

Phison Electronics Corporation

Handbook for 2018 Annual General Meeting of Shareholders

Meeting time: June 8, 2018

Venue: No. 1, Qunyi Road, Zhunan Township, Miaoli County
Conference Room on the 1st floor of the Company's 1st
factory (located in Guangyuan Science and
Technology Park)

Notice to Readers

For the convenience of readers, the Handbook for the 2018 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 2018 Annual General Shareholders' Meeting shall prevail.

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Phison Electronics Corp.
**Meeting Procedure of 2018 Annual General Meeting of
Shareholders**

I. Meeting Procedure

1. Calling the Meeting to order
2. Chairman's Remarks
3. Matters to Report
4. Proposals
5. Discussions
6. Extraordinary Motions
7. Adjournment

Phison Electronics Corp.
Agendas of 2018 Annual General Meeting of
Shareholders

II. Meeting Agenda

Meeting time: 9 a.m., Friday, June 8, 2018

Venue: No. 1 Qunyi Road, Zhunan Township, Miaoli County

Conference Room on the 1st floor of the Company's 1st factory
(located in Guangyuan Technology Park)

Meeting chairperson: Mr. Khein Seng Pua, Chairperson of the Board

1. Meeting Chairperson's Remarks

2. Matters to Report

Case No. 1: The Company's 2017 business report

Case No. 2: The Company's Supervisor 's Report on the review of the
2017 Financial Report

Case No. 3: Report on 2017 Employees' and Directors' Remuneration
Distribution

Case No. 4: Report on the actual handling situation of 2017 general
shareholders' meeting's resolution on private placement
of common shares

Case No. 5: Report of the Company's Investment in the Mainland

Case No. 6: Amendments to some of the articles of the "Rules of
Procedure for Meetings of Board of Directors" of the
Company

3. Proposals

Case No. 1: The Company's 2017 business report and financial
statements

Case No. 2: The Company's 2017 surplus earning distribution

4. Discussion

Case No. 1: The Company's private placement of common shares

5. Extraordinary Motions

6. Adjournment

III. Matters to Report

Case No. 1: (Proposed by the Board)

Motion: The Company's 2017 business report.

Note: For the Company's 2017 business report, please refer to Attachment 1 on page 14 to 18 of this handbook.

Case No. 2: (Proposed by the Board)

Note: The Company's Supervisor's Report on the review of the 2017 Financial Report.

Explanation: 1. The financial report of the Company for the year of 2017, including Individual Financial Statements (including Individual Balance Sheets, Individual Statements of Comprehensive Income, Individual Statements of Changes in Equity, Individual Statement of Cash Flows) and Consolidated Financial Statements (including Consolidated Balance Sheets, Consolidated Statements of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statements of Cash Flows) have been audited by accountants. The Business reports and Surplus Earning Distribution, have been reviewed by the supervisors and filed in accordance with Article 219 of the Company Act. Please refer to Attachment 2 on page 19 of this handbook.

2. Supervisor reads the review report.

Case No. 3: (Proposed by the Board)

Note: Report on 2017 Employees' and Directors' Remuneration Distribution.

Explanation: 1. According to Article 19 of the Articles of Association of the Company, "If the Company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations."

2. In the year of 2017, the Company earned NT\$7,443,206,235 (the amount represents the pre-tax profit before deducting of employees' and directors' remuneration), and it intends to distribute NT\$670,000,000 from 2017's profits for employees' compensation (about 9.00% of the profits for the year 2017) and NT\$60,000,000 for directors and supervisors (about

0.81% of the profits for the year 2017), all in cash.

Case No. 4 (Proposed by the Board)

Note: Report on the actual handling situation of 2017 general shareholders' meeting's resolution on private placement of common shares.

Explanation: The Company resolved a private placement of common shares which do not exceed 20,000,000 shares at the 2017 general shareholders' meeting on June 13, 2017, and resolution was granted to proceed the same one or two times within one year from the date of the resolution of the general shareholders' meeting. As the date upon which such resolution expired; therefore, the board of directors decided that this private placement will no longer be conducted.

Case No. 5 (Proposed by the Board)

Note: Report of the Company's Investment in the Mainland.

Explanation: Please refer to Attachment 3 on page 20 of this handbook for information on the Company's investment in the Mainland in 2017.

Proposal 6 (Proposed by the Board)

Note: Amendments to some of the articles of the "Rules of Procedure for Meetings of Board of Directors" of the Company.

Explanation: 1. Pursuant to "Regulations Governing Procedure for Board of Directors Meetings of Public Companies" published on the Order Jin-Guan-Zheng-Fa No. 1060027112 issued by the Financial Supervisory Commission on July 28, 2017 and the operational needs of the company, the "Rules of Procedure for Meetings of Board of Directors" of the company shall be amended.

2. Please refer to Attachment 4 on pages 21 to 24 of this handbook for a list of amendments to the "Rules of Procedure for Meetings of Board of Directors".

IV. Proposals

Case No. 1 (Proposed by the Board)

Summary: The Company's 2017 Business Report and Financial Statements.

Explanation: 1. The Business Report and Individual Financial Statements of the Company for the year of 2017 (including Individual Balance Sheets, Individual Statements of Comprehensive Income, Individual Statements of Changes in Equity, Individual Statement of Cash Flows) and Consolidated Financial Statements (including Consolidated Balance Sheets, Consolidated Statements of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statements of Cash Flows) have been compiled and audited by independent auditors, Dai Xinwei and Fan Youwei, of Deloitte & Touche and Supervisors. Please refer to the above Financial Statements together with the Business Report.

2. For the 2017 Business Report, Individual Financial Statements and Consolidated Financial Statements, please refer to Attachment 1 on pages 14 to 18 and Attachment 5 on pages 25 to 45, of this handbook respectively.

Resolution:

Case No. 2 (Proposed by the Board)

Note: The Company's 2017 surplus earning distribution.

Explanation: 1. The net profit after tax in 2017 was NT\$5,760,973,320. In accordance with the Company's Articles of Association, surplus earning distribution shall be determined. The company's 2017 surplus earning distribution is as follows:

Phison Electronics Corporation
Statement of surplus earning distribution
2017

Unit: New Taiwan Dollars (NT\$)

Unappropriated retained earnings at beginning of year	8,767,793,962
Less: Loss of the 2017 employee defined benefit plan recognized in retained earnings	6,879,797
Unappropriated retained earnings upon adjustment.	8,760,914,165
Plus: Net profit after tax of this fiscal year	5,760,973,320
Less: Allocation of 10% of the remaining balance as legal reserve	576,097,332
Plus: Reversion of special reserve from the balance pursuant to relevant laws and regulations.	25,965,033
Distributable earnings	13,971,755,186
Distribution item:	
Cash dividends to shareholders - NT\$17 per share	3,350,257,881
Unappropriated retained earnings at end of year	10,621,497,305

Chairperson:

Manager:

Accounting Supervisor:

2. The cash dividends distributed to the shareholders of the Company during 2017 was NT\$3,350,257,881, NT\$17 per share. Dividends are allocated based on the shareholding ratio of shareholders listed on Shareholders' Rosters on the ex-dividend record date. The cash dividends are calculated up to NT\$1. Decimal points are rounded down and the uncounted shares in fractions of NT\$1 shall be transferred to the Company's Employee Benefits Committee. The aforesaid distribution ratio was calculated based on the Company's total outstanding shares as of March 16, 2018, 197,073,993 shares. Upon the resolution of cash dividend by general shareholders' meeting, the board of directors will be authorized to set up the ex-dividend record date and related matters. If there is change in the total number of shares outstanding on the ex-dividend record date, the board of directors will be authorized to recalculate the cash dividend payout ratio based on the number of outstanding shares on the ex-dividend record date.

Resolution:

V. Discussions

Case No. 1 (Proposed by the Board)

Note: The Company's private placement of common shares.

Explanation: 1. In order to introduce strategic investors and strengthen its long-term cooperative relationship with strategic partners so as to facilitate the company's long-term operation and business development, it is proposed to conduct a private placement to increase capital in cash by issuance of new shares (hereinafter referred to as "Private placement of common shares of this fiscal year"), in compliance with the provisions of Article 43-6 of the Securities and Exchange Act, etc. It is expected that the total amount of private placement of common shares will not exceed 18,000,000 shares at par value of NT\$10 per share and the increase in paid-in capital will not exceed NT\$180,000,000.

2. According to the provisions of Article 43-6 of the Securities and Exchange Act and the "Directions for Public Companies Conducting Private Placements of Securities", the explanations are as follows:

(1) The basis and rationality of the pricing of private placement

A. As to the pricing of the private placement of common shares, the price of per share shall not be lower than 80% of the higher price of the following two calculations before the price determination date:

(i) The simple average closing price of the common shares is calculated based on either the 1, 3, or 5 business days before the price determination date and is adjusted upon distribution of stock dividends and cash dividends, and capital reduction.

(ii) The simple average closing price of the common shares is calculated based on 30 business days before the price determination date, and is adjusted upon distribution of stock dividends and cash dividends, and capital reduction.

