall fill in the letter of credit and review the report, assess the reason, the use, the purpose, the amount, the benefit, the value of the collateral, the credit and the operation condition, and assess the impact on the Company's operating risk, financial position and shareholders' equity, and deal with the case after submitting these reports to the chairman for approval according to Article 9, and then to the board of directors for confirmation.
- (3) If the Company handles the endorsement/guarantee due to its own business or operating requirements, the financial department shall fill in the review report, and assess the impact on the Company's operating risk, financial position and shareholders' equity. A pre-determined limit may be delegated to the Chairperson by the Board of Directors to facilitate execution according to Article 9 and such endorsement /guarantee shall be reported to the most coming Board of Directors' Meeting for ratification.

#### Article 8 The usage and custody of a chop

The Company shall maintain a chop as the dedicated chop for endorsements /guarantees. The chop shall be kept in the custody of a designated person approved by the Board of Directors and may be used to seal or issue negotiable instruments only in prescribed procedures.

In the case of endorsement/guarantee for a foreign company, the letter of guarantee issued by the company shall be signed by the person authorized by the board of directors.

#### Article 9 Hierarchy of decision-making authority and delegation thereof

1. When the Company makes any endorsement and/or guarantee, the financial department shall carefully assess it whether be consistent with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC and the provisions of the Procedures. A pre-determined limit together with the assessment result of Article 7 may be delegated to the Chairperson by the Board of Directors to facilitate execution according to Article 9 and such endorsement /guarantee shall be reported to the most coming Board of Directors' Meeting for ratification. The limit shall not exceed the amount that set forth in Article 5 of endorsement/ guarantee provided by the Company.

Before making any endorsement/guarantee pursuant to a subsidiary in which the Company holds, directly or indirectly, 90% or more of the voting shares shall submit the proposed endorsement/guarantee to the Company's Board of Directors for a resolution according to paragraph 2 of Article 3; provided that this restriction shall not apply to endorsements/guarantees made between companies in which the Company holds, directly or indirectly, 100% of the voting shares.

When the Company makes endorsements and/or guarantees for the companies, it shall take into full consideration each Independent Director's opinions; Independent Directors' opinions specifically expressing assent or dissent and their reasons for dissent shall be included in the minutes of the Board meeting.

2. In case the above limits have to be exceeded to accommodate business needs, a resolution of the Board of Directors should be obtained and over half of all the directors should jointly endorse the potential loss that may be brought about by the excess of limits. The Board of Directors should also revise the Procedures and has it ratified at the Shareholders' Meeting. If the revised Procedures are not ratified at the Shareholders' Meeting, the Board of Directors should furnish a plan containing a timetable to withdraw the excess portion.

When it makes endorsements / guarantees for others, it shall take into full consideration the opinions of each independent director; independent directors' opinions specifically expressing assent or dissent and the reasons for dissent shall be included in the minutes of the Board of Directors' meeting.

Article 10 Procedures for managing endorsement or guarantee by subsidiaries

1. Where the Company's Subsidiary intends to make endorsements/guarantees for others, it shall formulate its own operational procedures for endorsements/guarantees in compliance with the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC and shall comply with its procedures when making endorsements/guarantee.
2. When making endorsements/guarantees for others is contemplated by the Subsidiary of the Company, the Subsidiary shall provide related information to the Company and take into account of the relevant personnel before carrying out the endorsements/guarantees procedures.
3. After the endorsements/guarantees are made by the subsidiary, the subsidiary shall regularly report the follow-up situation of the amount of endorsements/guarantees to the Company.

Section 11 Information Disclosure

1. The company shall announce and report the previous month's balances of endorsements/guarantees of the Company and its subsidiaries by the 10th day of each month.
2. The company whose endorsements/guarantees reach one of the following levels shall announce and report such event within two days from its occurrence:
  - (1) The aggregate balance of endorsements/guarantees to others by the Company and its subsidiaries reaches 50 percent or more of the public company's net worth as stated in its latest financial statement.
  - (2) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches 20 percent or more of the Company's net worth as stated in its latest financial statement.
  - (3) The balance of endorsements/guarantees by the Company and its subsidiaries for a single enterprise reaches NT\$10 million or more and the aggregate amount of all endorsements/guarantees for, long-term investment in, and balance of loans to, such enterprise reaches 30% or more of Company's net worth as stated in its latest financial statement.

