Stock Code：8299

PHISON Knows What You Need

Phison Electronics Corporation

2017 ANNUAL REPORT

Notice to Readers

For the convenience of readers, the 2017 ANNUAL REPORT has been translated into English from the original Chinese version prepared and used in the Republic of China and is not an official document of the shareholders' meeting. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese version of the 2017 ANNUAL REPORT shall prevail.

Annual Report is available in the following websites.
Taiwan Stock Exchange Market Observation Post System:
http://mops.twse.com.tw
Corporation Website:www.phison.com
Printed on May 24, 2018

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  Title: Senior Special Assistant

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  E-mail: antonioyu@phison.com

- **Deputy Spokesperson**

  Name:Yang Hsiao Fang

  Title: Special Assistant

  Tel: (037) 586-896 ext. 1039

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- **Headquarters, Branches and Plant**

  Headquarter

  Address:10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)

  Tel: (03)657-9299

  Zhunan Branch and Plant

  Zhunan Branch Address:No.1, Qunyi Rd.,Jhunan Township, Miaoli County 350, Taiwan (R.O.C.)

  Zhunan 2 Factory Address:No.1-1, Qunyi Rd., Jhunan Township, Miaoli County 350, Taiwan (R.O.C.)

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  Tel: (037)586-896

- **Stock Transfer Agent**

  Registrar, Horizon Security Corp.

  Address: 3F., No.236, Sec. 4, Hsin-I Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.)

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  Tel: (02)2326-8818

- **Accounting Firm**

  Auditors: Dai Xin Wei and Fan Yu Wei

  Deloitte Touche Tohmatsu Limited

  Address: 12F., No.156, Sec. 3, Minsheng E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)

  Website: www.deloitte.com.tw

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- **Overseas Securities Exchange: None.**
- **Corporation Website: www.phison.com**

Phison Electronics Corporation
2017 Annual Report
Contents

I. Letter to Shareholders

Dear Shareholders,

The year of 2017 was changing rapidly in the memory chip industry. With the base of Phison’s corporation cores of sharing, integrity, efficiency and innovation, Phison aggressively invest on the research and development of NAND flash and its applied products. In 2017, Phison completed and launched the operation of Factory 3 and continually invited more R&D talents to join the company which were keeping Phison in the leading position in the industry and introducing new technologies and new products to meet the needs of Customers and the markets. As a result, the net profit of the year 2017 reached a new record.

With the concerted efforts of all groups, the total consolidated revenue for 2017 was approximately NT$41.9 billion, the consolidated after-tax surplus earning was approximately NT$5.8 billion, and the after-tax EPS was NT$29.23. It has grown substantially, compared to year 2016.

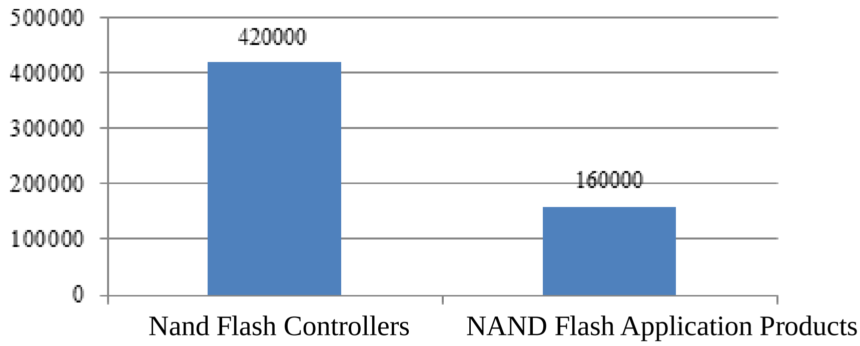
In 2017, the company’s SSD products and the related products of embedded memory, such as control chips and finished products accounted for 40% of the company’s total revenue, marking a growth of 13 percent compared with the previous year, and actively developed UFS control chip, which is the best choice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