- B. The actual price determination date and the actual price of private placement shall not be less than the range decided by the shareholders' meeting. The board of directors will be authorized to determine the price based on the aforesaid price, future specific persons' situation and market conditions.
 - C. The pricing method of this private placement price is based on the "Directions for Public Companies Conducting Private Placements of Securities" and considers that the company's future prospects and the timing, object, and quantity of private placement of securities transfer are strictly limited. Moreover, it is also not possible to be listed on the TPEX within three years and the liquidity is poor. Therefore, the pricing of the private placement of this fiscal year shall be reasonable, and would cause no major impact on shareholders' equity.
- (2) Methods of selecting specific persons
- A. The object of the private placement of common shares is, in accordance with Article 43-6 of the Securities Exchange Act and the Order Tai-Cai-Zheng-Yi No. 0910003455 of the Financial Supervisory Commission of the Executive Yuan issued on June 13, 2002, a specific person as strategic investor.
 - B. Offerees are intended to be strategic investors:
 - (i) Method and purpose of selecting offerees: Due to the Company's long-term business and business development needs, it will give priority to those who may directly or indirectly contribute to the future operation of the Company, and can help the Company expand its business and product market, strengthen customer relations, or enhance product development integration benefits, or can improve technology, and can identify with the Company's business philosophy of strategic investors.
 - (ii) Necessity: The purpose of selecting offerees is to introduce strategic investors and strengthen long-term cooperation with strategic partners. Through strategic investors, the long-term competitiveness

and operational effectiveness of the company can be enhanced, which is necessary.

(iii) Expected Benefits: It is expected that through strategic investors' experience, product technology, knowledge, brand reputation, and market access, we can cooperate with investors in strategic cooperation, joint product development, market integration, or business development cooperation, which will help the Company to reduce operating costs, improve product technology, and expand its sales market to improve the company's future operating performance.

C. There are at present no offerees.

(3) Necessary reasons for private placement:

A. Reasons for not adopting public offerings: Considering factors such as capital market conditions, issuance costs, timeliness and feasibility of fundraising for private placements, and restrictions on private placement of shares that cannot be freely transferred within three years, etc. In this way, it can ensure and strengthen strategic partnerships in a closer long-term cooperation relationship. Therefore, public offering is not adopted this time, and a private placement to increase capital in cash by issuance of new share is conducted instead.

B. The quota of private placement: The total quota of this private placement of common shares shall not exceed 18,000,000 shares, and will be processed once or twice within one year from the date of the resolution of the shareholders' meeting.

C. The capital purpose and the estimated benefits of private placement of common shares processed in different tranches.

Processing times	Capital purpose	Expected results
Once in a single transaction	Seek opportunities for technical cooperation or strategic alliances with domestic and foreign industrial companies, and at the same time, enrich working capital and meet the company's long-term operational development needs	Reduce the company's operating risks, strengthen its financial structure, and improve the company's future operating performance
Twice in two transactions	Two occasions are to seek technical cooperation or strategic alliance with domestic and foreign industrial companies. At the same time, it enriches the working capital and meets the needs of the company's long-term operation and development.	Two occasions are to reduce the company's operating risk, strengthen its financial structure, and improve the company's future operating performance.

- (4) One year before the private placement of this fiscal year resolved by the board of directors, there was no major change in the operating rights, and the total amount of private placement of common shares is not expected to exceed 18,000,000 shares this time, accounting for 8.37% of the estimated total amount of paid-in capital after private placement. This time, offerees will be limited to strategic investors and will have a positive effect on the development of the company's business. It is expected that the introduction of strategic investors in private placement will not cause major changes in the operating rights.

(5) Other matters that should be stated:

A. Regarding the private placement of common shares of this fiscal year, the rights and obligations are in principle the same as the common shares issued by the Company, but according to the provisions of Article 43-8 of the Securities and Exchange Act, in addition to the objects and conditions of the assignment as prescribed by the provisions, in principle, the private placement of common shares shall not be freely transferable within three years from the date of delivery. After the full three years from the delivery date, the company plans to obtain a consent letter from the over-the-counter trading center in accordance with the relevant provisions of the Securities and Exchange Act, etc. The Company shall apply for re-issuance of the public offering of private placement of common shares and application for the transaction of the counter with the competent authority.

B. The main contents of the private placement of common shares of this fiscal year include actual number of private placement shares, actual private placement price, selection of applicants, recod date, issuance conditions, project items, capital use and progress, projected benefits, and other related issues. Etc., etc., and all other matters related to the issuance plan, intended to be brought to the shareholders' meeting to authorize the board of directors to adjust, determine and handle based on the market conditions, and if future changes such as due to amendments in laws or regulations or when required by the competent authority or based on operational assessment, or due to changes in the objective environment, the board of directors will be authorized to handle it completely.

C. In addition to the aforesaid scope of authorization, it is proposed that the Chairperson is authorized to sign, negotiate, and change all contracts and documents relating to private placement of common shares on behalf of the Company, and to handle all necessary

matters regarding to private placement of common shares for the company.

Resolution:

VI. Extraordinary Motions

VII. Attachments

Phison Electronics Corporation

2017 Business Report

1. Business Policy and Implementation

In 2017, Phison Electronics Corp. was once again a bumper harvest due to the shortage of raw materials in the memory industry which led to the increase in prices of related products, and the growth of shipments on products for industrial applications, which drove the profit to hit the historical high record. In 2017, with the rapid growth of the global economy and the adoption of a neutral monetary policy of quantitative easing program in financial markets, Phison Electronics Corp. proactively deployed global markets based on its leading position in technology, and provided and solved customers' needs in a timely manner, which allowed Phison Electronics Corp. to achieve a historical record in the year of 2017, and to move toward the world's first place. With the concerted efforts of all groups, the total consolidated revenue for 2017 was approximately NT\$41.9 billion, the consolidated after-tax surplus earning was approximately NT\$5.8 billion, and the after-tax EPS was NT\$29.23. It has grown substantially, compared to year 2016.

In 2017, the company's SSD products and the related products of embedded memory, such as control chips and finished products accounted for 40% of the company's total revenue, marking a growth of 13 percent compared with the previous year, and actively developed UFS control chip, which is the best choice of high-performance embedded memory devices in the next generation. The R&D team also continued to invest in key IP development and process miniaturization, providing a more complete and updated product lineup and moving to a major industry milestone.

Thanks to the Internet of Things and intelligent application market, the construction of cloud computing big data center is rapidly pushing the penetration rate of ultra-high speed solid-state disk (SSD) into a rapid growth stage. Phison Electronics Corp. launched different NAND Flash control chips, based on different application markets within the SSD application market, including PCIe Gen 3x2 and Gen 3x4 NVMe specification control chips, which are leading products that enable Phison Electronics Corp. to snatch the mainstream application device market. In the high-end application/enterprise-level SSD application market, we have newly developed ultra-high-speed, low-latency 8-channel PCIe Gen3x4 controller chips and various SSD related products with different specifications. In embedded applications, Phison Electronics Corp, as one of the few industry leaders in the world that provides complete eMMC and UFS, will continue introducing mobile storage devices into new generations. A new control chip

supporting UFS2.1 is launched. This control chip was specially matched with Phison Electronics Corp's own technology, StrongECCTM, Advanced LDPC, and CoProcessorTM architecture, which not only provided low power consumption, but also demonstrated excellent error correction capabilities and SSD-like performance. In terms of memory cards, Phison Electronics Corp. released the latest control chips of SD/microSD card compatible SD 6.0 A2, which has the absolute advantage of high-speed random access, exceeds current industry specifications, and supports more competitive 3D TLC Nand Flash , aimed at high storage capacity application market. In the USB series, Phison Electronics Corp's latest portable SSD enables the highest performance external SSD. In addition, the new iDUO Lightning and C-Thru USB3.1 solutions allow users to simultaneously charge mobile phones or mobile devices while using high-speed storage devices.

Looking ahead to this (2018) year, the global economic recovery is still promising, and the memory industry will be bigger and bigger. Therefore, Phison Electronics Corp. will spare no effort in developing product technology and finding strategic partners to deepen the market. With competitiveness and continuous expansion of the market, the Company will stand firmly and maintain its leading position.

2. 2017 Business Results

(i) Description of business results:

1. Consolidated operating revenue:

The consolidated net operating revenue of the company for the year 2017 was NT\$41,864,759 thousand, which was a slight decrease of 4.38% compared with the year of 2016 of NT\$43,782,512 thousand.

2. Consolidated net profit after tax:

The consolidated net profit after tax of the company for the year 2017 was NT\$5,761,290 thousand, an increase of NT\$4,801,843 thousand, marking a growth of 19.98% compared with that of 2016.

(ii) Budget implementation: In the year of 2017, the Company did not disclose its financial forecasts, so it is not necessary to publicly disclose the implementation of the budget.

(iii) Financial balance and profitability analysis:

1. Consolidated operating revenue and expenditure:

Unit: Thousands of New Taiwan Dollars

Item	2017	2016	Increases (decreases)	Proportion of the changes (%)
Operating revenue	41,864,759	43,782,512	(1,917,753)	(4.38)
Gross profit	11,499,622	9,263,738	2,235,884	24.14
Net Operating Income	6,731,692	4,842,648	1,889,044	39.00
Non-operating income and expenses	(13,822)	634,278	(648,100)	(102.18)
Net profit after tax	5,761,290	4,801,843	959,447	19.98

2. Financial profitability of consolidated operation

Item		2017	2016
Financial structure	Liability to asset ratio (%)	25.82	28.08
	Long-term asset to real estate, plant and equipment ratio (%)	923.11	947.81
Debt-paying ability	Current ratio (%)	321.41	300.48
	Quick ratio (%)	240.85	241.07
	Interest coverage ratio (times)	1,349.70	2,668.77
Operation performance	Receivables turnover ratio (times)	7.95	9.48
	Average days of receipt (days)	45.91	38.50
	Inventory turnover ratio (times)	4.89	6.59
	Average sales days (days)	74.64	55.38
	Payables turnover ratio (times)	8.09	8.51
	PP&E turnover ratio (times)	15.95	21.55
	(multiples) Total asset turnover ratio (multiples)	1.25	1.45
Profitability	Return on assets (%)	17.18	15.91
	Return on equity attributable to owners of parent company (%)	23.49	22.05
	Ratio of income to paid-in capital (%)	341.58	245.73
	Ratio of pre-tax income to paid-in capital (%)	340.88	277.91
	Net income ratio (%)	13.76	10.97
	Basic earnings per share (NTD)	29.23	24.67
Cash flow	Cash flow ratio (%)	43.20	66.87
	Cash flow adequacy ratio (%)	98.37	123.62
	Cash re-investment ratio (%)	4.18	15.30
Leverage	Degree of operating leverage (DOL)	1.05	1.05
	Degree of financial leverage (DFL)	1.00	1.00

(iv) Overview of R&D

1. Research and development costs in the most recent two years:

The combined R&D expenses in 2017 and 2016 were NT\$3,713,829 thousand and NT\$3,218,183 thousand respectively, which accounted for 8.87% and 7.35% of the consolidated operating revenue respectively. As of fiscal year 2017, the company has obtained 1,343 patent approvals from various countries.

