Phison Electronics Corp.

Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

Key audit matters for the Corporation's financial statements for year 2016 are stated as follows:

<u>Sales Revenue Recognition</u>

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

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

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

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

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

Related Party Transaction Identification and Information

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

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

1. Understood and tested the design and implementation of relevant controls over the management of related party transactions.

2. Obtained transaction details between the Corporation and ETG, including types of transactions, amounts and accounts involved in order to verify the consistency of the transactions and to confirm that the transactions have been disclosed in the corresponding notes in the accompanying financial statement.

3. Confirmed the accuracy of the accounting treatments of the aforementioned equity transactions.

Emphasised Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 20, 2017

Notice to Readers

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

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

PHISON ELECTRONICS CORP.

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

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 13,552,188	43	$ 10,833,163	39
Financial assets at fair value through profit or loss - current (Notes 4, 7 and 27)	1,126,910	4	2,185,673	8
Debt investments with no active market - current (Notes 4, 8 and 30)	21,793	-	20,408	-
Notes and accounts receivable				
Third parties (Notes 4 and 9)	4,401,667	14	4,017,339	15
Related parties (Notes 4, 9 and 28)	363,065	1	341,114	1
Other receivables (Note 9)	367,720	1	353,813	1
Inventories (Notes 4 and 10)	5,220,905	17	5,250,825	19
Prepayments	66,693	-	38,352	-
Other current assets	7,229	-	18,666	-
Total current assets	25,128,170	80	23,059,353	83
NON-CURRENT ASSETS				
Available-for-sale financial assets - non-current (Notes 4 and 11)	372,051	1	295,950	1
Financial assets measured at cost - non-current (Notes 4 and 12)	501,187	1	456,077	2
Investments accounted for by the equity method (Notes 4 and 13)	2,594,470	8	1,893,754	7
Property, plant and equipment (Notes 4 and 14)	2,392,803	8	1,629,662	6
Intangible assets (Notes 4 and 15)	217,763	1	174,308	1
Deferred tax assets (Notes 4 and 21)	218,523	1	145,622	-
Guarantee deposits paid	1,544	-	1,532	-
Total non-current assets	6,298,341	20	4,596,905	17
TOTAL	$ 31,426,511	100	$ 27,656,258	100

LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term borrowings (Note 16)	$ 580,500	2	$ 196,950	1
Notes and accounts payable				
Third parties	1,734,372	6	1,091,561	4
Related parties (Note 28)	2,123,721	7	3,166,665	11
Other payables (Note 17)	2,662,812	8	1,841,170	7
Tax payable (Notes 4 and 21)	729,492	2	645,057	2
Provisions (Notes 4 and 18)	344,076	1	149,852	-
Other current liabilities	185,420	1	169,205	1
Total current liabilities	8,360,393	27	7,260,460	26
NON-CURRENT LIABILITIES				
Net defined benefit liabilities - non-current (Notes 4 and 19)	72,725	-	66,901	-
Guarantee deposits received	568	-	568	-
Total non-current liabilities	73,293	-	67,469	-
Total liabilities	8,433,686	27	7,327,929	26
EQUITY (Notes 20 and 23)				
Share capital				
Common shares	1,970,740	6	1,973,740	7
Capital surplus	6,652,449	21	6,514,569	24
Retained earnings				
Legal reserve	2,356,107	8	1,956,106	7
Special reserve	111,358	-	5,056	-
Unappropriated earnings	11,928,136	38	9,990,216	36
Total retained earnings	14,395,601	46	11,951,378	43
Other equity	(25,965)	-	(111,358)	-
Total equity	22,992,825	73	20,328,329	74
TOTAL	$ 31,426,511	100	$ 27,656,258	100

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

(With Deloitte & Touche auditors' report dated March 20, 2017)

PHISON ELECTRONICS CORP.

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4 and 28)				
Gross sales	$ 44,200,297	101	$ 37,292,758	101
Less: Sales returns and allowances	587,201	1	321,863	1
Net sales	43,613,096	100	36,970,895	100
Other operating revenue	65,451	-	78,031	-
Total operating revenue	43,678,547	100	37,048,926	100
OPERATING COSTS (Notes 4, 10, 22 and 28)	34,471,226	79	29,523,645	80
GROSS PROFIT	9,207,321	21	7,525,281	20
OPERATING EXPENSES (Notes 22)				
Marketing	675,116	2	517,448	2
General and administrative	473,374	1	401,199	1
Research and development	3,142,385	7	2,307,267	6
Total operating expenses	4,290,875	10	3,225,914	9
OPERATING INCOME	4,916,446	11	4,299,367	11
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 22)	83,960	-	171,850	1
Share of gains (losses) of subsidiaries and associates (Notes 2 and 13)	418,925	1	(10,081)	-
Other income (Note 22)	114,920	1	103,270	-
Financial costs	(2,053)	-	(3,031)	-
Total nonoperating income and expenses	615,752	2	262,008	1
PROFIT BEFORE INCOME TAX	5,532,198	13	4,561,375	12
INCOME TAX EXPENSE (Notes 4 and 21)	665,206	2	561,366	1
NET PROFIT FOR THE YEAR	4,866,992	11	4,000,009	11

(Continued)

PHISON ELECTRONICS CORP.

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

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

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

(With Deloitte & Touche auditors' report dated March 20, 2017) (Concluded)

PHISON ELECTRONICS CORP.

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

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

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

(With Deloitte & Touche auditors’ report dated March 20, 2017)

PHISON ELECTRONICS CORP.

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

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

(Continued)

PHISON ELECTRONICS CORP.

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

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

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

(With Deloitte & Touche auditors’ report dated March 20, 2017) (Concluded)

PHISON ELECTRONICS CORP.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation's board of directors on March 20, 2017.

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

a. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Corporation should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016

(Continued)

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

(Concluded)

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant dates on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition dates on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers would not have any material impact on the Corporation's accounting policies, except for the following:

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

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

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

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

b. New IFRSs issued by IASB but not yet endorsed by the FSC

The Corporation has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC. The FSC announced that amendments to IFRS 4, IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the financial statements were authorized for issue, the FSC had not announced the effective dates of other New IFRSs.

New, Revised or Amended Standards and Interpretations	Effective Date Issued by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
Amendment to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendments to IFRS 15 “Clarifications to IFRS15 Revenue from Contracts with Customers”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

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

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs whenever applied, would not have any material impact on the Corporation’s accounting policies, except for the following:

1) IFRS 9 “Financial Instruments”

<u>Recognition and measurement of financial assets</u>

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Corporation’s debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;

b) For debt instruments, if they are held within a business model whose objective is achieved by both the collection of contractual cash flows and the sale of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Corporation may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The impairment of financial assets

IFRS 9 requires that impairment loss on financial assets is recognized by using the expected credit loss model. A credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since its initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since its initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Corporation takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period, and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively, and the accounting for hedging options shall be applied retrospectively.

2) IFRS 16 “Leases”

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

Under IFRS 16, if the Corporation is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Corporation may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Corporation should present the depreciation expense charged on the right-of-use asset separately from the interest expense accrued on the lease liability; interest is computed by using the effective interest method. On the statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Corporation as lessor.

When IFRS 16 becomes effective, the Corporation may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of a debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Corporation expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Corporation should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses to deduction against income of a specific type; in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Corporation’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Corporation will achieve this and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

Except for the above impact, as of the date the financial statements were authorized for issue, the Corporation is continuously assessing the possible impact that the application of other standards and interpretations will have on the Corporation’s financial position and financial performance and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

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

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

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

As the parent company of a group, when preparing its parent company only financial statements, the Corporation used the equity method to account for its investment in subsidiaries, associates and joint ventures. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same as the amounts attributable to the owners of the Corporation in its consolidated financial statements, adjustments arising from the differences in the accounting treatment between the parent company only basis and the consolidated basis were made to investments accounted for by equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries and associates and related equity items, as appropriate, in the parent company only financial statements.