Thanks to the Internet of Things and intelligent application market, the construction of cloud computing big data center is rapidly pushing the penetration rate of ultra-high speed solid-state disk (SSD) into a rapid growth stage. Phison Electronics Corp. launched different NAND Flash control chips, based on different application markets within the SSD application market, including PCIe Gen 3x2 and Gen 3x4 NVMe specification control chips, which are leading products that enable Phison Electronics Corp. to snatch the mainstream application device market. In the high-end application/enterprise-level SSD application market, we have newly developed ultra-high-speed, low-latency 8-channel PCIe Gen3x4 controller chips and various SSD related products with different specifications. In embedded applications, Phison Electronics Corp, as one of the few industry leaders in the world that provides complete eMMC and UFS, will continue introducing mobile storage devices into new generations. A new control chip supporting UFS2.1 is launched. This control chip was specially matched with Phison Electronics Corp's own technology, StrongECCTM, Advanced LDPC, and CoProcessorTM architecture, which not only provided low power consumption, but also demonstrated excellent error correction capabilities and SSD-like performance. In terms of memory cards, Phison Electronics Corp. released the latest control chips of SD/microSD card compatible SD 6.0 A2, which has the absolute advantage of high-speed random access, exceeds current industry specifications, and supports more competitive 3D TLC Nand Flash , aimed at high storage capacity application market. In the USB series, Phison Electronics Corp's latest portable SSD enables the highest performance external SSD. In addition, the new iDUO Lightning and C-Thru USB3.1 solutions allow users to simultaneously charge mobile phones or mobile devices while using high-speed storage devices.

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

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

In 2018, the Company plans to supplement and expand R&D personnel to 1,200 people approximately. The estimated shipment of major products in 2018 years is as follows:



The company's current product line for the new development or continuous upgrade in 2018 is as follows:

(1) Develop high-capacity USB3.1 flash discs that support high-speed random writing.
(2) Develop SD/microSD memory cards that support high-speed random writing.
(3) Develop the latest generation of UFS flash memory control chips.
(4) Develop flash memory management core circuit modules to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption.
(5) Combine resources on the Host side to develop high-performance SSD that reduce overall power consumption.

(6) For the SSD product line and built-in flash memory modules, we will continue to develop products with innovative specifications and technologies in conjunction with the application market.
(7) Continuous development of SIP SSD.
(8) Develop eMMC and SD cards that meet the vehicle specifications.

Moving forward to the future, Phison is keeping growth under Phison corporate cores, and following up with the rapidly changing global trends. Except maintaining the on-line products to acquire most economic benefits, the company is investing to develop modern and creative technologies. Phison is hunting for more opportunities to strategically cooperate with major players in the industry to explore markets jointly, enhance products technical status and market share, continue the competitiveness of enterprises, and continually expand the market territory.