2. R & D results:

In fiscal year 2017, the following products have been successfully developed and launched, including:

- (1) Developed a lower power MIPI Gear 4 PHY as the host interface for the UFS Unipro flash memory controller chip.
- (2) The advanced process PCIe G3x4 and MIPI PHY were developed for better performance and energy efficient.
- (3) Developed the latest generation of LDPC+ DSP error correction module, which is able to more effectively support 3D Nand.
- (4) Developed USB3.1 flash disk that supports high speed random write.
- (5) Developed flash memory management core circuit modules to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption.
- (6) Developed the SD/microSD card with high random read/write performance which can be used to expand the built-in flash memory capacity of handheld devices.
- (7) Develop various control chips and solutions that support 3D Nand.

3. Based on the market demand trend, industry competition situation and the schedule of new product launching, the company's current product line for the new development or continuous upgrade in 2018 is as follows:

- (1) Develop high-capacity USB3.1 flash discs that support high-speed random writing.
- (2) Develop SD/microSD memory cards that support high-speed random writing.
- (3) Develop the latest generation of UFS flash memory control chips.
- (4) Develop flash memory management core circuit modules to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption.
- (5) Combine resources on the Host side to develop high-performance SSD that reduce overall power consumption.
- (6) For the SSD product line and built-in flash memory modules, we will continue to develop products with innovative specifications and technologies in conjunction with the application market.

- (7) Continuous development of SIP SSD.
- (8) Develop eMMC and SD cards that meet the vehicle specifications.

Phison Electronics Corp.

Khein Seng Pua, Chairperson

Cheek Kong Aw Yong, General Manager

Shu hua Chiu, Accounting Director

Supervisors' Review Report

The board of directors prepared the Company's 2017 Business Report and Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution, etc. Mr. Dai Xinwei and Mr. Fan Youwei, the independent auditors from the CPA firm of Deloitte & Touche audited the Financial Statements and have issued an audit report. Above Business Reports, Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution were audited by Supervisor and found no discrepancy, as reported in accordance with the Article 219 of the Company Act, Please check.

To

2018 Annual General Meeting of Shareholders

Phison Electronics Corp.

Supervisor: Yeong Jiunn Yang

Supervisor: Chiun Hsiou Chen

Supervisor: Huei Ming Wang

March 16, 2018

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA FOR THE YEAR ENDED DECEMBER 31, 2017

(In Thousands)

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	\$53,096 (US\$ 1,790)	Note 2	\$23,006 (US\$ 790)	\$30,090 (US\$ 1,000)	\$	\$53,096 (US\$ 1,790)	100.00	\$ (7,242)	\$23,805	\$
Hefei Core Storage Electronic Limited	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.	576,780 (US\$ 18,000)	Note 2	576,780 (US\$ 18,000)			576,780 (US\$ 18,000)	100.00	22,460	562,104	

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

Note 1: Indirectly invested in a China-based company through a third-region company, Global Flash Limited and 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 \$26,058,315 x 60% or \$15,634,989.

The comparison table of amended Rules of Procedure for Meetings of Board of Directors

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
Article 12	<p>The following matters should be discussed by the board of directors of the company:</p> <ol style="list-style-type: none"> 1. The Company's operating plan. 2. Annual financial report and quarterly financial report. 3. Adoption or <u>correction</u> of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act. 4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements or guarantees for others. 5. Offering, issuance, or private placement of any equity-type securities. 6. Appointment or discharge of a financial, accounting, or internal audit officer. 7. A donation to a related party or a major donation to a non-related party, 	Article 12	<p>The following matters should be discussed by the board of directors of the company:</p> <ol style="list-style-type: none"> 1. The company's operating plan. 2. Annual <u>and semi-annual financial reports.</u> <u>Semi-annual financial reports which, under relevant laws and regulations, need not be audited and attested by a certified public accountant (CPA).</u> 3. Adoption or <u>amendment</u> of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act, <u>and assessment of the effectiveness of the internal control system.</u> 4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements or guarantees for others. 5. Offering, issuance, or private placement of any equity-type securities. 	<p>Pursuant to the Order Jin-Guan-Zheng-Fa No. 1060027112 issued by the Financial Supervisory Commission on July 28, 2017 and the operational needs of the company, the Rules need to be amended.</p>

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	<p>provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.</p> <p>8. Any matter that, under Article 14-3 of the Act, any other law, or regulation must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term related party in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers; the term major donation to a non-related party means any individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NT\$100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term within a 1-year</p>		<p>6. Appointment or discharge of a financial, accounting, or internal audit officer.</p> <p>7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.</p> <p>8. Any matter that, under Article 14-3 of the Act or any other law, regulation, or bylaw, must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.</p> <p>The term related party in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers. The term major donation to a non-related party means any individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NT\$100 million or more, or at an amount equal to or greater than 1 percent of net operating</p>	

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
	<p>period in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p>Each independent director shall attend in person any meeting concerning a matter that requires a resolution by the board of directors under <u>Article 14-3 of the Act</u>, or shall appoint another independent director to attend as his or her proxy. If independent directors have opposing or reserved opinions, these opinions shall be recorded in the Board meeting records; if independent directors cannot personally attend Board meeting to express their opposing or reserved opinion, they shall give a written opinion before the meeting unless they have an appropriate reason and the opinion shall be recorded in the Board meeting records.</p>		<p>revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.</p> <p>The term within a 1-year period in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.</p> <p><u>At least one independent director shall attend in person any meeting of the Board. With respect to a matter prescribed in Paragraph 1 that must be approved by resolution at a Board meeting, all independent directors shall attend the meeting in person or appoint another independent director to attend the meeting as a proxy. If independent directors have opposing or reserved opinions, these opinions shall be recorded in the Board meeting records; if independent directors cannot personally attend Board meeting to express their opposing or reserved opinion, they shall give a</u></p>	

Current Article		Article after the amendment		Description of amendment
Article	Content	Article	Content	
			written opinion before the meeting unless they have an appropriate reason and the opinion shall be recorded in the Board meeting records.	

2017 Annual Financial Statements

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, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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 2017 are stated as follows:

Sales Revenue Recognition

The operating revenue, in New Taiwan dollars ("NT\$"), of the Corporation amounted to NT\$41,773,532 thousand. 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 main 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.
4. Sent out confirmation letter to top ten customers in order to verify the occurrence of sales revenue.

Impairment on Inventories

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

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

1. Understood and tested the inventory impairment assessment and the design and implementation of relevant internal controls.
2. Understood the assumption that the management used for the estimation of impairment on inventories and evaluated the reasonableness of the methodology.
3. Obtained the lower of inventory cost and net realizable value assessment data which is prepared by the management and verified the aging profile in order to evaluate whether it is consistent with the allowance for obsolete inventory. Checked whether the forecasted pricing data is consistent with the most recent sales data. Tested the accuracy of the allowance for inventory valuation and obsolescence loss by recalculation using the aforementioned assumption for inventory impairment estimation and the assessment data of the lower of cost and net realizable value.
4. Participated in year-end inventory count in order to assess the appropriateness of the allowance for inventory valuation and obsolescence loss.

Matter of Emphasis

As stated in Note 33 to the accompanying financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutorial Office and concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutorial Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code, the prosecutor charged the chairman of the Corporation, Mr. Khein Seng Pua, and others culminating in either deferred prosecution or

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

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, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2018

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, 2017 AND 2016

(In Thousands of New Taiwan Dollars)