Classification of Current and Non-current Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

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

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

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

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

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

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

Foreign Currencies

In preparing the Corporation’s financial statements, transactions in currencies other than the Corporation’s functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

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

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

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is included in the calculation of equity transactions and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Inventories

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

Investments Accounted for Using Equity Method

The Corporation uses the equity method to account for its investments in subsidiaries and associates.

<u>Investments in subsidiaries</u>

A subsidiary is an entity that is controlled by the Corporation.

Under the equity method, an investment in a subsidiary is initially recognized at cost and the carrying amount is increased or decreased to recognize the Corporation's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. The Corporation also recognizes the changes in the Corporation’s share of equity of the subsidiary.

Changes in the Corporation’s ownership interests in subsidiaries that do not result in the Corporation’s loss of control over the subsidiaries are accounted for as equity transactions. The Corporation recognizes directly in equity any difference between the carrying amount of the investment and the fair value of the consideration paid or received.

The Corporation assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the entire financial statements of the invested in subsidiary. An impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Corporation recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization) had no impairment loss been recognized in prior years. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

Profits and losses resulting from any downstream transactions are eliminated in full only in the parent company’s financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company’s financial statements only to the extent of interests in the subsidiaries that are not related to the Corporation.

Investments in associates

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

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognizes the changes in the Corporation's share of equity of associates.

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

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

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

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

Property, Plant and Equipment

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

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

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

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

Intangible Assets

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

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

Financial Instruments

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

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

<u>Financial assets</u>

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

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

a. Financial assets at fair value through profit or loss

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

Financial assets at fair value through profit or loss are stated at their fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on financial assets. Refer to Note 27 for related disclosures.

b. Available-for-sale financial assets

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

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

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

Available-for-sale equity investments with no quoted market prices in an active market and with fair values that cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of these unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

c. Loans and receivables

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

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

d. Impairment of financial assets

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

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

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

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

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

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

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

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

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

e. Derecognition of financial assets

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

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

Provisions

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

Revenue Recognition

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

a. Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed to the buyer, at which time all the following conditions are satisfied:

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

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

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

b. Rendering service income

Service income is recognized when services are provided.

c. Dividend and interest income

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

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

Leasing

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

a. The Corporation as lessor

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

b. The Corporation as lessee

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Termination benefits

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

Share-based Payment Arrangements - Employee Share Options

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

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

Taxation

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

a. Current tax

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

Adjustments of prior years' tax liabilities are included in the current year's tax provision.

b. Deferred tax

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

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

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

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

c. Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Corporation takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between an asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

b. Inventory write-downs

The net realizable value of inventory is its estimated selling price in the ordinary course of business less its estimated costs of completion and the estimated costs necessary to make the sale. The estimation of net realizable value is based on current market conditions and historical experience with selling products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

c. Provisions for sales returns and allowances

Provision for sales returns and allowances refers to the Corporation's best estimate of the future outflow of the economic resources that will be required for the settlement of the Corporation's obligations. Such estimate is made on the basis of historical experience, management's judgment, and any known factors that would significantly affect sales returns and allowances. Changes in market conditions may have a material impact on the estimation of provisions.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	**2015**
Cash on hand	$ 60	$ 60
Checking accounts and demand deposits	10,442,287	6,269,818
Cash equivalents		
Time deposits with original maturities of less than 3 months	3,109,841	4,563,285
	$ 13,552,188	$ 10,833,163

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

	December 31	
	2016	**2015**
Financial assets held for trading		
Beneficiary certificates - open-end funds	$ 1,046,325	$ 2,109,113
Domestic quoted shares	80,585	76,560
	$ 1,126,910	$ 2,185,673

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

	December 31	
	2016	2015
Certificates of deposit	$ 20,503	$ 20,408
Time deposits with original maturity of more than 3 months	1,290	-
	$ 21,793	$ 20,408

The market interest rates of time deposits with an original maturity of more than 3 months were 0.20%-0.55% per annum as of December 31, 2016.

Refer to Note 30 for more information on debt investments with no active market.

9. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2016	2015
Notes and accounts receivable - trade		
Third parties	$ 4,562,538	$ 4,149,997
Related parties	363,065	341,114
	4,925,603	4,491,111
Less: Allowance for doubtful accounts	160,871	132,658
Notes and accounts receivable, net	$ 4,764,732	$ 4,358,453
Other receivables		
Income tax refund receivable	$ 164,023	$ 204,776
Factored accounts receivable	201,744	147,260
Others	1,953	1,777
Other receivables	$ 367,720	$ 353,813

Accounts Receivable - Trade

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

The aging of receivables was as follows:

	December 31	
	2016	2015
Not past due	$ 4,369,862	$ 4,023,429
1-60 days	515,224	372,060
61-90 days	320	47,473
91-120 days	39,492	8,587
More than 120 days	705	39,562
	$ 4,925,603	$ 4,491,111

The above analysis was based on the days past due date from the end of the credit term.

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

Movements in the allowance for impairment loss recognized on trade receivables were as follows:

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2015	$ 28,474	$ 41,610	$ 70,084
Add: Impairment losses recognized on receivables	54,220	8,354	62,574
Balance at December 31, 2015	$ 82,694	$ 49,964	$ 132,658
Balance at January 1, 2016	$ 82,694	$ 49,964	$ 132,658
Add: Impairment losses recognized on receivables	12,738	110,907	123,645
Less: Amounts written off during the year as uncollectable	95,432	-	95,432
Balance at December 31, 2016	$ -	$ 160,871	$ 160,871

The Corporation individually recognized impairment losses on trade receivables of $0 thousand and $82,694 thousand as of December 31, 2016 and 2015, respectively. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The Corporation had no collateral for these receivables.

The factored accounts receivable were as follows:

(In Thousands)

Factor	Factor Amount	Collected Amount	Prepayments	Discount Rate (%)	Factor Limit
For the year ended December 31, 2016					
HSBC Bank	US$ 93,776	US$ 85,525	$ -	-	US$ 16,500
For the year ended December 31, 2015					
HSBC Bank	US$ 51,684	US$ 47,198	-	-	US$ 12,150

Note: Recorded under other receivables.

The limit above was used on a revolving basis.

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

10. INVENTORIES

	December 31	
	2016	2015
Finished goods	$ 87,526	$ 61,615
Semifinished products	909,395	720,704
Work-in-process	925,313	1,285,491
Raw materials	3,298,671	3,183,015
	$ 5,220,905	$ 5,250,825

The costs of inventories recognized as cost of goods sold were $34,471,226 thousand in 2016 and $29,523,645 thousand in 2015. Cost of goods sold included inventory write-downs of $8,598 thousand in 2016 and $15,000 thousand in 2015.