Respectfully yours

Chairman of the Board: Pua Khein Seng

President: AwYong Chee Kong

Finance Director :Chiu Shu Hwa

II. Company Profile

2.1 Date of Incorporation: Nov 8, 2000

Date of listing at TPEx: Dec 6, 2004

2.2 Company History

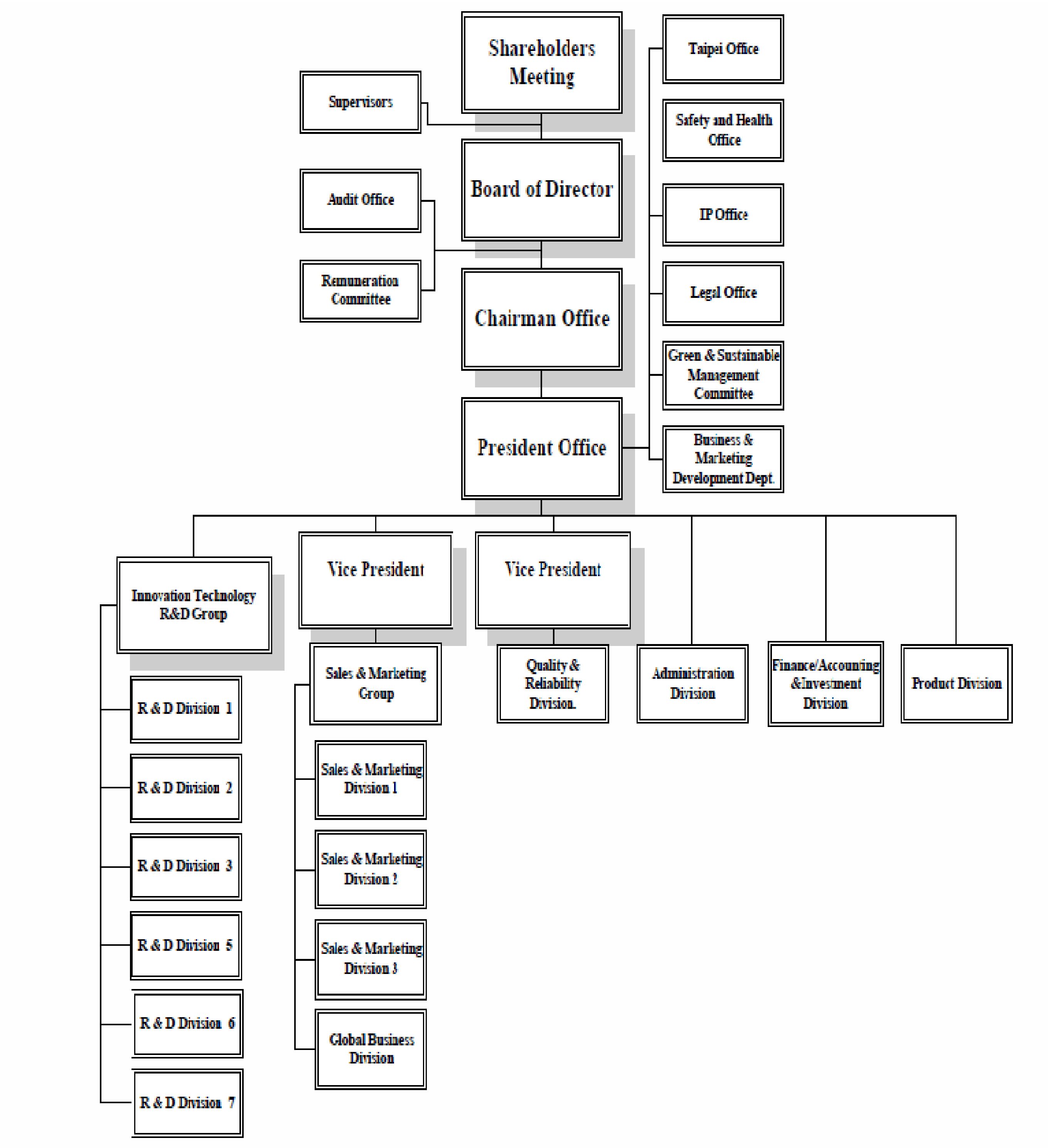
Year	Milestones
Feb, 2010	• Converting the employee stock option of NT$5,375,000 into the common stock. The paid-in capital was up to NT$1,472,647,860.
May, 2010	• Converting the employee stock option of NT$2,525,000 into the common stock. The paid-in capital was up to NT$1,475,172,860.
Jul, 2010	• Converting the employee stock option of NT$200,000 into the common stock. The paid-in capital was up to NT$1,475,372,860.
Aug, 2010	• Converting the profit of NT$295,034,570 into the common stock. The paid-in capital was up to NT$1,770,407,430.
Aug, 2010	• This company moved to10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.).
Nov, 2010	• Collaborating with Kingston Technology Corporation to establish "Kingston Solutions Inc." to develop the embedded memory system and explore the market.
Nov, 2010	• Converting the employee stock option of NT$380,000 into the common stock. The paid-in capital was up to NT$1,770,787,430.
Jan, 2011	• Converting the employee stock option of NT$2,815,000into the common stock. The paid-in capital was up to NT$1,773,602,430.
Feb, 2011	• Establishing the subsidiary company in Japan,"Phison Electronics Japan Corp."
March, 2011	• Establishing the subsidiary company "EMtops Electronics Corp. "
May, 2011	• Converting the employee stock option of NT$11,660,000 into the common stock. The paid-in capital was up to NT$1,785,262,430.
Jul, 2011	• Converting the employee stock option of NT$1,075,000 into the common stock. The paid-in capital was up to NT$1,786,337,430.
Oct, 2011	• Converting the employee stock option of NT$1,195,000 into the common stock. The paid-in capital was up to NT$1,787,532,430.
Jan, 2012	• Converting the employee stock option of NT$795,000 into the common stock. The paid-in capital was up to NT$1,788,327,430.
May, 2012	• Converting the employee stock option of NT$11,890,000 into the common stock. The paid-in capital was up to NT$1,800,217,430.
May, 2012	• Establishing the subsidiary company in Malaysia " Phisontech Electronics (Malaysia) Sdn. Bhd."
Jun, 2012	• Establishing the subsidiary company in Samoa "Global Flash Limited".
Aug, 2012	• Converting the employee stock option of NT$40,000 into the common stock. The paid-in capital was up to NT$1,800,257,430.
Dec, 2012	• Establishing the subsidiary of subsidiary company in Shenzen, China, "Phisontech (Shenzhen) Limited".
Dec, 2012	• Converting the employee stock option of NT$1,365,000 into the common stock. The paid-in capital was up to NT$ 1,801,622,430.
Feb, 2013	• Converting the employee stock option of NT$3,117,500 into the common stock. The paid-in capital was up to NT$ 1,804,739,930.
May, 2013	• Establishing the subsidiary of subsidiary company" Phisontech Electronics Taiwan Corp. "
Sep, 2013	• The PS3108 controller from Phison Electronics Corporation was proved to show the highest performance in the DramExhcange experiments.