- (4) The amount of new endorsements or guarantees made by the Company or its subsidiaries reaches NT\$30 million or more, and reaches 5 percent or more of the Company's net worth as stated in its latest financial statement. If there is any reporting and announcement required for the Company's subsidiary which is not a Taiwan public company, the Company will follow the requirement on behalf of its subsidiary.
3. The Accounting Unit shall assess and recognize, if any, contingent losses brought about by the endorsement/guarantee, to adequately disclose information in the financial statements, and to provide external auditors with necessary information for conducting due auditing.

#### Article 12 Penalties

If the Company and its Subsidiaries' managers and persons-in-charge violate the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC or the Procedures, the audit personnel or the authority director shall promptly report the violation to the general manager or the board of directors, who shall, as the case may be, give appropriate punishment to the person concerned.

#### Article 13 Audit

Internal auditors shall perform auditing on the Procedures and the implementation of the Procedures every quarter and produce written auditing reports. Should there be any violation found, a written report is needed to notify each supervisor.

#### Article 14 Miscellaneous

1. The subsidiaries and parent companies referred in the procedures, shall be defined in accordance with the guidelines for Regulations Governing the Preparation of Financial Reports by Securities Issuers.
2. The net value referred in the procedures, shall refer to the equity in the balance sheet attributable to the owners of the parent company as stipulated in the guidelines for preparation of the financial statements of the issuer of securities.
3. The announcement referred in the procedures, refers to the announcement reported to the website of the information designated by the FSC.
4. Actual occurrence date: a contract execution date, payment date, board of directors' resolution date, or date on which a counterparty and transaction amount become definitely certain, whichever happens earlier.
5. Should a borrower no longer satisfy the criteria set forth in the "Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies" formulated by FSC or the Procedures or there be any excess



over the lending limit due to unexpected changes of the Company or its Subsidiaries, a corrective plan has to be provided to the supervisors and the proposed correction actions should be implemented within the period specified in such plan.

6. The Company shall not make endorsements or guarantees to the Subsidiary's net worth below 50% of issued capital.

In the case of a Subsidiary with shares having no par value or a par value other than NT\$10, for the paid-in capital in the aforementioned calculation, the sum of the share capital plus paid-in capital in excess of par shall be substituted.

#### Article 15 Implementation and amendment

After approved by the Board of Directors, these procedures shall be transferred to each supervisor and submitted by the Shareholders' meeting for approval. Where any Director expresses dissent and it is contained in the minutes or a written statement, the Company shall submit the documents related to the dissent to the supervisors and the General Shareholders' meeting for discussion. The same shall apply to the amendment of these procedures.

The comments of each of the Independent Director shall be fully considered by the Board of Directors during deliberations of the Procedures pursuant to the preceding subparagraph, and the concurring or objecting position of the Independent Directors and any objection reasons shall be clearly recorded in the Board of Directors meeting minutes.

#### Article 16 Other important matters

In case of matters that are not specified in the procedures or the suitability is in doubt, they shall be handled in accordance with the relevant laws and regulations, for things that are not stipulated in the laws and regulations, they should be carried out according to the relevant provisions of the Company or decided by the board of directors by resolutions.

**Phison Electronics Corporation**  
**Procedures for Engaging in Derivatives Trading**  
**(Before revised)**

Article 1 Purpose

To protect the investment, implement the information disclosure, and strengthen the risk management system for derivatives trading established by the Company, the Procedures (hereinafter referred to as the "Procedures") are formulated according to the Guidelines on Acquisition or Disposal of Assets by Public Offering Companies (hereinafter referred to as the "Guidelines") issued by the Financial Supervisory Commission R.O.C. (Taiwan) (hereinafter referred to as the "FSC").