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

	December 31	
	2016	2015
Private equity		
Domestic listed, common shares	$ 372,051	$ 295,950

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

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

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	December 31	
	2016	2015
Domestic unlisted common shares	$ 357,979	$ 393,343
Overseas unlisted common shares	143,208	62,734
	$ 501,187	$ 456,077
Classified according to categories		
Available-for-sale	$ 501,187	$ 456,077

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

The Corporation recognized impairment losses of $65,880 thousand in 2016 and $10,812 thousand in 2015 on domestic and overseas unlisted common shares.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31	
	2016	2015
Investments in subsidiaries	$ 1,340,049	$ 1,212,272
Investments in associates	$ 1,254,421	$ 681,482

a. Investments in subsidiaries

	December 31	
	2016	2015
Unlisted shares		
Global Flash Limited	$ 585,179	$ 616,888
Lian Xu Dong Investment Corporation	373,018	433,627
Emtops Electronics Corp.	73,952	75,835
Phisontech Electronics (Malaysia) Sdn. Bhd.	36,142	40,761
Epostar Electronics (BVI) Corporation	-	33,367
Power Flash (Samoa) Limited	104,961	-
Everspeed Technology Limited	156,992	-
Phison Electronics Japan Corp.	9,805	11,794
	$ 1,340,049	$ 1,212,272

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Corporation were as follows:

	December 31	
Name of Subsidiaries	2016	2015
Global Flash Limited	100.00%	100.00%
Lian Xu Dong Investment Corporation	100.00%	100.00%
Emtops Electronics Corp.	100.00%	100.00%
Phisontech Electronics (Malaysia) Sdn. Bhd.	87.00%	87.00%
Epostar Electronics (BVI) Corporation (Note 24)	44.21%	60.00%
Power Flash (Samoa) Limited	100.00%	-
Everspeed Technology Limited (Note 25)	100.00%	-
Phison Electronics Japan Corp.	100.00%	100.00%

In March 2016, the Corporation invested in Power Flash (Samoa) Limited, which is principally engaged in investment and trade services.

The investments accounted for by the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2016 and 2015 was based on the subsidiaries' financial statements audited for the same years.

b. Investments in associates

	December 31	
	2016	2015
Unlisted shares		
Material associates		
Kingston Solutions Inc.	$ 1,149,415	$ 658,526
Associates that are not individually material		
Epostar Electronics (BVI) Corporation	79,732	-
Microtops Design Corporation ("Microtops")	24,211	21,678
Flexmedia Electronics Corporation	1,063	1,278
	$ 1,254,421	$ 681,482

1) Material associates

	December 31	
Name of Associates	**2016**	**2015**
Kingston Solutions Inc.	32.91%	32.91%

Refer to Table 4 "Information on Investees" following the Notes to Financial Statements for the nature of activities, principal place of business and country of incorporation of the associates.

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

Kingston Solutions Inc.

	December 31	
	2016	2015
Current assets	$ 7,227,726	$ 3,192,178
Non-current assets	167,420	205,126
Current liabilities	(3,589,797)	(1,215,305)
Non-current liabilities	(312,749)	(181,010)
Equity	$ 3,492,600	$ 2,000,989
Equity attributable to the Corporation	$ 1,149,415	$ 658,526

	For the Year Ended December 31	
	2016	2015
Operating revenue	$ 17,458,278	$ 12,811,095
Net profit for the year	$ 1,492,011	$ 146,234
Other comprehensive loss	(400)	(1)
Total comprehensive income for the year	$ 1,491,611	$ 146,233

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2016	**2015**
The Corporation’s share of:		
Net loss for the year	$ (6,935)	$ (3,287)
Total comprehensive loss for the year	$ (6,935)	$ (3,287)

The fiscal year end date for Microtops is March 31. For the purpose of applying the equity method of accounting, the consolidated financial statements of Microtops as of March 31, 2016 and 2015 have been used in the Corporations preparation of its financial statements as the Corporation considers that it is impracticable for Microtops to prepare a separate set of financial statements as of December 31. Appropriate adjustments have been made accordingly for the effects of significant transactions between those dates and December 31, 2016 and 2015.

All the associates are accounted for using the equity method.

Except for Flexmedia Electronics Corporation, investments accounted for by the equity method and the share of gains or losses and other comprehensive loss of those investments for 2016 and 2015 were based on the associates’ audited financial statements for the same reporting periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
Cost								
Balance, January 1, 2015	$ 547,014	$ 27,995	$ 1,052,762	$ 205,145	$ 36,315	$ 3,274	$ -	$ 1,872,505
Additions	-	690	7,790	73,414	4,056	7,162	-	93,112
Disposals	-	-	-	(26,506)	(983)	-	-	(27,489)
Others	-	-	-	12,602	-	-	-	12,602
Balance, December 31, 2015	$ 547,014	$ 28,685	$ 1,060,552	$ 264,655	$ 39,388	$ 10,436	$ -	$ 1,950,730
Accumulated depreciation								
Balance, January 1, 2015	$ -	$ 9,902	$ 128,003	$ 87,198	$ 16,434	$ 1,972	$ -	$ 243,509
Disposals	-	-	-	(26,506)	(975)	-	-	(27,481)
Depreciation	-	3,668	28,531	60,179	10,820	1,842	-	105,040
Balance, December 31, 2015	$ -	$ 13,570	$ 156,534	$ 120,871	$ 26,279	$ 3,814	$ -	$ 321,068
Balance, December 31, 2015, net	$ 547,014	$ 15,115	$ 904,018	$ 143,784	$ 13,109	$ 6,622	$ -	$ 1,629,662
Cost								
Balance, January 1, 2016	$ 547,014	$ 28,685	$ 1,060,552	$ 264,655	$ 39,388	$ 10,436	$ -	$ 1,950,730
Additions	266,724	90	78,930	122,022	11,935	6,357	390,000	876,058
Disposals	-	-	-	(61,837)	(20,278)	(2,479)	-	(84,594)
Others	-	-	2,859	2,198	904	-	-	5,961
Balance, December 31, 2016	$ 813,738	$ 28,775	$ 1,142,341	$ 327,038	$ 31,949	$ 14,314	$ 390,000	$ 2,748,155
Accumulated depreciation								
Balance, January 1, 2016	$ -	$ 13,570	$ 156,534	$ 120,871	$ 26,279	$ 3,814	$ -	$ 321,068
Disposal	-	-	-	(61,837)	(20,278)	(2,479)	-	(84,594)
Depreciation	-	3,672	30,726	72,592	8,107	3,763	-	118,860
Others	-	-	-	-	18	-	-	18
Balance, December 31, 2016	$ -	$ 17,242	$ 187,260	$ 131,626	$ 14,126	$ 5,098	$ -	$ 355,352
Balance, December 31, 2016, net	$ 813,738	$ 11,533	$ 955,081	$ 195,412	$ 17,823	$ 9,216	$ 390,000	$ 2,392,803

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

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

15. INTANGIBLE ASSETS

	December 31 2016	December 31 2015
Computer software	$ 126,879	$ 69,076
Technology license fees	90,884	105,232
	$ 217,763	$ 174,308

	Computer Software	Technology License Fees	Total
Balance at January 1, 2015	$ 76,755	$ 26,409	$ 103,164
Additions	66,840	109,175	176,015
Amortization	(74,519)	(30,352)	(104,871)
Balance, December 31, 2015	$ 69,076	$ 105,232	$ 174,308
Balance at January 1, 2016	$ 69,076	$ 105,232	$ 174,308
Additions	132,838	33,563	166,401
Amortization	(73,278)	(47,911)	(121,189)
Others	(1,757)	-	(1,757)
Balance, December 31, 2016	$ 126,879	$ 90,884	$ 217,763

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

Computer software	0.5-3 years
Technology license fees	0.5-8 years

16. SHORT-TERM BORROWINGS

Short-term Borrowings

	December 31 2016	December 31 2015
Unsecured borrowings		
Bank loans	$ 580,500	$ 196,950
Interest rate	0.94%-1.33%	0.90%-0.92%
Due date	2017.3.1	2016.2.15

17. OTHER PAYABLES

	December 31	
	2016	2015
Salaries payable and bonuses payable	$ 2,033,587	$ 1,306,766
Others	629,225	534,404
	$ 2,662,812	$ 1,841,170