Year	Milestones
Sep, 2013	• Phison Electronics Corporation announced the fastest Cache SSD based on PS3109.
Oct, 2013	• Corsair announced the FORCE LS SSD equipped with PS-3108 as the controller IC.
Feb, 2014	• Phison Inside： MyDigitalSSD OTG Pocket SuperSpeed USB 3.0 mSATA SSD was announced.
May, 2014	• Phison PS3109 M.2 SSD won the editor's choice award.
May, 2014	• Chromebook used PS3109 SATA III controller from Phison Electronics Corporation in the system.
May 2014	• Kingston announced the M.2 SATA III SSD controller based on the PS3108 from Phison Electronics Corporation.
Jul, 2014	• Issuing the private common stock of NT$50,000,000. The paid-in capital was up to NT$ 1,854,739,930.
Aug, 2014	• Phison Electronics Corporation announced the new generation of quad-core SATA3 SSD controller PS3110.
Aug, 2014	• Phison Electronics Corporation announced the Secure USB to protect against newly-identified cyber-attack.
Sep, 2014	• Phison Electronics Corporation announced the ultra-high-speed SDXC 256GB SD card.
Oct, 2014	• Phison Electronics Corporation announced the Secure USB to protect against newly-identified cyber-attack.
Oct, 2014	• Phison Electronics Corporation announced theUHS-II SD card controller to satisfy the needs of 4K2K UHD resolution.
Nov, 2014	• Corsair announced the high performance Neutron XT SSD equipped with PS3110-S10 as the controller IC.
Jan, 2015	• Phison Electronics Corporation announced the ultra-high-speed USB controller chip to satisfy the needs for small size, large capacity and ultra-high speed.
Jan, 2015	• Phison Electronics Corporation announced the SATA III TLC SSD, 2TB MLC SSD and power outage protection design in CES 2015.
Mar, 2015	• Issuing the private common stock of NT$119,000,000. The paid-in capital was up to NT$ 1,973,739,930.
Jun, 2015	• Establishing the "Hefei Core Storage Electronic Limited" in China.
Jan, 2016	• Phison Electronics Corporation announced the first controller chip PS5007-E7 which supports PCIe Gen3 x 4 NVMe SSD.
Sep, 2016	• Phison Electronics Corporation announced the first solution in the industry for the SD 5.0 specification. This solution led the SD card application into an era of high-speed video recording of Video Speed Class.
Sep, 2016	• Phison Electronics Corporation announced themicroSD card of the Max IOPS product line.
Dec, 2016	• NT$3,000,000 of treasury shares were annulled. The paid-in capital was down to NT$ 1,970,739,930.
Dec, 2016	• At the new era of3D TLC NAND Flash, Phison Electronics Corporation announced the UFS 2.1 chip PS8311.
Jan, 2017	• Phison Electronics Corporation announced the ultra-high-speed NAND Flash controller chip in CES 2017.
Feb, 2017	• Phison SSD controller passed the BiCS3 testing verification which will help the company and Toshiba to enhance 3D NAND application.
Apr, 2017	• The SD 5.1 A1 controller PS8131 introducing BiCS3 technical.
Aug, 2017	• The latest UFS2.1 controller PS8313 widespread to the cross-generation new smart phones .