Article 2 Principle

1. Transaction Type:

- (1) Derivative products referred in the Procedures refers to forward contract, option contract, future contract, leverage contract, swap contract, and the composite contract of the above, of which value derive from asset, interest rate, exchange rate, index, or other interests.
- (2) A forward contract shall exclude insurance policy, performance deed, after-sale service agreement, long-term lease contract, and long-term merchandise procurement/sale agreement.
- (3) The matters related to the bond margin transaction shall be handled in accordance with the relevant provisions of the Procedures.

2. Operation & Hedging Strategy:

The main strategy of the Company is to select derivatives trading that could avoid operation risk to the maximum as to minimize losses. The Company should only select banks which have business relation to avoid credit risk.

3. Authorization / Delegation:

Financial Department: is responsible for the foreign exchange management system, such as collecting foreign exchange market information, judging trends and risks, be familiar with financial products and operating skills. The financial department shall accept the instructions by the Financial Officer, take the license to manage the foreign exchange parts, and avoid risks according to the company policy.

Accounting Department: is responsible for confirmation of the transaction, settlement and registration details.

4. Performance Evaluation:

When engaging in derivative products trading, the operation details shall be recorded on the transaction schedule per day to grasp the profit and loss situation; the exchange gains and losses shall be settled per month, quarter and year.

5. Transaction Contract Dollar Amount And Loss Control

- (1) The financial department should grasp the overall position of the Company in order to avoid the risk of transactions; the total amount of long-term foreign exchange operation of the contract shall not exceed the actual demand for foreign currency.
- (2) The contractual loss of derivative products shall not exceed the limit of 15% of the amount of the transaction contract, and the total contract loss shall not exceed 10% of the contract value. If there is a significant adverse effect on the exchange rate, The Company should convene relevant personnel at any time to discuss it at the meeting.

Article 3 Operating Procedures

1. Authorization Amount:

When engaging in derivative commodity transactions by the Company, the authorized amounts shall be set as follows:

(1) Forward Foreign-exchange Trading:

Transaction Authorization Amount (Monthly Accumulated Amount)

<u>Contract Amount</u>	<u>Delegation of Authorization</u>
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0-10 million (including) dollars	Chairperson
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Above 10 million (excluding) dollars	Board of Directors
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(2) Contract of foreign currency options:

The Chairperson of the Board of Directors is solely responsible for the amount of the contract signed by the Company with the Bank, which shall not exceed the estimated net demand of foreign current or net expenses of the Company for the next six months and the accumulated effective contract amount shall not exceed US\$ 10 million limit to avoid exchange rate fluctuations.

(3) Other related derivative products: they shall be subject to the resolution of the board of directors before transaction.

(4) For the procedures are adopted by the resolutions at the meetings of directors, the meeting shall be presented with two-thirds of all directors, and be approved by more than half of the presented directors.

2. Execution unit and transaction process:

(1) Execution of the transaction: the trader of the financial department shall trade with the financial institutions within the authorized amount. If the amount is more than that specified in the provisions of paragraph 1 of Article 3, the trader shall obtain the written approval in advance according to the above provisions. After the completion of each transaction, the trader shall immediately fill the transaction note according to the return of financial institutions, specify the content, and then be submitted to the competent authority for approval, and make statistical and submit the copy of the transaction to the accounting department.

(2) Transaction confirmation: the accounting department of the settlement and registration should confirm the transaction based on the copy of the transaction produced by the transaction unit, and then shall make settlement and register details according to the transaction confirmed number. The financial department shall prepare the statements monthly, and then collect them and submit them to the accounting department as an accounting evaluation Basis.

#### Article 4 Risk Management

1. Scope of risk management:

(1) Credit Risk Control: Credit risk is controlled by restricting the counterparties that the Company deals with to those who either have banking relationship with the Company. After the transaction, the person for registering should register

the Credit Control Table and check the balance of accounts with the bank on a regular basis.