18. PROVISIONS - CURRENT

	December 31	
	2016	2015
Sales returns and allowances	$ 344,076	$ 149,852

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 149,852	$ 71,128
Recognized provisions	408,268	180,250
Usage of provisions	(214,044)	(101,526)
Balance at December 31	$ 344,076	$ 149,852

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

19. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

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

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

	December 31	
	2016	**2015**
Present value of defined benefit obligation	$ 102,213	$ 94,249
Fair value of plan assets	(29,488)	(27,348)
Net defined benefit liability	$ 72,725	$ 66,901

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

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liability (Asset)**
Balance at January 1, 2015	$ 67,248	$ (24,790)	$ 42,458
Service costs			
Current service costs	3,309	-	3,309
Net interest expense (income)	1,513	(558)	955
Recognized in profit or loss	4,822	(558)	4,264
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(85)	(85)
Actuarial loss - changes in financial assumptions	9,926	-	9,926
Actuarial loss - experience adjustments	12,253	-	12,253
Recognized in other comprehensive income	22,179	(85)	22,094
Contributions from the employer	-	(1,915)	(1,915)
Balance at December 31, 2015	$ 94,249	$ (27,348)	$ 66,901
Balance at January 1, 2016	$ 94,249	$ (27,348)	$ 66,901
Service costs			
Current service costs	4,103	-	4,103
Net interest expense (income)	1,602	(465)	1,137
Recognized in profit or loss	5,705	(465)	5,240
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	216	216
Actuarial gain - changes in financial assumptions	(2,038)	-	(2,038)
Actuarial loss - experience adjustments	4,297	-	4,297
Recognized in other comprehensive income	2,259	216	2,475
Contributions from the employer	-	(1,891)	(1,891)
Balance at December 31, 2016	$ 102,213	$ (29,488)	$ 72,725

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

	For the Year Ended December 31	
	2016	**2015**
Operating costs	$ 711	$ 572
Marketing expenses	694	670
Administrative expenses	1,396	1,058
Research and development expenses	2,439	1,964
	$ 5,240	$ 4,264

Recognized in other comprehensive income was an actuarial loss of $2,054 thousand in 2016 and an actuarial loss of $18,338 thousand in 2015. The cumulative amount of actuarial loss recognized in other comprehensive income as of December 31, 2016 and 2015 was $32,717 thousand and $30,663 thousand, respectively.

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

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

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

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

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

	December 31	
	2016	**2015**
Discount rate	1.80%	1.70%
Expected rate of salary increase	4.00%	4.00%

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

	December 31	
	2016	**2015**
Discount rate		
0.25% increase	$ (4,902)	$ (4,295)
0.25% decrease	$ 5,182	$ 5,397
Expected rate of salary increase		
0.25% increase	$ 4,800	$ 4,934
0.25% decrease	$ (4,577)	$ (4,059)

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

	December 31	
	2016	2015
The expected contributions to the plan for the next year	$ 1,853	$ 1,907
The average duration of the defined benefit obligation	21 years	22 years

20. EQUITY

a. Share capital

Common shares

	December 31	
	2016	2015
Number of shares authorized (in thousands)	230,000	230,000
Capital authorized	$ 2,300,000	$ 2,300,000
Number of shares issued and fully paid (in thousands)	197,074	197,374
Capital issued	$ 1,970,740	$ 1,973,740

In the meeting on June 17, 2014, the Corporation's shareholders decided to issue common shares to raise private equity with an upper limit of 50,000 thousand shares. On June 17, 2014 and February 6, 2015, the board of directors resolved to issue 5,000 thousand and 11,900 thousand common shares at a par value of NT$10 to raise private equity. The share issuance was set with a fund raising deadline of June 20, 2014 and February 13, 2015, with NT$185 and NT$180 as the offering prices, respectively. This common share issuance was approved by and registered with the competent government authorities on July 3, 2014 and March 11, 2015, respectively. In their meeting on June 2, 2015, the shareholders approved the decision not to raise capital from the remaining shares for private equity raising.

On November 12, 2015, an employee share option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in the FSC's issued document No. 1040048913.

In accordance with Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2015, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities. The employee share options were not issued because very high cost of issuance would be incurred. The employee share options cannot be issued after November 26, 2016.

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

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

b. Capital surplus

	December 31	
	2016	**2015**
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*		
Issuance of ordinary shares	$ 6,237,434	$ 6,246,929
Changes in equity from the consideration received in excess of the carrying amounts of the subsidiaries' net assets during disposals or acquisitions	151,444	4,069
May only be used to offset a deficit		
Expired share options	227	227
May not be used for any purpose		
Share of changes in capital surplus of associates or joint ventures	263,344	263,344
	$ 6,652,449	$ 6,514,569

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

c. Retained earnings and dividend policy

In accordance with the amendments to the Company's Act made in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held the annual regular meeting on June 15, 2016 and, in that meeting, resolved amendments to the Corporation's Articles of Incorporation (the "Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on the distribution of employees' compensation.

The policy on appropriation of earnings and dividend distribution in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to Note 22(d) "employee benefits expense".

The Corporation's dividend distribution policy takes into consideration the current and future investment environment, capital requirements, domestic and international competition, capital budget plans, shareholders' interests, the balance between retained earnings and dividends, and the Corporation's long-term financial plans. In accordance with the laws and regulations, the board of directors propose a distribution plan on an annual basis, which should be resolved in the shareholder's meeting. Profits may be distributed as cash or share dividends; however, cash dividends should be at least 10% of the total distribution.

The Corporation appropriates or reverses a special reserve in accordance with Rule No. 1010012865 issued by the Financial Supervisory Commission. Distributions can be made out of any subsequent reversal of the debit to other equity items.

A legal reserve may be used to offset deficits. If the Corporation has no deficit and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

Except for non-ROC resident shareholders, all shareholders receiving dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2015 and 2014 approved in the shareholders' meetings on June 15, 2016 and June 2, 2015, respectively, were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Year 2015	**For Year 2014**	**For Year 2015**	**For Year 2014**
Legal reserve	$ 400,001	$ 320,115		
Appropriation to (reversal from) special reserve	106,302	(6,185)		
Cash dividends	2,368,488	2,210,589	$12.0	$11.2

The appropriation of earnings for 2016 were proposed by the Corporation's board of directors on March 20, 2017. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 486,699	
Reversal from special reserve	85,393	
Cash dividends	2,759,036	$14

The appropriation of earnings for 2016 are subject to resolution in the shareholders' meeting to be held on June 13, 2017.

d. Treasury shares

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

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

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

21. INCOME TAXES

a. Income tax recognized in profit or loss

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

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	$ 717,348	$ 647,632
Income tax on unappropriated earnings	112,522	67,663
In respect of the prior periods	(100,419)	(102,428)
	729,451	612,867
Deferred tax		
In respect of the current period	(64,245)	(51,501)
Income tax expense recognized in profit or loss	$ 665,206	$ 561,366

A reconciliation of accounting profit and current income tax expense is as follows:

	For the Year Ended December 31	
	2016	2015
Profit before tax from continuing operations	$ 5,532,198	$ 4,561,375
Income tax expense calculated at the statutory rate	$ 940,474	$ 775,434
Unrecognized temporary differences	-	859
Tax-exempt income	(287,371)	(180,162)
Income tax on unappropriated earnings	112,522	67,663
Adjustments for prior years' tax	(100,419)	(102,428)
Income tax expense recognized in profit or loss	$ 665,206	$ 561,366

The applicable tax rate used by the Corporation is 17%.