III. Corporate Governance Report

3.1 Organization

3.1.1 Organizational Chart



3.1.2 Major Corporate Functions

Department	Functions
Audit Office	Establishing, amending and reviewing the internal audit system; reviewing and monitoring the internal control system.
President Office	In charge of implementing and completing the jobs assigned by the board of directors; establishing the operation guidance and quality policy; in charge of the operating and decision-making of the company.
Taipei Office	In charge of the administrative affairs in Taipei area.
Safety and Health Office	In charge of the security and health affairs for the employees; ensuring the security of the work environment and ensuring the law conformance.
IP Office	In charge of the administration and review of the patents, trademarks and lawsuits, etc.
Legal Office	In charge of the administration and review of the contracts, insurances, lawsuits, etc.
Green & Sustainable Management Committee	In charge of the green products and the affairs of sustainability and environment protection, and ensuring the law conformance.
Business & Marketing Development Department	Establishing the pricing strategies for the products, coordinating the manufacturing of products, and managing the inventory.
Innovation, Technology R&D Group	Confirming the product specification with the marketing and sales department, and evaluating the feasibility of product technology; in charge of the design of software, firmware and hardware development; validating the design of new products and implementing the projects; in charge of the management and supervision of the chip outsourcing.
Sales and Marketing Group	Establishing the product development of products and the strategies of marketing and sales; establishing the pricing strategies for the products; analysis of the market and competitors; in charge of refunds, replenishments and replacements; exporting affairs.
Quality & Reliablity Division	In charge of the acceptance/shipment, manufacturing processes, outsourcing processing, quality examination and analysis; introducing, maintaining and tracking the ISO system; implementing the green industry chain; scheduling the internal and external ISO audits; drafting and publishing the CSR reports.
Administration Division	Supervision and Management of the human resource affairs and general affairs; in charge of the planning, maintenance, security of the computer equipment; in charge of the plant affairs, plant security, employee welfare affairs, etc.
Finance/Accounting & Investment Division	In charge of the operation, administration and management of the accounting, finances, cost, investment and shareholding affairs.
Product Division	Establishing and implementing the manufacturing strategies and operation plans; monitoring, managing and analyzing the yield and quality of products; in charge of procurements.

3.2 Profile of Directors, Supervisors and Management Team

3.2.1 Profile of Directors and Supervisors

As of 10/4/2018

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Malaysia	Pua Khein Seng	M	2017.06.13	3 years	2000.10.24	4,557,972	2.31%	4,557,972	2.31%	806,262	0.41%	470,000	0.24%	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	【Note 02】	N.A.	N.A.	N.A.
Director	Malaysia	AwYong Chee Kong	M	2017.06.13	3 years	2002.02.15	3,355,745	1.70%	3,355,745	1.70%	0	0.00%	0	0.00%	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	【Note 03】	N.A.	N.A.	N.A.
Director	Taiwan	Kuang Tzung Horng	M	2017.06.13	3 years	2008.06.13	1,478,736	0.75%	1,408,736	0.71%	0	0.00%	0	0.00%	Master of Business Administration of Greenwich University Kogen Singarpore Pte Ltd	【Note 04】	N.A.	N.A.	N.A.
Director 【Note 05】	Taiwan	Chen An Chung	M	2014.06.17	3 years	2014.06.17	38,145	0.02%	【Note 05】						Master Degree of E.E., University of Florida, USA.	【Note 05】	N.A.	N.A.	N.A.
Director 【Note 06】	Taiwan	Hsu Chih Jen	M	2017.06.13	3 years	2011.06.15	1,080,185	0.55%	1,080,185	0.55%	0	0.00%	0	0.00%	Department of Computer Science of Chung Yuan Christian University Assistant Manager of Winbond Electronics Corp.	【Note 07】	N.A.	N.A.	N.A.
Director 【Note 08】	Japan	Toshiba Corporation	-	2014.06.17	3 years	2002.06.25	21,621,112	11.98%	【Note 08】						N.A.	【Note 08】	N.A.	N.A.	N.A.
	Japan	Hiroto Nakai 【Representative of Toshiba Corporation】	M	2014.06.17	3 years	2012.01.16	0	0.00%							Bachelor of Earth Resources Engineering of Tohoku University Master of Engineering of Tohoku University Toshiba Corporation Storage& Electronic Devices Solutions Company, Memory Division, Senior Fellow		N.A.	N.A.	N.A.
Director 【Note 09】	Taiwan	Toshiba Memory Semiconductor Taiwan Corporation	-	2017.06.13	3 years	2017.06.13	1,000	0.00%	【Note 09】						N.A.	【Note 09】	N.A.	N.A.	N.A.
	Japan	Hiroto Nakai 【Representative of Toshiba Memory Semiconductor Taiwan Corporation】	M	2017.06.13	3 years	2012.01.16	0	0.00%							Bachelor of Earth Resources Engineering of Tohoku University Master of Engineering of Tohoku University Toshiba Corporation Storage& Electronic Devices Solutions Company, Memory Division, Senior Fellow		N.A.	N.A.	N.A.
Director 【Note 10】	Japan	Toshiba Memory Corporation	-	2017.09.27	3 years	2017.09.27	19,821,112	10.06%	19,821,112	10.06%	0	0.00%	1,000	0.00%	N.A.	【Note 11】	N.A.	N.A.	N.A.
	Japan	Hiroto Nakai 【Representative of Toshiba Memory Corporation】	M	2017.09.27	3 years	2012.01.16	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Bachelor of Earth Resources Engineering of Tohoku University Master of Engineering of Tohoku University Toshiba Corporation Storage& Electronic Devices Solutions	【Note 12】	N.A.	N.A.	N.A.