ASSETS	2017		2016	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	\$ 12,754,576	37	\$ 13,552,188	43
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 27)	1,171,056	3	1,126,910	4
Debt investments with no active market - current (Notes 4, 8 and 30)	20,549	-	21,793	-
Notes and accounts receivable				
Third parties (Notes 4 and 9)	5,307,499	15	4,401,667	14
Related parties (Notes 4, 9 and 28)	336,042	1	363,065	1
Other receivables (Note 9)	266,475	1	367,720	1
Inventories (Notes 4 and 10)	7,186,003	21	5,220,905	17
Prepayments	27,446	-	66,693	-
Other current assets	6,489	-	7,229	-
Total current assets	27,076,135	78	25,128,170	80
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4 and 11)	434,763	1	372,051	1
Financial assets measured at cost - non-current (Notes 4 and 12)	447,416	1	501,187	1
Investments accounted for by the equity method (Notes 4 and 13)	3,307,982	10	2,594,470	8
Property, plant and equipment (Notes 4 and 14)	2,793,102	8	2,392,803	8
Intangible assets (Notes 4 and 15)	212,108	1	217,763	1
Deferred tax assets (Notes 4 and 21)	304,835	1	218,523	1
Guarantee deposits paid	1,371	-	1,544	-
Total non-current assets	7,501,577	22	6,298,341	20
TOTAL	\$ 34,577,712	100	\$ 31,426,511	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	\$ -	-	\$ 580,500	2
Notes and accounts payable				
Third parties	1,081,013	3	1,734,372	6
Related parties (Note 28)	2,565,726	8	2,123,721	7
Other payables (Note 17)	3,246,454	9	2,662,812	8
Tax payable (Notes 4 and 21)	1,090,947	3	729,492	2
Provisions (Notes 4 and 18)	292,081	1	344,076	1
Other current liabilities	157,746	1	185,420	1
Total current liabilities	8,433,967	25	8,360,393	27
NON-CURRENT LIABILITIES				
Net defined benefit liabilities - non-current (Notes 4 and 19)	84,897	-	72,725	-
Guarantee deposits received	533	-	568	-
Total non-current liabilities	85,430	-	73,293	-
Total liabilities	8,519,397	25	8,433,686	27
EQUITY (Notes 20 and 23)				
Share capital				
Common shares	1,970,740	6	1,970,740	6
Capital surplus	6,660,502	19	6,652,449	21
Retained earnings				
Legal reserve	2,842,806	8	2,356,107	8
Special reserve	25,965	-	111,358	-
Unappropriated earnings	14,521,886	42	11,928,136	38
Total retained earnings	17,390,657	50	14,395,601	46
Other equity	36,416	-	(25,965)	-
Total equity	26,058,315	75	22,992,825	73
TOTAL	\$ 34,577,712	100	\$ 31,426,511	100

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

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

PHISON ELECTRONICS CORP.

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

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 28)				
Gross sales	\$ 42,068,216	101	\$ 44,200,297	101
Less: Sales returns and allowances	<u>432,902</u>	<u>1</u>	<u>587,201</u>	<u>1</u>
Net sales	41,635,314	100	43,613,096	100
Other operating revenue	<u>138,218</u>	<u>-</u>	<u>65,451</u>	<u>-</u>
Total operating revenue	41,773,532	100	43,678,547	100
OPERATING COSTS (Notes 4, 10, 22 and 28)	<u>30,324,437</u>	<u>73</u>	<u>34,471,226</u>	<u>79</u>
GROSS PROFIT	<u>11,449,095</u>	<u>27</u>	<u>9,207,321</u>	<u>21</u>
OPERATING EXPENSES (Notes 22)				
Marketing	529,936	1	675,116	2
General and administrative	476,329	1	473,374	1
Research and development	<u>3,719,729</u>	<u>9</u>	<u>3,142,385</u>	<u>7</u>
Total operating expenses	<u>4,725,994</u>	<u>11</u>	<u>4,290,875</u>	<u>10</u>
OPERATING INCOME	<u>6,723,101</u>	<u>16</u>	<u>4,916,446</u>	<u>11</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 22)	(510,793)	(1)	83,960	-
Share of gains of subsidiaries and associates (Notes 4 and 13)	416,073	1	418,925	1
Other income (Note 22)	89,805	-	114,920	1
Financial costs	<u>(4,981)</u>	<u>-</u>	<u>(2,053)</u>	<u>-</u>
Total nonoperating income and expenses	<u>(9,896)</u>	<u>-</u>	<u>615,752</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	6,713,205	16	5,532,198	13
INCOME TAX EXPENSE (Notes 4 and 21)	<u>952,233</u>	<u>2</u>	<u>665,206</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>5,760,972</u>	<u>14</u>	<u>4,866,992</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, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
Remeasurement of defined benefit plan	(8,288)	-	(2,475)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 21)	1,408	-	421	-
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive loss of subsidiaries and associates	(392)	-	(48,443)	-
Unrealized gain on available-for-sale financial assets	62,712	-	125,601	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 21)	<u>61</u>	<u>-</u>	<u>8,235</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>55,501</u>	<u>-</u>	<u>83,339</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 5,816,473</u>	<u>14</u>	<u>\$ 4,950,331</u>	<u>11</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 23)				
Basic	<u>\$ 29.23</u>		<u>\$ 24.67</u>	
Diluted	<u>\$ 28.83</u>		<u>\$ 24.35</u>	

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

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

(Concluded)

PHISON ELECTRONICS CORP.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(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, 2016	\$ 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)
Actual disposal or acquisition of interests in subsidiaries	-	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
Appropriation of the 2016 earnings									
Legal reserve	-	-	486,699	-	(486,699)	-	-	-	-
Reversal from special reserve	-	-	-	(85,393)	85,393	-	-	-	-
Cash dividends - NT\$14 per share	-	-	-	-	(2,759,036)	-	-	-	(2,759,036)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	10,739	-	-	-	-	-	-	10,739
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)
Net profit for the year ended December 31, 2017	-	-	-	-	5,760,972	-	-	-	5,760,972
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,880)	(331)	62,712	-	55,501
BALANCE AT DECEMBER 31, 2017	\$ 1,970,740	\$ 6,660,502	\$ 2,842,806	\$ 25,965	\$ 14,521,886	\$ (67,147)	\$ 103,563	\$ -	\$ 26,058,315

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

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

PHISON ELECTRONICS CORP.

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 6,713,205	\$ 5,532,198
Adjustments for:		
Recognition of provisions	238,449	408,268
Depreciation	156,455	118,860
Amortization	163,653	121,189
Allowance for bad debts	24,522	123,645
Net loss on foreign currency exchange	205,687	128,819
Dividend income	(29,947)	(38,867)
Interest income	(38,504)	(32,490)
Inventory write-downs	19,396	8,598
Impairment loss recognized on financial assets	147,890	65,880
Share of gains of subsidiaries and associates	(416,073)	(418,925)
Financial costs	4,981	2,053
Other non-cash items	1,163	-
Gains on disposal of property, plant and equipment	-	(41)
Gains on deconsolidation of subsidiaries	-	(45,649)
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	5,529	15,236
Notes and accounts receivable	(851,863)	(596,289)
Other receivables	104,867	(19,939)
Inventories	(1,984,494)	21,322
Prepayments	38,375	(34,434)
Other current assets	740	11,437
Notes and accounts payable	(187,539)	(421,488)
Other payables	593,813	820,726
Provisions	(290,444)	(214,044)
Other current liabilities	(27,674)	20,526
Net defined benefit liability	3,883	3,348
Cash generated from operations	4,596,070	5,579,939
Interest paid	(5,385)	(1,709)
Income tax paid	(675,621)	(645,016)
Net cash generated from operating activities	<u>3,915,064</u>	<u>4,933,214</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Purchase) disposal of financial assets designated as at fair value through profit or loss	(49,675)	1,043,527
Purchase of investments accounted for by the equity method	(289,778)	(137,210)
Proceeds of the capital reduction of available-for-sale financial assets	-	49,500
Purchase of financial assets measured at cost	(100,889)	(110,990)
Payments for intangible assets	(157,998)	(166,401)
Payments for property, plant and equipment	(557,045)	(879,499)
Dividends received	29,947	38,867
Interest received	38,087	34,763

(Continued)

PHISON ELECTRONICS CORP.

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

	2017	2016
Proceeds from sale of financial assets measured at cost	6,770	-
Proceeds from disposal of property, plant and equipment	-	41
Decrease (increase) in refundable deposits	173	(12)
Decrease (increase) in debt investments with no active market	<u>1,244</u>	<u>(1,385)</u>
Net cash used in investing activities	<u>(1,079,164)</u>	<u>(128,799)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(2,759,036)	(2,368,488)
(Decrease) increase short-term borrowings	(580,500)	380,386
Decrease in guarantee deposits	(35)	-
Purchase of treasury shares	<u>-</u>	<u>(64,722)</u>
Net cash used in financing activities	<u>(3,339,571)</u>	<u>(2,052,824)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>(293,941)</u>	<u>(32,566)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(797,612)	2,719,025
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
	<u>13,552,188</u>	<u>10,833,163</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 12,754,576</u>	<u>\$ 13,552,188</u>

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

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

(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, 2017 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 “Consolidated Financial Statements.” Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

PHISON ELECTRONICS CORP.

By

KHEIN SENG PUA
Chairman

March 16, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Sales Revenue Recognition

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

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

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

Impairment on Inventories

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

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

1. Understood and tested the inventory impairment assessment and the design and implementation of relevant internal controls.
2. Understood the assumption that the management used for the estimation of impairment on inventories and evaluated the reasonableness of the methodology.
3. Obtained the lower of inventory cost and net realizable value assessment data which is prepared by the management and verified the aging profile in order to evaluate whether it is consistent with the allowance for obsolete inventory. Checked whether the forecasted pricing data is consistent with the most recent sales data. Tested the accuracy of the allowance for inventory valuation and obsolescence loss by recalculation using the aforementioned assumption for inventory impairment estimation and the assessment data of the lower of cost and net realizable value.
4. Participated in year-end inventory count in order to assess the appropriateness of the allowance for inventory valuation and obsolescence loss.

Matter of Emphasis

As stated in Note 34 to the accompanying consolidated financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutorial Office and concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutorial Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code, the prosecutor charged the chairman of the Corporation, Mr. Khein Seng Pua, and others culminating in either deferred prosecution or dropping the claim for further prosecution. The Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Court Prosecutorial Office against the chairman of the Corporation, Mr. Khein Seng Pua, and others, the case is under re-investigation. As such, our opinion is not modified in respect of this matter.