The appropriation of the 2017 earnings is uncertain and is subject to approval at the shareholders' meeting; thus, the potential consequences of income tax on the 2016 unappropriated earnings are not reliably determinable.

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

	For the Year Ended December 31	
	2016	2015
Deferred income tax		
Recognized in other comprehensive income		
Share of other comprehensive income of subsidiaries and associates	$ 8,235	$ 4,414
Actuarial gains and losses on defined benefit plan	421	3,756
	$ 8,656	$ 8,170

c. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax liabilities		
Income tax payable	$ 729,492	$ 645,057

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Doubtful accounts	$ 14,917	$ 4,058	$ -	$ 18,975
Inventory write-downs	47,808	1,462	-	49,270
Provisions	25,475	33,018	-	58,493
Defined benefit obligation	11,373	569	421	12,363
Unrealized exchange losses	6,057	11,710	-	17,767
Impairment loss on financial assets	12,428	11,471	-	23,899
Exchange differences on translating foreign operations	5,450	-	8,235	13,685
Corporation’s share of losses of subsidiaries and associates	20,103	2,005	-	22,108
Property, plant and equipment	2,011	(48)	-	1,963
	$ 145,622	$ 64,245	$ 8,656	$ 218,523

For the year ended December 31, 2015

Deferred tax assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Doubtful accounts	$ 4,579	$ 10,338	$ -	$ 14,917
Inventory write-downs	45,258	2,550	-	47,808
Provisions	12,092	13,383	-	25,475
Defined benefit obligation	7,218	399	3,756	11,373
Unrealized exchange losses	-	6,057	-	6,057
Impairment loss on financial assets	11,994	434	-	12,428
Exchange differences on translating foreign operations	1,036	-	4,414	5,450
Corporation's share of losses of subsidiaries and associates	9,021	11,082	-	20,103
Property, plant and equipment	2,059	(48)	-	2,011
	$ 93,257	$ 44,195	$ 8,170	$ 145,622
Deferred tax liabilities				
Unrealized exchange gains	$ 7,306	$ (7,306)	$ -	$ -

e. Income tax exemptions

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

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

f. Integrated income tax information of the Corporation

	December 31	
	2016	2015
Unappropriated retained earnings		
Unappropriated retained earnings generated on and after January 1, 1998	$ 11,928,136	$ 9,990,216
Balance of imputation credits account (ICA)	$ 1,338,726	$ 1,071,531

	For the Year Ended December 31	
	2016 (Expected)	2015 (Actual)
Creditable ratios for distribution of earnings	11.22%	14.61%

g. Income tax returns through 2014 were examined and cleared by the tax authorities.

22. NET PROFIT AND OTHER COMPREHENSIVE INCOME

The following items were included in the net profit for 2016 and 2015:

a. Other gains and losses

	For the Year Ended December 31	
	2016	2015
Foreign exchange gains, net	$ 101,175	$ 187,471
Loss on financial assets held for trading	(15,236)	(11,262)
Impairment loss recognized on financial assets	(65,880)	(10,812)
Gains on deconsolidation of subsidiaries	45,649	-
Gains on disposal of financial assets held for trading	18,215	8,076
Loss on disposal of financial assets measured at cost	-	(1,614)
Gains (losses) on disposal of property, plant and equipment	41	(8)
Others	(4)	(1)
	$ 83,960	$ 171,850

b. Other income

	For the Year Ended December 31	
	2016	2015
Interest income		
Bank deposits	$ 32,490	$ 36,026
Rental income	3,559	9,203
Dividend income	38,867	42,656
Others	40,004	15,385
	$ 114,920	$ 103,270

c. Depreciation and amortization

	For the Year Ended December 31	
	2016	2015
Property, plant and equipment	$ 118,860	$ 105,040
Intangible assets	121,189	104,871
	$ 240,049	$ 209,911
An analysis of depreciation by function		
Operating costs	$ 23,436	$ 28,273
Operating expenses	95,424	76,767
	$ 118,860	$ 105,040
An analysis of amortization by function		
General and administrative expenses	$ 7,173	$ 5,107
Research and development expenses	114,016	99,764
	$ 121,189	$ 104,871

d. Employee benefits expense

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	$ 2,936,452	$ 2,244,749
Post-employment benefits		
Defined contribution plan	59,003	46,076
Defined benefit plan	5,240	4,264
	64,243	50,340
Other employee benefits		
Employee welfare	56,354	47,475
Food stipend	31,404	24,459
	87,758	71,934
	$ 3,088,453	$ 2,367,023
Employee benefits		
Recognized in operating costs	$ 152,750	$ 142,563
Recognized in operating expenses	2,935,703	2,224,460
	$ 3,088,453	$ 2,367,023

As of December 31, 2016 and 2015, the Corporation had 1,192 and 1,030 employees, respectively.

1) Employees' compensation and remuneration of directors and supervisors for 2016 and 2015

In compliance with the Company Act as amended in May 2015, the Corporation proposed amendments to its Articles of Incorporation to distribute employees' compensation and remuneration of directors and supervisors at the rates between 8% and 19%, and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and remuneration of directors and supervisors for the years ended December 31, 2016 and 2015 which have been approved by the Corporation's board of directors on March 20, 2017 and March 22, 2016, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2016	2015
Employees' compensation	8.96%	9.81%
Remuneration of directors and supervisors	0.90%	0.75%

Amount

	For the Year Ended December 31, 2016		For the Year Ended December 31, 2015	
	Cash	Shares	Cash	Shares
Employees' compensation	$ 550,000	-	$ 500,000	-
Remuneration of directors and supervisors	55,000	-	38,000	-

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

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the year ended December 31, 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2017 and 2016 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

2) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 2, 2015 were as follows:

	For the Year Ended December 31, 2014	
	Cash	**Shares**
Bonus to employees	$ 420,000	-
Remuneration of directors and supervisors	26,572	-

The bonus to employees and the remuneration of directors and supervisors for 2014 approved in the shareholders' meeting on June 2, 2015 and the amounts recognized in the financial statements were as follows:

	For the Year Ended December 31, 2014	
	Bonus to Employees	**Remuneration of Directors and Supervisors**
Amounts approved in shareholders' meeting	$ 420,000	$ 26,572
Amounts recognized in annual financial statements	$ 420,000	$ 26,724

The differences were adjusted to profit and loss for the year ended December 31, 2015.

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

e. Foreign exchange (losses) gains, net

	For the Year Ended December 31	
	2016	**2015**
Foreign exchange gains	$ 690,564	$ 729,528
Foreign exchange losses	(589,389)	(542,057)
Net gains	$ 101,175	$ 187,471

23. EARNINGS PER SHARE

(In New Taiwan Dollars)

	For the Year Ended December 31	
	2016	**2015**
Basic earnings per share	$ 24.67	$ 20.41
Diluted earnings per share	$ 24.35	$ 20.12

The earnings and weighted-average shares used to calculate earnings per share were as follows:

Net Profit for the Year

	For the Year Ended December 31	
	2016	**2015**
Earnings used in the computation of basic earnings per share	$ 4,866,992	$ 4,000,009
Earnings used in the computation of diluted earnings per share	$ 4,866,992	$ 4,000,009

Shares

(In Thousands of Shares)

	For the Year Ended December 31	
	2016	**2015**
Weighted-average number of common shares in computation of basic earnings per share	197,256	195,972
Effect of potential dilutive common shares:		
Bonus issued to employees	2,595	2,860
Weighted-average number of common shares used in the computation of dilutive earnings per share	199,851	198,832

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

24. DISPOSAL OF SUBSIDIARIES WITH A LOSS OF CONTROL

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

25. ACQUISITION OF SUBSIDIARIES WITH CONTROL UNAFFECTED

As recorded in the minutes of meetings of the Corporation's board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the Chairman of the Corporation, Khein Seng Pua, the operation management of Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation (controlled since October 2010), Cloud Solution Global Limited (established on October 25, 2012), and Fast Choice Global Limited (established on May 23, 2013)) and Twinson Electronic Corporation (100% acquired by the Corporation on December 25, 2014 and renamed as Ostek Corporation) are under substantial control by the Chairman and should be considered as the related parties of the Corporation.