Title	Nationality/ Place of Incorporation	Name	Gender	Date Elected	Term (Years)	Date First Elected	Shareholding When Elected		Current Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience（Education）	Other Position	Executives, Directors or Supervisors Who are Spouses or within Two Degrees of Kinship		
							Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
		】													Company, Memory Division, Senior Fellow				
Independent Director	Taiwan	Wang Chen Wei	M	2017.06.13	3 years	2014.06.17	0	0.00%	0	0.00%	0	0.00%	0	0.00%	CEO, Quanta Computer lnc. President, Quanta Computer lnc.	【Note 13】	N.A.	N.A.	N.A.
Independent Director	Taiwan	Wang Shu Fen	F	2017.06.13	3 years	2003.11.12	0	0.00%	0	0.00%	0	0.00%	0	0.00%	Ph.D. in Finance, University of Houston Director of Department of Information and Finance Management, National Chiao Tung University Director of EMBA in Taiwan, University of South Australia Review Committee Member of TWSE	【Note 14】	N.A.	N.A.	N.A.
Supervisor	Taiwan	Yang Jiunn Yeong	M	2017.06.13	3 years	2011.06.15	4,549,114	2.31%	4,549,114	2.31%	0	0.00%	0	0.00%	Postdoc of Graduate Institute ofElectrical and Computer Engineering, NCKU Ph.D. of Graduate Institute ofElectrical and Computer Engineering, NCKU Master of Graduate Institute ofElectrical and Computer B.S. of Department of Electrical and Computer Engineering, NCKU	【Note 15】	N.A.	N.A.	N.A.
Supervisor	Taiwan	Wang Huei Ming	M	2017.06.13	3 years	2008.06.13	171,750	0.09%	171,750	0.09%	0	0.00%	0	0.00%	MA in Industrial Management from Chung Hua University Executive Director of Taiwan Certified Public Accountant Association Chairman of Discipline Committee of Taiwan Certified Public Accountant Association Member of Discipline Committee of Taipei Certified Public Accountant Association Vice Chairman of Moral Committee of Taiwan Certified Public Accountant Joint Association	【Note 16】	N.A.	N.A.	N.A.
Supervisor	Taiwan	Chen Chiun Hsiou	M	2017.06.13	3 years	2014.06.17	0	0.00%	0	0.00%	0	0.00%	0	0.00%	MBA of Binghamton University, State University of New York Executive VicePresident of Rich Father International Holdings Lecturer of Chen An-Chi Educational Training Center Manager of General Management of Ichia Technology Inc. President of Kaechuan Corp. Marketing Specialist of Taiwan IBM Inc. Planner of CSEC	【Note 17】	N.A.	N.A.	N.A.

【Note 01】The Company re-elected its Directors and Supervisors on June 13, 2017.

【Note 02】CEO of Phison Electronics Corporation; Directors Representative and Chairman,Lian Xu Dong Investment Corporation,OSTEK Corporation,Phisontech Electronics Taiwan Corp., Memoryexchange Corporation;Directors Representative, Kingston Solutions Inc.;Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, EpoStar Electronics (BVI) Corporation,Core Storage Electronic (Samoa) Limited, HYCON Technology Corporation,Cheng He Investment Co., Ltd.