Other Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2018

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

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

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 4 and 29)				
Gross sales	\$ 42,115,942	101	\$ 44,270,298	101
Less: Sales returns and allowances	<u>425,229</u>	<u>1</u>	<u>588,015</u>	<u>1</u>
Net sales	41,690,713	100	43,682,283	100
Other operating revenue	<u>174,046</u>	<u>-</u>	<u>100,229</u>	<u>-</u>
Total operating revenue	41,864,759	100	43,782,512	100
OPERATING COSTS (Notes 4, 10, 23 and 29)	<u>30,365,137</u>	<u>73</u>	<u>34,518,774</u>	<u>79</u>
GROSS PROFIT	<u>11,499,622</u>	<u>27</u>	<u>9,263,738</u>	<u>21</u>
OPERATING EXPENSES (Notes 23 and 29)				
Marketing	531,728	1	684,999	2
General and administrative	522,373	1	517,908	1
Research and development	<u>3,713,829</u>	<u>9</u>	<u>3,218,183</u>	<u>7</u>
Total operating expenses	<u>4,767,930</u>	<u>11</u>	<u>4,421,090</u>	<u>10</u>
OPERATING INCOME	<u>6,731,692</u>	<u>16</u>	<u>4,842,648</u>	<u>11</u>
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 23)	(571,886)	(1)	16,158	-
Share of gains of associates (Note 14)	442,368	1	459,309	1
Other income (Note 23)	120,677	-	160,864	1
Financial costs	<u>(4,981)</u>	<u>-</u>	<u>(2,053)</u>	<u>-</u>
Total nonoperating income and expenses	<u>(13,822)</u>	<u>-</u>	<u>634,278</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	6,717,870	16	5,476,926	13
INCOME TAX EXPENSE (Notes 4 and 22)	<u>956,580</u>	<u>2</u>	<u>675,083</u>	<u>2</u>
NET PROFIT FOR THE YEAR	<u>5,761,290</u>	<u>14</u>	<u>4,801,843</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:				
Remeasurement of defined benefit plan	(8,288)	-	(2,475)	-

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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

	2017		2016	
	Amount	%	Amount	%
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 22)	1,408	-	421	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	1,516	-	(48,919)	-
Unrealized gain on available-for-sale financial assets	62,712	-	125,601	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 22)	<u>61</u>	<u>-</u>	<u>8,235</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>57,409</u>	<u>-</u>	<u>82,863</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 5,818,699</u>	<u>14</u>	<u>\$ 4,884,706</u>	<u>11</u>
NET PROFIT (LOSS) ATTRIBUTED TO:				
Owners of the Corporation	\$ 5,760,972	14	\$ 4,866,992	11
Non-controlling interests	<u>318</u>	<u>-</u>	<u>(65,149)</u>	<u>-</u>
	<u>\$ 5,761,290</u>	<u>14</u>	<u>\$ 4,801,843</u>	<u>11</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTED TO:				
Owners of the Corporation	\$ 5,816,473	14	\$ 4,950,331	11
Non-controlling interests	<u>2,226</u>	<u>-</u>	<u>(65,625)</u>	<u>-</u>
	<u>\$ 5,818,699</u>	<u>14</u>	<u>\$ 4,884,706</u>	<u>11</u>
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 24)				
Basic	<u>\$ 29.23</u>		<u>\$ 24.67</u>	
Diluted	<u>\$ 28.83</u>		<u>\$ 24.35</u>	

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

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

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

	Equity Attributable to the Corporation					Other Equity		Treasury Shares	Total	Non-controlling Interests	Total Equity
	Common Shares	Capital Surplus	Retained Earnings		Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets				
			Legal Reserve	Special Reserve							
BALANCE AT JANUARY 1, 2016 (AUDITED AFTER RESTATED)	\$ 1,973,740	\$ 6,514,569	\$ 1,956,106	\$ 5,056	\$ 9,990,216	\$ (26,608)	\$ (84,750)	\$ -	\$ 20,328,329	\$ 221,533	\$ 20,549,862
Appropriation of the 2015 earnings											
Legal reserve	-	-	400,001	-	(400,001)	-	-	-	-	-	-
Special reserve	-	-	-	106,302	(106,302)	-	-	-	-	-	-
Cash dividends - NT\$12 per share	-	-	-	-	(2,368,488)	-	-	-	(2,368,488)	-	(2,368,488)
Non-controlling interests	-	-	-	-	-	-	-	-	-	4,577	4,577
Deconsolidation of subsidiaries	-	-	-	-	-	-	-	-	-	(7,710)	(7,710)
Actual disposal or acquisition of interests in subsidiaries	-	147,375	-	-	-	-	-	-	147,375	(147,375)	-
Treasury shares	-	-	-	-	-	-	-	(64,722)	(64,722)	-	(64,722)
Cancelation of treasury shares	(3,000)	(9,495)	-	-	(52,227)	-	-	64,722	-	-	-
Net profit (loss) for the year ended December 31, 2016	-	-	-	-	4,866,992	-	-	-	4,866,992	(65,149)	4,801,843
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(2,054)	(40,208)	125,601	-	83,339	(476)	82,863
BALANCE AT DECEMBER 31, 2016	1,970,740	6,652,449	2,356,107	111,358	11,928,136	(66,816)	40,851	-	22,992,825	5,400	22,998,225
Appropriation of the 2016 earnings											
Legal reserve	-	-	486,699	-	(486,699)	-	-	-	-	-	-
Reversal from special reserve	-	-	-	(85,393)	85,393	-	-	-	-	-	-
Cash dividends - NT\$14per share	-	-	-	-	(2,759,036)	-	-	-	(2,759,036)	-	(2,759,036)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	10,739	-	-	-	-	-	-	10,739	-	10,739
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)	-	(2,686)
Non-controlling interests	-	-	-	-	-	-	-	-	-	(7,626)	(7,626)
Net profit for the year ended December 31, 2017	-	-	-	-	5,760,972	-	-	-	5,760,972	318	5,761,290
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,880)	(331)	62,712	-	55,501	1,908	57,409
BALANCE AT DECEMBER 31, 2017	\$ 1,970,740	\$ 6,660,502	\$ 2,842,806	\$ 25,965	\$ 14,521,886	\$ (67,147)	\$ 103,563	\$ -	\$ 26,058,315	\$ -	\$ 26,058,315

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

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

(Concluded)

VIII. Appendices

Appendix 1

Phison Electronics Corporation Rules of Procedure for Shareholders' Meeting

Article 1: The company's shareholder's meeting shall be conducted in accordance with the Rules. The items which are not regulated in the Rules shall be processed in accordance with the relevant provisions of the Company Act and the Articles of Association of Company.

Article 2: Attending shareholders or their agents are required to wear an attendance card and to submit attendance cards in lieu of signing in. The number of shares represented by Shareholders attending the meeting shall be calculated in accordance with the number of attendance cards submitted by Shareholders and the number of shares held by shareholders who are permitted to exercise voting rights in electronic form.

Article 3: Shareholders' meeting shall convene at the Company's registered office or a place convenient to attend and suitable for meeting; the meeting shall be called no earlier than 9 a.m. and no later than than 3 p.m.

Article 4: The Company may appoint its attorneys, certified public accountants, or related persons to attend the shareholders' Meeting.

Staff handling administrative affairs of the Annual General Shareholders' Meeting shall wear identification cards or arm bands.

Article 5: Entire proceedings of shareholders' meeting shall be recorded on audio or video tape and preserved for at least 1 year.

Article 6: When a majority of the shareholders present, who represent more than one-half of the total number of voting shares, the meeting chairperson shall call the 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 meeting chairperson may

postpone the time for the meeting. The postponements shall be limited to two times at most, and the 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 present in person or by proxy and entitled to vote, a tentative resolution may be passed in accordance with Article of 175 of the Company Act. During the execution of a tentative resolution, 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, the meeting chairperson may put the tentative resolutions already passed to the Shareholders' resolution again in accordance with Article 174 of the Company Act Applicable Listing Rules.

Article 7: If a shareholder meeting is convened by the board of directors, the board of directors shall decide the proceedings and the meeting shall be conducted accordingly; no changes may be made except with the resolution of the shareholder meeting.

The preceding paragraph applies to circumstances where the shareholder's meeting is convened by any person, who is outside the board of directors but having the convening right.

Prior to conclusion of the preceding two agenda items (including extraordinary motions) , the meeting chairperson may not declare the meeting adjourned without a resolution.

After a meeting closed, shareholders may not elect another meeting chairperson to continue the proceeding of the meeting at the same or a new place, provided that, if the meeting chairperson declares the adjournment of the meeting in a manner in violation of rules governing the proceedings of meetings, a new meeting chairperson may be elected by a resolution to be adopted by a majority of the voting rights represented by the shareholders attending the said meeting to continue the proceeding of the meeting.

Article 7-1: Shareholders holding 1% or more of the total number of outstanding shares of the Company may submit a written proposal to the Company for discussion at a general shareholders' meeting.

Prior to the book closure date before a 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.

If the proposal of a shareholder is approved by the board of directors and that it is not involved in any following circumstances, it shall be listed in the notice of the meeting of the shareholders' general meeting:

1. Where the subject (the issue) of the said proposal cannot be settled or resolved by a resolution to be adopted at a meeting of shareholders
2. Where the number of shares of held by shareholders 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 in the general shareholder's meeting.
3. Where the said proposal is submitted on the day beyond the deadline fixed and announced by the Company.
4. The proposals submitted by the proposing shareholders exceed one item, or more than 300 words (including punctuation), or were not submitted in a writing format.

The Company shall, prior to preparing and delivering the shareholders' meeting notice, inform the shareholders who have raised proposals the result of the evaluation. The board of directors shall list the proposals which are not included in the agenda, on the general shareholders' meeting's handbook and explain the reasons for excluding those proposals from the agenda. These reasons are not included in the agenda or in the meeting minutes.