The Corporation does not have equity interest in Everspeed Technology Group. However, the Chairman of the Corporation has substantial control over Everspeed Technology Group. Therefore, for the long-term development and enhancement of the integrity of the operating structure, the Corporation board of directors held a meeting on September 21, 2016 and decided to acquire from the shareholders of Everspeed Technology Limited, the parent company of Everspeed Technology Group, 100% equity interest of Everspeed Technology Group for NT$1 from the shareholders of the parent of Everspeed Technology Group, Everspeed Technology Limited on September 30, 2016, and this acquisition was accounted for as an equity transaction.

26. CAPITAL MANAGEMENT

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

The capital structure of the Corporation consists of net debts (net balance of loans and cash and cash equivalents) and equity (share capital, capital surplus, retained earnings, and other equities).

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

The key management personnel of the Corporation review the capital structure on an annual basis. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the Corporation may adjust the amount of dividends paid to shareholders and the amount of new debt issued or existing debt redeemed.

27. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

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

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

1) Fair value hierarchy

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic quoted shares	$ 80,585	$ -	$ -	$ 80,585
Beneficiary certificates - open-end funds	1,046,325	-	-	1,046,325
	$ 1,126,910	$ -	$ -	$ 1,126,910
Available-for-sale financial assets				
Unlisted debt securities - ROC	$ -	$ -	$ 372,051	$ 372,051

December 31, 2015

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic quoted shares	$ 76,560	$ -	$ -	$ 76,560
Beneficiary certificates - open-end funds	2,109,113	-	-	2,109,113
	$ 2,185,673	$ -	$ -	$ 2,185,673
Available-for-sale financial assets				
Unlisted debt securities - ROC	$ -	$ -	$ 295,950	$ 295,950

There were no transfers between Levels 1 and 2 for the years ended December 31, 2016 and 2015.

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

	For the Year Ended December 31	
	2016	2015
Available-for-sale financial assets		
Balance at January 1	$ 295,950	$ -
Purchases	-	380,700
Return of capital	(49,500)	-
Recognized in other comprehensive income		
Unrealized gains (losses)	125,601	(84,750)
Balance at December 31	$ 372,051	$ 295,950

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

December 31, 2016

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

December 31, 2015

Financial Assets	Valuation Techniques	Significant Unobservable Inputs	Quantitative Information	Relevance between Inputs and Fair Value	Sensitivity Analysis of Relation between Inputs and Fair Values
Available-for-sale shares	Market approach (price-earnings ratio and price-to-book ratio method)	Lack of liquidity discount	28.61%	The higher the level of liquidity, the lower the estimation of fair value	When lack of liquidity percentage increases/ decreases by 10%, equity of the Corporation will increase/decrease by $29,595 thousand.

Categories of Financial Instruments

	December 31	
	2016	**2015**
Financial assets		
Fair value through profit or loss		
Held for trading	$ 1,126,910	$ 2,185,673
Notes receivable and accounts receivable (Note 1)	18,706,433	15,565,837
Available-for-sale financial assets (Note 2)	873,238	752,027
Financial liabilities		
Financial liabilities at amortized cost (Note 3)	4,438,593	4,455,176

Note 1: Includes cash and cash equivalents, debt investments with no active market, notes receivable, accounts receivable, and other receivables measured at amortized cost

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

Note 3: Includes financial liabilities measured at amortized cost, which comprising short-term borrowings, notes payable and trade payable

Financial Risk Management Objectives and Policies

The Corporation's major financial instruments consisted of equity investments, accounts receivable, accounts payable, and borrowings. The Corporation's financial management department provides services to all departments and manages trade in domestic and foreign financial markets. The risks include market risk (including foreign currency risk, interest rate risk, and other price risk), credit risk, and liquidity risk.

a. Market risk

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

1) Foreign currency risk

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

Refer to Note 32 for the carrying amounts of the Corporation's foreign currency denominated monetary assets and liabilities at the end of the reporting period.

Sensitivity analysis

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

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

	Impact of USD	
	For the Year Ended December 31	
	2016	**2015**
Profit or loss	$ 333,029	$ 226,422

2) Interest rate risk

The Corporation was exposed to interest rate risk because group entities borrowed funds at floating interest rates.

The carrying amounts of the Corporation's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2016	**2015**
Fair value interest rate risk		
Financial assets	$ 3,131,634	$ 4,583,693
Financial liabilities	-	196,950
Cash flow interest rate risk		
Financial assets	10,442,287	6,269,818
Financial liabilities	580,500	-

Sensitivity analysis

Had interest rates been 1 basis point higher and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2016 and 2015 would have increased by approximately $986 thousand and $627 thousand, respectively.

3) Other price risk

The Corporation was exposed to equity price risks through its investments in listed equity securities.

Sensitivity analysis

The sensitivity analysis below was determined based on the Corporation's exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2016 and 2015 would have increased/decreased by $11,269 thousand and $21,857 thousand, respectively. The pre-tax other comprehensive income for the years ended December 31, 2016 and 2015 would increase/decrease by $3,721 thousand and $2,960 thousand, respectively.

b. Credit risk

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

The Corporation adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. In addition, the Corporation only transacts with entities that are rated the equivalent of investment grade and above. Further, the Corporation's exposure to such risk and the credit ratings of its counterparties are continually monitored, and the aggregate value of transactions was concluded to be spread out among approved counterparties. Ongoing credit evaluations are performed on the financial condition of trade receivables.

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

c. Liquidity risk

The Corporation manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the Corporation's operations and mitigate the effects of fluctuations in cash flows. In addition, management monitors the utilization of bank borrowings and ensures compliance with loan covenants. The Corporation relies on bank borrowings as a significant source of liquidity. As of December 31, 2016 and 2015, the Corporation had available unutilized overdraft and short-term bank loan facilities of approximately $2,892,500 thousand and $2,823,675 thousand, respectively.

Liquidity and interest risk tables

The following tables detail the Corporation's remaining contractual maturity for its non-derivative financial liabilities with agreed upon repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities, including the interest and principal cash flow based on the earliest date on which the Corporation can be required to pay.

	December 31, 2016				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
Non-derivative financial liabilities					
Liabilities without interest	$ 2,211,826	$ 2,478,563	$ 2,560,008	$ -	$ -
Variable interest rate instruments	354,750	225,750	-	-	-
	$ 2,566,576	$ 2,704,313	$ 2,560,008	$ -	$ -

	December 31, 2015				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
Non-derivative financial liabilities					
Liabilities without interest	$ 2,640,871	$ 2,415,819	$ 1,687,763	$ -	$ -
Fixed interest rate instruments	65,650	131,300	-	-	-
	$ 2,706,521	$ 2,547,119	$ 1,687,763	$ -	$ -

Information of Financial Asset Transfers

Refer to Note 9 for more information.