【Note 03】President of Phison Electronics Corporation; Directors Representative, Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp. ;Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, Core Storage Electronic (Samoa) Limited.

【Note 04】Vice-President of Phison Electronics Corporation; Directors Representative and Chairman,Emtops Electronics Corporation ;Directors Representative, Microtops Design Corporation, OSTEK Corporation ; Director, Phison Electronics Japan Corp., Power Flash (Samoa) Limited.

【Note 05】Director of Chen An Chung resigned on June 12, 2017.

【Note 06】Director of Hsu Chih Jen takes office on 13th of June, 2017.

【Note 07】Vice Technical President of Phison Electronics Corp., Director of Representative of PHISONTECH ELECTRONICS TAIWAN CORP..

【Note 08】Toshiba Corporation and representative of Hiroto Nakai resigned on June 12, 2017.

【Note 09】Toshiba Memory Semiconductor Taiwan Corporation and Hiroto Nakai representative of Toshiba Memory Semiconductor Taiwan Corporation appointed on June 13, 2017. Due to Toshiba Group organizational restructuring, so Toshiba Memory Semiconductor Taiwan Corporation resigned on Aug. 1 2017.

【Note 10】Toshiba Memory Corporation and Hiroto Nakai representative of Toshiba Memory Corporation takes office on September 27, 2017.

【Note 11】 Director, Flash Partners, Ltd.、Flash Alliance, Ltd.、Flash Forward, Ltd.、Solid State System Co.,Ltd、Toshiba Memory Systems Co., Ltd.、Toshiba Memory Advanced Package Corporation、Toshiba Memory America, Inc.、Toshiba Memory Europe GmbH、Toshiba Memory Asia, Ltd.、Toshiba Electronics(China) Co., Ltd.、Toshiba Memory Singapore Pte. Ltd.、Toshiba Memory Semiconductor Taiwan Corporation、Toshiba Memory Taiwan Corporation、Toshiba Memory Korea Corporation、Microtops Design Corporation、Toshiba Devices&Storage (Shanghai) Co.,Ltd.

【Note 12】Toshiba Memory Corporation, Memory Division, Senior Fellow.

【Note 13】Director, Janus Technologies, Inc, GIVE543 CO., LTD. ; Independent Director, Casetek Holdings Limited, SIMPLO TCHNOLOGY CO.,LTD. ; Director Representative, Chicony Power Technology Co., Ltd., Industrial Technology Investment Corporation.

【Note 14】Member of the Chinese Association of Valuation, Member of the Public Debt Management Committee in Hsinchu County, Member of the Public Debt Management Committee in Hsinchu City, United States Beta Gamma Sigma Honorary Member, Securities Analysts of R.O.C, Independent director, Bothhand Enterprise Inc., Original Biomedicals Co., Ltd.

【Note 15】Director of Apacer Technology Inc.

【Note 16】Director of Moores Rowland CPAs; Director of Taiwan Branch of Praxity Global Alliance of Independent Firms.

【Note 17】Independent of director ,Waffer Technology Corp.

Major shareholders of the institutional shareholders

As of 10/4/2018

Name of Institutional Shareholders	Major Shareholders	Share Percentage
Toshiba Memory Corporation	Toshiba Corporation	100%

Name of Institutional Shareholders	Major Shareholders	Share Percentage
Toshiba Corporation 【Note 1】	GOLDMAN SACHS INTERNATIONAL	8.9%
	JP MORGAN CHASE BANK 380055	6.9%
	CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	3.8%
	The Dai-ichi Life Insurance Company, Limited	2.7%
	Toshiba Employees Shareholding Association	2.7%
	Nippon Life Insurance Company	2.6%
	Japan Trustee Services Bank, Ltd. (Trust accounts)	2.2%
	Japan Trustee Services Bank, Ltd. (Trust accounts No.5)	1.9%
	The Master Trust Bank of Japan, Ltd. (Trust accounts)	1.6%
	Japan Trustee Services Bank, Ltd. (Trust accounts No.1)	1.4%

【Note 1】The above information is about Toshiba Corporation on Mar 31 of 2017 and taken from the 2017 Toshiba Corp. Annual Report.