Article 8 When a shareholder meeting is convened by the board of directors, the Chairperson shall preside over the meeting. If the Chairperson is on leave or unable to attend the meeting, the vice chairperson shall chair the meeting. If there is no vice chairperson or the vice chairperson is also on leave or unable to attend, the Chairperson shall designate a managing director to chair the meeting. If there is no managing director, a director shall be designated, If the Chairperson fails to designate a director, directors and the managing director shall elect one person from among them to chair the meeting. When shareholders' meeting is convened by other person who is outside the board of directors but having the convening right, such person shall act as the meeting chairperson at that meeting.

Article 9: During the meeting, the meeting chairperson may declare a break according to his or her judgment.

Article 10: No discussion or vote for non-proposals During the discussion of proposals, the meeting chairperson may announce that the discussion shall be terminated at an appropriate timing and may, if necessary, make an announcement of the suspension of 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), name of the shareholder and the current shareholding. The sequence of speeches shall be determined by the meeting chairperson.

Article 12: Shareholders' speeches, each person (including natural persons and legal persons) shall be limited to five minutes. However, with the permission of the meeting chairperson, it may be extended once. In the same proposal, each person (including natural persons and legal persons) shall not speak more than twice. When the legal person is appointed to attend as proxy, it may designate only one person to represent the shareholder in the meeting. When a juristic person shareholder appoints two or more representatives to attend a shareholders' meeting, only one of the representatives so appointed

may speak on the same proposal.

Article 13: In the wake of shareholder's speech, the meeting chairperson of the meeting may answer in person or designate relevant personnel to answer.

Article 14: When the speech of any shareholder is too long or outside the scope of the agenda item, the meeting chairperson may stop their speech. The meeting chairperson may command shareholders who disobey the meeting chairperson's correction and impede the process of the meeting to leave the meeting venue.

Article 15: As the meeting chairperson announced that the discussed proposal shall be terminated or suspended, the chairman may submit them for a vote.

Article 16: Except as otherwise provided in the Company Act and in the Company's Articles of Association, the resolution of a proposal shall require an affirmative vote of a majority of the voting rights represented by the attending shareholders. A proposal is deemed to have passed when no attending shareholders gave the dissents after being inquired by the meeting chairperson and the effect thereof is the same as a vote.

Article 17: Vote monitoring and counting personnel for the voting on a proposal shall be appointed by the meeting chairperson, provided that all monitoring personnel shall be shareholders of the Company. The results of the voting shall be announced on-site at the meeting, and the records shall be made.

Article 18: In the event amendments or substitutions are provided for in the same proposal, the meeting chairperson may decide the order of the vote including the original proposal. When any one among them is passed, the other proposals will then be deemed rejected and no further voting shall be required.

When the written proposal of a shareholder, pursuant to the Article 172-1 of the Company Act, is included in the agenda of the general shareholders' meeting, and if the type of the proposal is similar to the

one already proposed by the board of directors, these proposal submissions shall be combined and processed in accordance with the provisions of the preceding paragraph.

The order of the discussion of each proposal brought up in extraordinary motion and the order of the vote shall be decided by the meeting chairperson.

Article 19: The meeting chairperson may command inspector (or security personnel) to maintain order of meeting place. The inspector (or security officer) shall wear an arm-band with the word "inspector".

Article 20: During the meeting, in the event of an air alarm, the meeting shall be suspended and the evacuation will be conducted. One hour after the alarm is lifted, the meeting will resume.

Article 21: These rules shall take effect after approval by the shareholder meeting and the same procedure shall apply when they are amended.

Article 22: This rule is made on March 26, 2003.

The first amendment was made on June 14, 2006.

The second amendment was made on June 13, 2017.

Articles of Association of Phison Electronics Corporation

Chapter I General Provisions

Article 1: The Company is organized according to the Company Act under the name of Phison Electronics Corp.

Article 2: The Company's businesses are listed as below:

- (i) CC01080 Electronic Parts and Components Manufacturing
- (ii) I301010 Software Design Services
- (iii) F218010 Retail Sale of Computer Software
- (iv) F119010 Wholesale of Electronic Materials
- (v) F219010 Retail Sale of Electronic Materials
- (vi) CE01030 Photographic and Optical Equipment Manufacturingg
- (vii) CC01120 Data Storage Media Manufacturing and Duplicating
- (viii) I501010 Product Designing
- (ix) F401010 International Trade
- (x) ZZ99999 All business items that are not prohibited or restricted by law, except those that are subject to special approval.

Article 2-1: The Company provides external guarantees for its business needs, and its procedures are in accordance with the Company's Principle of Endorsement and Guarantees.

Article 2-2: The total reinvestment of the Company shall not be limited to less than 40 percent of its paid-up capital as provided in Article 13 of the Company Act.

Article 3: The Company set up its headquarters in HsinChu County. If necessary, it may set up branch offices domestically or abroad with a resolution by the board of directors.

Article 4: (Deleted).

Chapter II Shares

Article 5: The total capital of the company is rated at NT\$2.8 billion, divided into 280 million shares, and the amount per share is NT\$10, of which no shares are issued and the board of directors is authorized to issue shares on a separate basis.

In the first total capital, NT\$160 million was reserved, and the shares were divided into 16 million shares at par value of NT\$10 per share, which is for the issuance of employees' share subscription warrants in order to exercise the subscription right. It shall be issued separately based on the resolution of the board of directors.

Article 6: (Deleted).

Article 7 The Company's stock are all registered share certificates and shall be signed or stamped by three or more directors, recorded, and issued after it is legally registered. For the new shares to be issued by the Company offering its shares to the public, the Company may print a consolidated share certificate representing the total number of the new shares to be issued at the same time of issue and may be exempted from printing any share certificate for the shares issued. The Corporation may be exempted from printing any stock certificate for the shares issued. However, the Corporation shall appoint a centralized securities custody enterprise/institution to make registration of such shares.

Article 8: The registration of stock transfer, shall be halted within 60 days prior to the convening date of a regular shareholders' meeting, or within 30 days prior to the convening date of a special shareholders' meeting, or within 5 days prior to the record date fixed by the Company for distribution of dividends, bonus or other benefits.

The period of the preceding paragraph shall be counted from the date of the meeting or the record date.

Article 8-1: The Company's shareholder services are performed according to "Regulations Governing the Administration of Shareholder Services of Public Companies" by competent authority.

Chapter III Shareholders' Meeting

Article 9: Shareholders' meeting can be divided into regular meetings and special meetings. Regular meetings are convened once a year, and usually within six months of the end of each fiscal year. The regular meeting is convened by the board of directors according to the law. Interim meetings may be convened according to the law when necessary.

Article 10: If a shareholder cannot attend a Shareholders Meeting for any reason, it may designate another person to represent it by submitting a proxy that is

printed by the Company, specifying the scope of authorization. Shareholders' attendance by designated representatives shall be handled in accordance with Article 177 of the Company Act as well as the "Regulations Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies" promulgated by the governing authorities.

Article 11: A shareholder of the Company shall be entitled to one vote for each share held, except in the circumstances set forth in paragraph 3, article 157 and article 179 of the Company Act.

Article 11-1: Shareholders's Meeting shall be convened by the board of directors and chaired by the Chairperson of the Board. When the Chairperson of the Board is on leave, the Chairperson shall appoint one of the directors to act as meeting chairperson, or, if there are no appointment , one of the directors shall be selected from among themselves to act as meeting chairperson. If a shareholders' meeting is convened by a rightful person outside the board of directors, the person convening the meeting shall chair the meeting. When there are two or more conveners, a meeting chairperson shall be elected between them.

Article 12: Unless otherwise stated in the Company Act, any resolution made by the Shareholders Meeting shall be made during a Shareholders Meeting attended by more than half of all shares and passed by the majority of voting rights in attendance.

Article 12-1: The Company shall inform each Director and Supervisor seven days prior to a Board meeting, and in case of emergency, the Company may call the board of directors to a meeting at any time. The Company's board of directors was convened in writing, e-mail, or fax method.

Chapter IV: Directors and Supervisors

Article 13: The Company appoints seven to eleven directors and three supervisors under candidates nomination system. The term of directors and supervisor shall be three years. Directors and supervisors are elected from the list of candidates and may be eligible for re-election.

The total sum of all bearer shares held by all directors and supervisors shall not be less than that as regulated in "Rules and Review Procedures for Director and Supervisor Share Ownership Ratios at Public

Companies" from the regulatory authority.

Article 13-1: In the aforementioned quota of directors of the Company, the number of independent directors shall be at least two and not less than one-fifth, which are elected from the list of candidates of independent directors in the shareholders' meeting under the candidate nomination system.

In accordance with the relevant regulations of the competent authority, the professional qualifications, shareholding, prohibition on positions held at other companies, nomination and selection process and other matters of the Company's Independent Directors, are processed under relevant legal regulations.

Article 13-2: The Company's board of directors decides whether to set up an audit committee. If the audit committee is set up upon resolution, this Articles of Association regarding the supervisor shall not be applied during the term of the audit committee.

The composition, the scope of duties and power, rules of procedure, and other compliance matters of the audit committee of the company shall be in accordance with the relevant regulations of the competent authority.

Article 14: The board of directors is formed by the directors. The Chairperson, who is to represent the Company externally, is elected by a majority voting of the directors present at a meeting of its board of directors attended by two-thirds or more of the directors of the Company

Article 15: In case the Chairperson of the board of directors is on leave or absent or cannot exercise his power and authority for any cause, his representative shall be selected according to Article 208 of the Company Act. The board of directors shall be convened by the Chairperson of the board of directors. The conduct of the board of directors shall be conducted in accordance with the "Rules of Procedure for Meetings of Board of Directors" of the company.