- (2) Market Price Risk Control: the person for registering shall check whether the total amount of the transaction is in compliance with the prescribed limits. The accounting department should conduct a market price evaluation at any time and pay attention to the possible impact on the profit and loss by the future market price fluctuations on the holdings.
  - (3) Liquidity Risk Control: Liquidity risk should be controlled by restricting counterparties to those who have adequate facility, sufficient information, and sizable trading capacity and capability to enter into transactions in any markets around the world.
  - (4) Cash Flow Risk Control: The derivative product transaction is based on physical transactions to ensure settlement obligations. The traders should also pay attention to the company's cash flow at all times to ensure that there is sufficient cash to be paid at the time of settlement.
  - (5) Operating Risk Control: Delegation systems and operating procedures set forth herein are employed to control operating risk.
  - (6) Legal Risk Control: Any legal documents in respect of financial derivative transactions shall be in general contract of the market, and any special contract shall be reviewed by the legal counsel.
2. The respective functions of trading, confirmation and settlement should be performed by different personnel.
  3. Risk measurement, and control personnel shall be assigned to a different department than the personnel in the preceding subparagraph and shall report to the Board of Directors or an executive manager or supervisor who is not responsible for trading or hedging position policy-making.

4. Derivatives trading positions held shall be evaluated at least once per week. Finance Department should prepare a bi-weekly report in connection with the transactions entered into for hedging purpose for the review of the Chairman's authorized senior manager.
5. Other important risk management measures.

#### Article 5 Internal Audit

Internal audit personnel is required to evaluate the suitability of the internal control system in connection with financial derivative transactions on a regular basis, to conduct auditing on how well the related departments follow the Procedures, and to produce report with trading cycle analysis on a monthly basis. Should there be any violation found, a written report is needed to notify the Audit Committee and the Board of Directors.

#### Article 6 Regular Evaluation Methods and Correction of Abnormal Situation

When engaging in derivative product transactions by the Company, and the board of directors shall implement the supervision and control in accordance with the following principles:

1. The designated chairperson shall always pay attention to the supervision and control of risk of derivative product transaction.
2. The Board of Directors is itself responsible for evaluating the performance of derivative product transaction on a regular basis to oversee how well it fit in the Company's overall business and operating strategies and to review if the associated risks thereof have exceeded the Company's risk tolerance.

The Chairperson authorized by the Board of Directors shall manage the transactions of derivative products in accordance with the following principles:

1. The Chairperson should also be responsible for regularly reviewing the level of adequacy of the current risk control process and its degree of consistency with the principles and procedures set forth herein.
2. The Chairperson should also be in the course of supervising trading and profit-loss circumstances. Once having identified unusual performances and results, the Chairperson needs to report to the Board of Directors immediately and undertakes any actions deemed necessary to correct the situation. Where the company has independent directors, an independent director shall be present at the meeting and express an opinion.

When engaging in derivative product transactions by authorized person by the Company according to the provisions of the Procedures, shall report at the most recent meeting of the Board of Directors for ratification.

#### article 7 Information Disclosure

1. When losses from derivatives trading reaches the limits on aggregate losses or losses on individual contracts set out in the Procedures adopted by the company, the Company shall within two days from the date of the occurrence of the transaction, declare the relevant information on the designated website of the FSC.
2. The Company should, on a monthly basis, report and make a public announcement of the financial derivative transactions engaged by it and its subsidiary which is not a Taiwan public company on the designated website of the FSC up to the end of the previous month in accordance with relevant regulations by the tenth day of each month.

#### Article 8 Establishment of a Reference Book

In accordance with the relevant regulations, a reference book shall be established and maintained to record the financial derivative transactions in which details of the types and amounts of derivatives trading engaged in, board of directors approval dates, and the matters required to be carefully evaluated under paragraph 4 of Article 4, subparagraph 2 of paragraph 1 and subparagraph 1 of paragraph 2 of Article 6, shall be recorded in detail in the reference book.

#### Article 9 Penalties

Any director, supervisor and manager of the Company who violates the procedures promulgated by the FSC or the provisions of the Procedures and causes the Company to be subject to significant damage, shall be dismissed.

The company's persons-in-charge breach of these operating procedures, shall be handled in accordance with Procedures for Management on Employee of the Company.

#### Article 10 Assessment Procedures

The Procedures shall be established by the Company according to related provisions, which shall be submitted to the each supervisor after passed at the board meeting for approval by the shareholders' meeting. The same shall apply to the amendment of the Procedures. Where any Director expresses dissent and it is contained in a written statement, the company shall submit the dissenting opinion to each supervisor.