28. RELATED-PARTY TRANSACTIONS

Details of transactions between the Corporation and other related parties are disclosed below.

a. Operating revenue

	For the Year Ended December 31	
	2016	2015
Related-party categories		
Subsidiaries	$ 496,916	$ 45,192
Associates	33,279	18,232
Other related parties (Note 1)	2,070,973	1,616,248
Related party in substance (Note 2)		
Memoryexchange Corporation	-	582,244
Everspeed Technology Group (Note 3)	-	36,195
	$ 2,601,168	$ 2,298,111

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

b. Operating costs

1) Purchases

	For the Year Ended December 31	
	2016	2015
Related-party categories		
Subsidiaries	$ 901	$ 75,222
Associates	318,003	244,065
Other related parties (Note 1)	21,531,971	17,047,977
Related party in substance (Note 2)		
Memoryexchange Corporation	-	3
	$ 21,850,875	$ 17,367,267

2) Processing costs

	For the Year Ended December 31	
	2016	2015
Related-party categories		
Subsidiaries	$ 22,094	$ 21,968
Associates	13	88
Other related parties (Note 4)	3,039,291	1,153,696
	$ 3,061,398	$ 1,175,752

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

c. Receivables from related parties

	December 31	
	2016	2015
Related-party categories		
Subsidiaries	$ 4,815	$ 7,026
Associates	1,039	1,692
Other related parties (Note 1)	357,211	332,396
	$ 363,065	$ 341,114

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

d. Payables to related parties

	December 31	
	2016	2015
Related-party categories		
Subsidiaries	$ 4,330	$ 2,085
Associates	79,059	21,534
Other related parties (Note 1)	2,040,332	3,143,046
	$ 2,123,721	$ 3,166,665

The outstanding trade payables from related parties are unsecured.

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

Note 2: Refer to Note 4 of the consolidated financial statements for the year ended December 31, 2016.

Note 3: Everspeed Technology Group comprises Everspeed Technology Limited, Fast Choice Global Limited, and Cloud Solution Global Limited.

Note 4: The Corporation is the director of the related party.

e. Compensation of key management personnel

	For the Year Ended December 31	
	2016	2015
Short-term employee benefits	$ 255,506	$ 167,332
Post-employment benefits	1,310	2,053
Other employee benefits	5,561	4,097
	$ 262,377	$ 173,482

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

29. OPERATING LEASE ARRANGEMENTS

a. The Corporation as lessee

The Corporation's lease contracts for a factory and an office expire on February 14, 2018.

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

Period/Year	Amount
2017	$ 4,049
2018	70
	$ 4,119

b. The Corporation as lessor

Operating leases relate to the property are owned by the Corporation, and such leases will expire on December 31, 2017.

For the years ended December 31, 2016 and 2015, the Corporation individually recognized a guarantee on trade receivables of $510 thousand.

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

Period/Year	**Amount**
2017	$ 3,563

30. ASSETS PLEDGED

The following assets had been pledged as refundable deposits as required by customs authorities:

	December 31	
	2016	**2015**
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	$ 20,503	$ 20,408

31. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's significant commitments and contingencies as of December 31, 2016 and 2015 were as follows:

Significant Commitments

	December 31	
	2016	**2015**
Unused letters of credit	$ 2,000,000	$ 700,000

32. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The monetary assets or liabilities denominated in foreign currencies that have material effects on the Corporation's financial statements were as follows:

In Thousands of New Taiwan Dollars and Foreign Currencies

	December 31, 2016		
	Foreign Currencies	**Exchange Rates**	**New Taiwan Dollars**
Financial assets			
Monetary			
USD	$ 280,470	32.2500	$ 9,045,165
CNY	23,960	4.6170	110,623

(Continued)

	December 31, 2016		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
Non-monetary			
MYR	$ 5,234	6.9050	$ 36,142
JPY	35,578	0.2756	9,805
Financial liabilities			
Monetary			
USD	108,362	32.2500	3,494,668

(Concluded)

	December 31, 2015		
	Foreign Currencies	Exchange Rates	New Taiwan Dollars
Financial assets			
Monetary			
USD	$ 221,371	32.8250	$ 7,266,495
CNY	23,319	4.9950	116,479
Non-monetary			
MYR	5,551	7.3425	40,761
JPY	43,249	0.2727	11,794
Financial liabilities			
Monetary			
USD	106,407	32.8250	3,492,815

33. OTHER SIGNIFICANT EVENT

On August 5, 2016, the Hsinchu District Prosecutors Office conducted a statutory investigation of the Corporation, and the media reported an alleged violation of the Securities and Exchange Act by the Corporation. On August 6, 2016, the Corporation held a press conference and indicated a case between and among the Corporation, Ostek Corporation (former name was Twinson Electronics Corporation), Memoryexchange Corp and Everspeed Technology Group. The statutory investigation is ongoing, and it has not affected the Corporation's financial condition and business operations.

34. ADDITIONAL DISCLOSURES

a. Information about significant transactions and investees:

1) Financing provided to others. (None)

2) Endorsement/guarantee provided. (None)

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

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

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (None)

6) Disposal of individual real estate at prices of at least NT$300 million or 20% of the paid-in capital. (None)

7) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 2)

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 3)

9) Trading in derivative instruments. (None)

10) Information of investees. (Table 4)

b. Information on investments in mainland China:

1) Information on any investee company in mainland China, showing the name, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, net income of investees, investment income or loss, carrying amount of the investment at the end of the period, repatriations of investment income, and limit on the amount of investments in the mainland China area. (Table 5)

2) Any of the following significant transactions with investee companies in mainland China, either directly or indirectly through a third party, and their prices, payment terms, and unrealized gains or losses. (Table 6)

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

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

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

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

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

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

TABLE 1

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Phison Electronics Corp.	Beneficiary certificates							
	Mega Diamond Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,307	$ 103,164	-	$ 103,164	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,139	92,984	-	92,984	Note 3
	UPAMC James Bond Money Market Fund	-	Financial assets at fair value through profit or loss - current	12,254	202,901	-	202,901	Note 3
	Union Money Market Fund	-	Financial assets at fair value through profit or loss - current	6,995	91,515	-	91,515	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	14,847	151,926	-	151,926	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at fair value through profit or loss - current	3,130	50,558	-	50,558	Note 3
	Jih Sun Money Market Fund	-	Financial assets at fair value through profit or loss - current	13,767	201,951	-	201,951	Note 3
	Taishin Ta-Chong Market Fund	-	Financial assets at fair value through profit or loss - current	3,594	50,571	-	50,571	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	8,119	100,755	-	100,755	Note 3
	Common shares							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at fair value through profit or loss - current	7,100	80,585	0.88	80,585	Note 4
	Aptos Technology Inc.	-	Financial assets measured at cost - non-current	2,647	13,409	1.84	13,409	Note 5
	Viva Baseball Co., Ltd.	-	Financial assets measured at cost - non-current	Note 7	266	8.33	261	Note 5
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets measured at cost - non-current	950	10,956	0.50	16,620	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets measured at cost - non-current	3,000	24,471	18.75	36,876	Note 5
	Zillians Inc.	-	Financial assets measured at cost - non-current	440	-	17.25	-	Note 5
	Adam Elements International Co., Ltd.	-	Financial assets measured at cost - non-current	1,710	13,373	19.00	19,569	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets measured at cost - non-current	900	25,399	0.67	25,399	Note 5
	THLight Co., Ltd.	-	Financial assets measured at cost - non-current	6,388	4,186	17.94	1,146	Note 5
	UD INFO Corp.	-	Financial assets measured at cost - non-current	570	5,569	19.00	7,665	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets measured at cost - non-current	15,000	150,000	11.11	140,284	Note 5
	bOMDIC Co., Ltd.	-	Financial assets measured at cost - non-current	322	6,770	9.46	2,727	Note 5
	Geothings, Inc.	-	Financial assets measured at cost - non-current	150	1,500	6.70	799	Note 5
	Ironyun Incorporated (preference shares)	-	Financial assets measured at cost - non-current	5,000	5,723	5.99	5,695	Note 5
	Vescir Ltd.	-	Financial assets measured at cost - non-current	63	16	6.59	16	Note 5
	Innorich Venture Capital Corp.	-	Financial assets measured at cost - non-current	3,000	30,000	5.61	28,966	Note 5
	Dawning Leading Technology Inc.	-	Financial assets measured at cost - non-current	10,335	108,419	2.82	108,419	Note 5
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets measured at cost - non-current	11,966	101,130	15.94	102,892	Note 5
	Apacer Technology Inc.	-	Available-for-sale financial assets - non-current	10,050	372,051	9.96	372,051	Note 6