Directors should attend the board of directors in person. If the board of directors takes the video conference, the director's participation in the video conference is regarded as personal in person. In case a director cannot attend a Board meeting in person, he/she may appoint another Director to attend in his/her behalf, he/she shall, in each time, issue a written proxy and state therein the scope of authority with reference to

the subjects to be discussed at the meeting. A director may accept the appointment to act as the proxy referred to in the preceding Paragraph of one other Director only.

Article 16: Compensations for the Chairperson, directors and supervisors of the Company shall be determined by the board of directors according the involvement and contribution of each director, with reference to the industry standards.

The Company shall purchase liability insurance for its Directors and Supervisors for carrying out the scope of their responsibilities during the terms of office for said Directors and Supervisors.

Chapter V Manager

Article 17 This Company may have managers and their appointment, dismissal and remuneration shall be conducted in accordance with Article 29 of the Company Act.

Chapter VI Accounting

Article 18: At the close of each fiscal year of the Company, the board of directors shall prepare, 1) business report, 2) financial statement and 3) the surplus earning distribution or loss off-setting proposal, etc., and shall forward the same to supervisors for their auditing not later than the 30th day prior to the meeting date of a general meeting of shareholders and subsequently submit them to the meeting of shareholders for its ratification.

Article 19: If the company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and supervisors' compensations." but the Company shall reserve a portion of profit to make up for accumulated losses, if any.

Employee's remuneration may be distributed in shares or cash, and the counterparty to whom shares or cash are distributed to as employee's remuneration may include the employees of its subordinate companies that meet certain criteria. Compensation of directors shall be paid in cash. The term "profit" as mentioned in the first paragraph refers to "pre-tax profits before deducting the distributed employees and directors' remuneration.

Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of attending directors approve. The remuneration resolution shall be reported in the annual general meeting.

Article 19-1: If the company's annual final accounts have net profit after tax for this period, the accumulated losses should be made up first, 10% of which is appropriated as legal reserve; however, the occasion when the legal reserve has reached the total paid-in capital of the company is excluded. And according to law or the competent authority to appropriate or reverse special reserves. The remaining surplus, together with unappropriated retained earnings would be reversed appropriately by the board of directors based on actual operating conditions, and then a proposal for surplus distribution will be formulated and subsequently be submitted to the meeting of shareholders for its ratification.

The company's dividend distribution policy shall consider the company's current and future investment environment, capital demands, domestic and foreign competition situations and capital budgets, in order to safeguard the shareholders' interests, balance dividend and cater the long-term financial plan. On an annual basis, the Board of Directors will formulate a distribution plan, and report it to the shareholders' meeting. The dividend distribution of the shareholders of the Company can be distributed in cash or shares, in which the proportion of shareholders' cash dividend distribution is not less than 10% of the total dividends of the shareholders.

Chapter VII Supplementary Provisions

Article 20: Any matters not prescribed in the Articles, if any, shall be conducted in accordance with the provisions of the Company Act.

Article 21: The Articles were established on October 24, 2000.

The first amendment was made on November 21, 2000

The second amendment was made on September 5, 2001

The third amendment was made on February 15, 2002

The fourth amendment was made on April 9, 2002

The fifth amendment was made on June 25, 2002

The sixth amendment was made on March 26, 2003

The seventh amendment was made on November 12, 2003
The eighth amendment was made on June 15, 2004
The ninth amendment was made on March 17, 2005
The tenth amendment was made on June 16, 2005
The eleventh amendment was made on June 14, 2006
The twelfth amendment was made on November 1, 2006
The thirteenth amendment was made on June 13, 2007
The fourteenth amendment was made on June 13, 2008
The fifteenth amendment was made on May 8, 2009
The sixteenth amendment was made on June 15, 2010
The seventeenth amendment was made on June 15, 2011
The eighteenth amendment was made on June 11, 2013
The nineteenth amendment was made on June 17, 2014
The twentieth amendment was made on June 2, 2015
The twenty-first amendment was made on June 15, 2016.
The twenty-second amendment on June 13, 2017

Phison Electronics Corporation

Rules of Procedure for Meetings of Board of Directors (Before Amendment)

Article 1 For the purpose of soundness of Board of Directors governance and function of supervision and management, the Rules of Procedure for Meetings of Board of Directors (hereinafter the "Board") are adopted pursuant to Article 2 of the Regulations Governing Procedure for Board of Directors Meetings of Public Companies.

Article 2 The meeting policy of the Company's Board of Directors, the main agenda items, operational procedures, required content of meeting minutes, public announcements, and other compliance requirements for Board meetings shall be handled in accordance with the these rules herein.

Article 3 The Company's Board meetings shall be convened at least once every quarter.

A notice specifying the reason for convening a Board meeting shall be sent to all directors and supervisors seven (7) days before the scheduled meeting day; however, that a Board meeting may be convened on short notice in the event of emergency. Board meetings of the Company may be called through written notice, email, or fax.

The matters described in the subparagraphs under Paragraph 1, Article 12 of these Rules shall be set out in the meeting notice and may not be raised by an extraordinary motion, except in an emergency or for good reason.

Article 4 The Company's Shareholders Service Dept. is designated to handle the administrative matters relating to the Company's Board meetings.

The agenda working unit shall prepare agenda items for Board meetings and provide comprehensive pre-meeting materials, to be sent together with the notice of the meeting.

A director of the opinion that the pre-meeting materials provided are insufficiently comprehensive may request the agenda working group to supplement the materials. If a director is of the opinion that materials concerning any proposal are insufficient in content, the deliberation of such proposal may be postponed by a resolution of the Board.

Article 5 When a meeting of the board of directors is held, an attendance book shall be made ready for signature by directors attending the meeting and thereafter made available for future reference.

All board directors shall attend board meetings in person; if attendance in person is not possible, they may, pursuant to the company's articles of association, appoint another director to attend as their proxy. Attendance via video-conference is deemed as attendance in person.

When a director commissions other directors to attend directors meeting by proxy, a letter of authorization shall be presented, and the scope of responsibilities and obligations based on the purpose of the meeting shall

be stated.

A proxy under paragraph 2 may accept a proxy from one person only.

Article 6 A board of directors meeting shall be held at the location and during the business hours of the company, or at a place and time convenient to all directors and suitable for holding such a meeting.

Article 7 Meetings of the board of directors shall be called and chaired by the Chairperson of the board. However, the first meeting of each newly elected Board shall be called and chaired by the director who received votes representing the largest portion of voting rights at the shareholders' meeting in which the directors were elected; if there are two or more directors so entitled to call the meeting, they shall choose one person by and from among themselves to do so.

In case the Chairperson of the board of directors is on leave or absent or cannot exercise his power and authority for any cause, his representative shall be selected according to Article 208 of the Company Act.

Article 8 When the board of directors convenes, the deliberative entity shall prepare the relevant materials for the directors of the meeting to inquire at any time. When holding a meeting of the board, the Company may, as necessary for the agenda items of the meeting, notify personnel of relevant departments or subsidiaries to attend the meeting as nonvoting participants. When necessary, the company may also invite certificated public accountants, attorneys, or other professionals to attend as nonvoting participants and to make explanatory statements, provided that they shall leave the meeting when deliberation or voting takes place.

When the meeting time arrives and over one-half all Board directors are present, the meeting chairperson may announce convening of the meeting; When the meeting time arrives and one-half all Board directors are not present, the meeting chairperson may announce postponement of the meeting time, provided that only two postponements may be made.

If the quorum is still not met after two such delays, the meeting chairperson shall re-call the meeting following the procedures provided in Article 3, paragraph 2.

The term all Board directors as used in the preceding paragraph and in Article 16, paragraph 2, subparagraph 2 shall be calculated as the number of directors then in office.

Article 9 The Company shall record on audio or video tape the entire proceedings of a Board meeting, and preserve the recordings for at least five years, in electronic form.

If before the end of the preservation period referred to in the preceding paragraph any litigation arises in connection with a resolution of a Board meeting, the relevant audio or video recordings shall continue to be preserved until the litigation is concluded.

Where a board of directors meeting is held via video conferencing, the audio and visual documentation of the meeting form a part of the meeting minutes and shall be well preserved during the existence of the company.

Article 10 Agenda items for board of directors meetings shall include at least the following:

1. Reports:
 - (i) Minutes of the last meeting and actions arising.
 - (ii) Reporting on important financial and business matters.
 - (iii) Reporting on internal audit activities.
 - (iv) Other important matters to be reported.
2. Discussions:
 - (i) Items discussed and continued from the last meeting.
 - (ii) Items for discussion at this meeting.
3. Extemporaneous Motions

Article 11 A Board meeting shall be conducted in accordance with the order of business on the agenda as specified in the meeting notice. However, the order may be changed with the approval of a majority of directors present at the meeting.

The meeting chairperson may not declare the meeting closed without the approval of a majority of directors present at the meeting.

If at any time during the proceeding of a Board meeting the directors sitting at the meeting are not over half of the directors present at the meeting, then upon motion by the directors sitting at the meeting, the meeting chairperson shall declare a suspension of meeting, in which case paragraph 3 of Article 8 shall apply *mutatis mutandis*.