Where the position of Independent Director has been established in accordance

with the provisions of the Securities Exchange Act, when the procedures are submitted for discussion by the Board of Directors, the Board of Directors shall take into full consideration each Independent Director's opinions. If an Independent Director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the Board Meeting.

Article 11 Other Important Matters

In case of matters that are not specified in the procedures or the suitability is in doubt, they shall be handled in accordance with the relevant laws and regulations, for things that are not stipulated in the laws and regulations, they should be carried out according to the relevant provisions of the Company or decided by the board of directors by resolutions.



Phison Electronics Corporation  
Shareholding of Directors and Supervisors

1. The number of shares held by the directors and supervisors of the Company is as follows:

The Company issued the shares and the total number of shares: ordinary shares  
197,073,993 shares

The minimum required combined shareholding of all directors by law: 11,824,439  
shares

The minimum required combined shareholding of all supervisors by law: 1,182,443  
shares

2. The combined shareholding of all directors and supervisors on the book closure  
date of April 15, 2017:

Book closure date: April 15, 2017

Position	Name	Current shareholding	Representative
Chairperson	Khein Seng Pua	4,557,972 shares	
Director	TOSHIBA CORP.	19,821,112 shares	Hitoro Nakai
Director	Cheek Kong Aw Yong	3,355,745 shares	
Director	Tzung Horng Kuang	1,478,736 shares	
Director	An Chung Chen	38,145 shares	
Independent director	Shu Fen Wang	0 share	
Independent director	Chen Wei Wang	0 share	
Number of shares actually held by all directors		29,251,710 shares	
Shareholding ratio of total issued shares (%)		14.84%	
Supervisor	Yeong Jiunn Yang	4,549,114 shares	
Supervisor	Huei Ming Wang	171,750 shares	
Supervisor	Chiun Hsiou Chen	0 share	
Number of shares actually held by all supervisors		4,720,864 shares	
Shareholding ratio of total issued shares (%)		2.40%	

## The effect for the Company's operating performance, EPS and ROE

Unit: NT\$ thousand (except for earnings per share and cash dividend, for which the unit is NT\$)

Item		Year
		2017 (Forecast)
Paid-in capital at the beginning of the period		1,970,740
Distribution of dividends	Cash dividend per share [Note 1]	NT\$ 14
	Stock issued from additional paid-in capital	-
Effects on operation results	Operation Income	[Note 2]
	Percentage of increase (decrease) from last year's operation income	
	Income after income tax	
	Percentage of increase (decrease) from last year's income after income tax	
	Earnings per share	
	Percentage of increase (decrease) from last year's earnings per share	
	Year-average returns on investment (reciprocal of year-average price earnings ratio)	
Pro forma earnings per share and price earnings ratio	Distribution of cash dividend instead of issuing stock dividend	Pro forma earnings per share
		Pro forma average returns on investment
	No stock issued by transferring from additional paid-in capital	Pro forma earnings per share
		Pro forma average returns on investment
	No stock issued by transferring from additional paid-in capital and dividend distributed in cash instead of stock	Pro forma earnings per share
		Pro forma average returns on investment

[Note 1] If the Company the total number of shares outstanding changes on the Ex-dividend Date, the authorized Board of Directors will adjust the distribution amount per share according to the actual shares outstanding on the Ex-dividend Date.

[Note 2] The Company does not disclose the forecast financial statement in 2017. As the result, the Company doesn't have to disclose the estimated operating performance, earnings per share and Pro Forma information for year 2017.

## **Other explanation items**

For the status of the motions proposed by the shareholders at the regular shareholders meeting:

Explanation: 1. According to the Article 172-1 of Company Act, the shareholders who held more than one percent of total outstanding shares of the Company can propose the motion and submit to this Corporation in written form. However the shareholder can only propose one motion at the regular shareholder meeting. And the wordings (including the punctuation marks) in the motion cannot be more than 300 words.

2. The period for accepting the shareholders' proposals and the nomination application for directors (including independent directors) and supervisors at this regular shareholders meeting was April 7~April 17, 2017, and the period was also announced on the website of MOPS.

3. The Company did not receive any motions and the nomination for directors (including independent directors) and supervisors proposed by the shareholders.