(Continued)

Holding Company Name	Marketable Securities Type/Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
Lian Xu Dong Investment	Beneficiary certificates							
	FSITC Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	1,986	$ 30,085	-	$ 30,085	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	2,424	30,082	-	30,082	Note 3
	Common shares							
	United Power Research Technology Corp.	-	Financial assets measured at cost - non-current	5,616	45,702	16.12	69,853	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets measured at cost - non-current	1,250	2,169	2.33	2,169	Note 5
	Translink Capital Partners III, L.P.	-	Financial assets measured at cost - non-current	870	27,121	1.18	28,668	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets measured at cost - non-current	708	79,123	4.68	(412)	Note 5
	Weltronics Corp., Ltd.	-	Financial assets measured at cost - non-current	700	1,537	19.44	1,537	Note 5
	UMBO CV INC. (preference shares)	-	Financial assets measured at cost - non-current	1,626	16,860	5.10	1,652	Note 5
	Omni Media International Incorporation	-	Financial assets measured at cost - non-current	1,714	30,000	15.99	20,010	Note 5
Emtops Electronics Corporation	Beneficiary certificates							
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at fair value through profit or loss - current	815	10,111	-	10,111	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at fair value through profit or loss - current	988	10,115	-	10,115	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	Beneficiary certificates							
	United Cash Fund	-	Financial assets at fair value through profit or loss - current	2,945	20,426	-	20,426	Note 3
Everspeed Technology Limited	Common shares							
	Peripheral Devices & Products System Inc.	-	Financial assets measured at cost - non-current	20	-	1.00	(976)	Note 5
	Zillians Inc.	-	Financial assets measured at cost - non-current	500	-	19.61	-	Note 5
Cloud Solution Global Limited	Common shares							
	My Digital Discount, Inc.	-	Financial assets measured at cost - non-current	-	9,191	19.00	877	Note 5

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

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

Note 3: The calculation of the market value was based on their net asset value as of December 31, 2016.

Note 4: The calculation of the market value was based on the closing price as of December 31, 2016.

Note 5: The calculation of the net asset value was based on the investee’s unaudited financial statements as of December 31, 2016.

Note 6: Refer to Note 27(b)-3 for market value information.

Note 7: The company is not limited by shares.

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

(Concluded)

TABLE 2

PHISON ELECTRONICS CORP.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase (Sale)	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Toshiba Electronics Components Taiwan Corporation	Second-tier subsidiary of a corporate member of the Corporation's board of directors	Purchase	$ 18,853,531	55	Net 30 days after monthly closing	None	None	$ (1,697,597)	(44)	-
	Toshiba America Electronic Components, Inc.	Subsidiary of a corporate member of the Corporation's board of directors	Purchase	2,677,826	8	Net 30 days after receipt	None	None	(123,821)	(3)	-
	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	317,917	1	Net 30 days after monthly closing	None	None	(79,059)	(2)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,914,034	6	Net 15 days after monthly closing	None	None	(86,286)	(2)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	1,125,257	3	Net 45 days after monthly closing	None	None	(132,628)	(3)	-
	Toshiba International Procurement Hong Kong Ltd. (Toshiba-TIPH)	Subsidiary of a corporate member of the Corporation's board of directors	Sale	(260,542)	(1)	Net 60 days after monthly closing	None	None	30,722	1	-
	Toshiba Corporation, Japan	Corporation's board of directors	Sale	(1,763,069)	(4)	Net 60 days after monthly closing	None	None	324,910	6	-

TABLE 3

PHISON ELECTRONICS CORP.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Action Taken		
Phison Electronics Corp.	Toshiba Corporation, Japan	Corporation’s board of directors	$ 324,910	6.04	$ -	-	$ 324,910	$ -

Note: As of February 28, 2017

TABLE 4

PHISON ELECTRONICS CORP.

INFORMATION OF INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2016			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2016	December 31, 2015	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phison Electronics Corp.	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	$ 106,050	$ 106,050	10,605,000	32.91	$ 1,149,415	$ 1,492,011	$ 490,889	Equity-method investee
	Emtops Electronics Corporation	Taiwan	Sale of flash memory controllers and peripheral system applications	95,000	95,000	9,500,000	100.00	73,952	(1,883)	(1,883)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	400,000	400,000	40,000,000	100.00	373,018	(60,609)	(60,609)	Subsidiary
	Flexmedia Electronics Corporation	Taiwan	R&D, sales and production of high-tech multimedia designs	8,077	8,077	482,142	21.43	1,063	(1,005)	(215)	Equity-method investee
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	24,211	5,169	2,533	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	28,982	28,982	900	100.00	9,805	(2,280)	(2,280)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	635,696	635,696	20,000,000	100.00	585,179	12,523	12,523	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	81,771	81,771	8,700,000	87.00	36,142	(1,650)	(1,434)	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	102,216	10,600,000	44.21	79,732	(57,267)	(31,055)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	-	3,200,000	100.00	104,961	1,526	1,526	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	156,992	(41,282)	8,930	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	62,028	(15,463)	-	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	2,199	222	-	Equity-method investee
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Taiwan	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	10,000	10,000	1,000,000	100.00	31,807	308	-	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	546,690	17,152	-	Sub-subsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2016			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2016	December 31, 2015	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	$ 98,754	$ -	3,000,000	100.00	$ 98,542	$ 1,793	$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Miaoli, Taiwan	Design and sale of flash memory related products	391,986	59,286	40,950,000	100.00	13,518	(2,568)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,900	(24,794)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	-	5,950,440	100.00	21,488	26,983	-	Sub-subsidiary
Fast Choice Global Limited	Manutius IP, Inc.	U.S.A.	Patent management and authorization	87,036	87,036	1,440,000	48.00	-	(2,841)	-	Note
Cloud Solution Global Limited	Asadhya Enterprises Private Limited	India	Trade of electronic products	611	611	122,255	49.00	-	(15)	-	Equity-method investee
Emtops Electronics Corporation	Manutius IP, Inc.	U.S.A.	Patent management and authorization	34,468	34,468	570,000	19.00	-	(2,841)	-	Note

Note: The entity was approved for dissolution by the local government on July 8, 2016.

(Concluded)

PHISON ELECTRONICS CORP.

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

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

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

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

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

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

TABLE 6

PHISON ELECTRONICS CORP.

SIGNIFICANT TRANSACTIONS WITH INVESTEE COMPANIES IN MAINLAND CHINA, EITHER DIRECTLY OR INDIRECTLY THROUGH A THIRD PARTY, AND THEIR PRICES, PAYMENT TERMS, AND UNREALIZED GAINS OR LOSSES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Buyer	Related Party	Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable (Payable)		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	$ 472,764	1	Net 30 days after monthly closing	None	None	$ 114	-	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiaries	Sale	480,098	86	Net 30 days after monthly closing	None	None	74,418	99	-