Article 12 The following matters should be discussed by the board of directors of the company:

1. The Company's operating plan.
2. Annual financial report and quarterly financial report.
3. Adoption or correction of an internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
4. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as acquisition or disposal of assets, derivatives trading, extension of monetary loans to others, and endorsements or guarantees for others.
5. Offering, issuance, or private placement of any equity-type securities.
6. Appointment or discharge of a financial, accounting, or internal audit officer.
7. A donation to a related party or a major donation to a non-related party, provided that a public-interest donation of disaster relief for a major natural disaster may be submitted to the following board of directors meeting for retroactive recognition.
8. Any matter that, under Article 14-3 of the Act, any other law, or regulation must be approved by resolution at a shareholders meeting or board meeting, or any material matter as may be prescribed by the competent authority.

The term related party in subparagraph 7 of the preceding paragraph means a related party as defined in the Regulations Governing the Preparation of Financial Reports by Securities Issuers; the term major

donation to a non-related party means any individual donation, or cumulative donations within a 1-year period to a single recipient, at an amount of NT\$100 million or more, or at an amount equal to or greater than 1 percent of net operating revenue or 5 percent of paid-in capital as stated in the CPA-attested financial report for the most recent year.

The term within a 1-year period in the preceding paragraph means a period of 1 year calculated retroactively from the date on which the current board of directors meeting is convened. Amounts already submitted to and passed by a resolution of the board are exempted from inclusion in the calculation.

Each independent director shall attend in person any meeting concerning a matter that requires a resolution by the board of directors under Article 14-3 of the Act, or shall appoint another independent director to attend as his or her proxy. If independent directors have opposing or reserved opinions, these opinions shall be recorded in the Board meeting records; if independent directors cannot personally attend Board meeting to express their opposing or reserved opinion, they shall give a written opinion before the meeting unless they have an appropriate reason and the opinion shall be recorded in the Board meeting records..

Article 13 When the chair at a board meeting is of the opinion that a matter has been sufficiently discussed to a degree of putting to a vote, the meeting chairperson may announce the discussion closed and bring the matter to vote.

When a proposal comes to a vote at a board of directors meeting, if the meeting chairperson puts the matter before all directors present at the meeting and none voices an objection, the matter is deemed approved. If a dissent is put forth upon inquiry made by the meeting chairperson, the matter shall be brought to vote.

All directors present at the meeting in the preceding two paragraphs does not include directors prohibited from exercising voting rights pursuant to Article 15.

The method of voting shall be the meeting chairperson's selection of either of the following; in case an attendee is of dissenting opinion, resolution shall be made upon opinion of a bigger proportion of the attendees.

1. Vote by raising hands
2. Vote by roll call.
3. Vote by ballot.
4. Vote for which the Company opt.

Article 14 Except as otherwise stated in the Securities and Exchange Act or in the Company Act, a resolution on a matter at a Board meeting requires the approval of a majority of the directors present at the meeting that shall be attended by a majority of all directors.

When there is an amendment or an alternative to same proposal, the meeting chairperson shall present the amended or alternative proposal together with the original proposal and decide the order in which they will be put to a vote. If one of the proposals is approved by vote, the rest is deemed voted down, none of which requires re-vote.

Vote monitoring and counting is appointed by the meeting chairperson when necessary, provided that scrutineer shall be a director.

The result of voting shall be reported on the spot and prepared in the minutes.

Article 15 If any director or a juristic person represented by a director is an interested party with respect to any agenda item, the director shall state the important aspects of the interested party relationship at the respective meeting. When the relationship is likely to prejudice the interests of the company, the director may not participate in discussion or voting on that agenda item, and further, shall enter recusal during discussion and voting on that item and may not act as another director's proxy to exercise voting rights on that matter.

When the Board of Directors votes on resolutions, the provisions of Article 180, paragraph 2 of the Company Act is applied mutatis mutandis pursuant to Article 206, paragraph 3 of the same Act for directors who are prohibited from exercising their voting rights following the regulation of the preceding paragraph.

Article 16 Proceedings of the Board meetings shall be recorded in the meeting minutes. The meeting minutes shall record the following:

1. Session (or year), time, and place of meeting.
2. Name of the meeting chairperson.
3. Attendance of directors at the meeting, specifying the names and number of members present, excused, and absent.
4. Names and titles of those attending the meeting as nonvoting participants.
5. Name of minutes taker.
6. Matters reported on.
7. Agenda items: the method and result of of the resolution of each proposal; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 of the preceding article, an explanation of the important aspects of the relationship of interest, the reasons why the director was required or not required to enter recusal, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing; and any opinion issued in writing by an independent director under Article 12-4.
8. Extraordinary motions: the name of the mover; the method of resolution and the result for each motion; a summary of the comments made by directors, supervisors, experts, or other persons; the name of any director that is an interested party as referred to in paragraph 1 of the preceding article, an explanation of the important aspects of the relationship of interest, the reasons why the director was required or not required to enter recusal, and the status of their recusal; opinions expressing objections or reservations at the meeting that were included in records or stated in writing.
9. Other matters required to be recorded.

Any of the following matters in relation to a resolution passed at a meeting of the board of directors shall be stated in the meeting minutes and within two days of the meeting be published on an information reporting website designated by the competent authority:

1. Any matter about which an independent director expresses an objection or reservation that has been included in records or stated in writing.
2. If the company has an audit committee, it has not been approved by the audit committee of the company but has been passed by more than two-thirds of all directors.

The attendance book forms a part of the minutes for each Board meeting and shall be well preserved during the existence of the company.

The minutes of a board of directors meeting shall bear the signature or seal of both the meeting chairperson and the minutes taker; a copy of the minutes shall be distributed to each director and supervisor within 20 days after the meeting and well preserved as important company records during the existence of the company.

The production and distribution of the meeting minutes referred to in paragraph 1 may be done in electronic form.

Article 17 In addition to the matters discussed in Paragraph 1 of Article 12, the board of directors, in accordance with the law or the Company's Articles of Association, may authorize the Chairman to exercise the powers of the Board of Directors. The authorized contents are as follows:

1. Based on the Company's level of authority table
2. Based on Company regulations, system and rules.
3. Appointment of the directors and supervisors in invested companies.
4. Approval of the record date of capital increase or decrease, and the record date of cash dividend distribution.

Article 18 If managing directors were set, the provisions of Article 2, paragraph 2 of Article 3, Articles 4 to 6, Article 8 to 11, and Articles 13 to 16 shall apply to the procedure for meetings of the managing directors of the Company. Provided that if a meeting of managing directors is scheduled to be convened within seven days, the notice to each managing director may be made two days in advance.

Article 19 Adoption and amendment of these rules shall be approved by the Board of the Company and submitted to Shareholders' meeting for reporting.

Phison Electronics Corporation
Current Shareholding of Directors and Supervisors

1. The statutory shareholding of directors and supervisors of the Company are as follows:

Types and total number of shares issued by the Company: 197,073,993 common shares.

Statutory minimum number of shares held by all directors is 11,824,439 shares.

Statutory minimum number of shares held by all supervisors is 1,182,443 shares.

2. As of April 10, 2018, the book closure date of the general shareholders' meeting, the number of shares held by all directors and supervisors:

Record date: April 10, 2018

Position	Name	Current shareholding	Representative
Chairperson	Khein Seng Pua	4,557,972 shares	
Director	Toshiba Memory Corp.	19,821,112 shares	Hitoro Nakai
Director	Cheek Kong Aw Yong	3,355,745 shares	
Director	Tzung Horng Kuang	1,408,736 shares	
Director	Chih Jen Hsu	1,080,185 shares	
Independent Director	Shu Fen Wang	0 share	
Independent Director	Chen Wei Wang	0 share	
Number of shares actually held by all directors		30,223,750 shares	
Shareholding ratio of total issued shares (%)		15.34	
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	

Appendix 5

The effect of dividend distributions for the current fiscal year on the Company's operating performance, earnings per share, and return on equity

Unit: In Thousands of New Taiwan Dollars
(Excluding earnings per share and cash dividend of New Taiwan Dollars)

Item		Year	2018
			(Estimated)
Paid-in capital at beginning of year			1,970,740
Current year Distribution of shares and cash	Cash dividends per share [Note 1]		NT\$17
	Share distribution per share when capitalizing capital reserve		-
Changes in Operating Performance	Operating profit		[Note 2]
	Operating profit increase (decrease) ratio over the same period last year		
	Net income after tax		
	Post-tax net profit increase (decrease) ratio over the same period last year		
	Earnings Per Share		
	Earnings per share increase (decrease) ratio over the same period last year		
	average annual return on investment (annual average PE ratio)		
Pro forma earnings per share and P/E ratio	If capital increases by retained earnings, cash dividend distribution will be replaced instead.	Pro forma earnings per share	[Note 2]
		Pro forma average annual return on investment	
	If capital reserves is not used for capital increase	Pro forma earnings per share	
		Pro forma average annual return on investment	
If capital reserves is not used for capital increase and capital increase by retained earnings, cash dividend distribution will be replaced instead.	Pro forma earnings per share	[Note 2]	
	Pro forma average annual return on investment		

[Note 1] If there is change in the Company's number of outstanding shares on the ex-dividend record date, the Board is authorized to recalculate the cash dividend payout ratio.

[Note 2] The Company did not disclose financial forecasts for the year 2018, so it is not necessary to disclose the estimated operating performance, earnings per share, and Pro Forma information for the year 2018.

Additional information

Proposal raised by shareholders in this general shareholders' meeting:

Explanation:

1. According to Article 172-1 of the Company Act, a shareholder who holds more than 1 percent of the total number of issued shares may raise a proposal in writing, provided that one shareholder is limited to one proposal. Each proposal shall not be longer than 300 Chinese characters. Otherwise, the proposal will be rejected.
2. The Company set the period from March 31 to April 10, 2018 for acceptance of shareholder proposals and this information has been announced publicly at MOPS based on the regulations.
3. The Company did not receive any proposal from shareholders.