Professional qualifications and independence analysis of directors and supervisors

As of 10/4/2018

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria 【Note 1】										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
	An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist Who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Finance, or Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Pua Khein Seng			✓				✓	✓	✓	✓	✓	✓	✓	-
AwYong Chee Kong			✓				✓	✓	✓	✓	✓	✓	✓	-
Kuang Tzung Horng			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Chen An Chung 【Note 3】			✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Hsu Chih Jen 【Note 4】			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Toshiba Corporation 【Note 5】			✓	✓	✓	✓	✓			✓	✓	✓		-
Toshiba Corporation Representative: Hiroto Nakai 【Note 5】			✓	✓	✓	✓	✓			✓	✓	✓		-
Toshiba Memory Semiconductor Taiwan Corporation 【Note 6】			✓	✓	✓	✓	✓			✓	✓	✓		-
Toshiba Memory Semiconductor Taiwan Corporation Representative: Hiroto Nakai 【Note 6】			✓	✓	✓	✓	✓			✓	✓	✓		-
Toshiba Memory Corporation 【Note 7】			✓	✓	✓	✓	✓			✓	✓	✓		-
Toshiba Memory Corporation Representative: Hiroto Nakai 【Note 7】			✓	✓	✓	✓	✓			✓	✓	✓		-
Wang, Chen Wei			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Wang Shu Fen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Wang Huei Ming		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Yang Jiunn Yeong			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	-
Chen Chiun Hsiou			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1

【Note 1】 Please tick the corresponding boxes that apply to the directors or supervisors during the two years prior to being elected or during the term of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of the Company or any of its affiliates. Not applicable in cases where the person is an independent director of the Company, its parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or

institution which has a financial or business relationship with the Company.

7. Not a professional individual who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Company.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

【Note 2】The Company re-elected its Directors and Supervisors on June 13, 2017.

【Note 3】Director, Chen An Chung resigned on June 12, 2017.

【Note 4】Director of Hsu Chih Jen takes office on 13th of June, 2017.

【Note 5】Toshiba Corporation and Hiroto Nakai representative of Toshiba Corporation resigned on June 12, 2017.

【Note 6】Toshiba Memory Semiconductor Taiwan Corporation and Hiroto Nakai representative of Toshiba Memory Semiconductor Taiwan Corporation appointed on June 13, 2017. Due to Toshiba Group organizational restructuring, so Toshiba Memory Semiconductor Taiwan Corporation resigned on Aug. 1 2017.

【Note 7】Toshiba Memory Corporation and Hiroto Nakai representative of Toshiba Memory Corporation appointed on September 27, 2017.

3.2.2 Profile of Management Team

As of 10/4/2018

Title	Nationality	Name	Gender	Date Effective	Shareholding		Spouse & Minor Shareholding		Shareholding by Nominee Arrangement		Experience (Education)	Other Position	Managers who are Spouses or Within Two Degrees of Kinship		
					Shares	%	Shares	%	Shares	%			Title	Name	Relation
CEO	Malaysia	Pua Khein Seng	M	2008.10.01	4,557,972	2.31%	806,262	0.41%	470,000	0.24%	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	【Note 01】	N.A.	N.A.	N.A.
President	Malaysia	Aw Yong Chee Kong	M	2008.10.01	3,355,745	1.70%	0	0.00%	0	0.00%	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	【Note 02】	N.A.	N.A.	N.A.
Vice President	Taiwan	Kuang Tzung Horng	M	2002.06.18	1,408,736	0.71%	0	0.00%	0	0.00%	Master of Business Administration of Greenwich University Kogen Singarpore Pte Ltd	【Note 03】	N.A.	N.A.	N.A.
Vice President	Taiwan	Yeou Long Sheng	M	2017.09.20	0	0.00%	0	0.00%	0	0.00%	Vice President of Xintec Inc. Department Manager of Taiwan Semiconductor Manufacturing Co., Ltd. EMBA of Business, National Taiwan University. Master of University of Houston	N.A.	N.A.	N.A.	N.A.
Vice Technical President	Taiwan	Hsu Chih Jen	M	2012.08.01	1,080,185	0.55%	0	0.00%	0	0.00%	B.S. of Department of Information Engineering, Chung Yuan Christian University Assistant Manager of Winbond Electronics Corp.	【Note 04】	N.A.	N.A.	N.A.
Director of Administration Division	Taiwan	Liu Hsiu Chin	F	2009.10.31	30,427	0.02%	0	0.00%	0	0.00%	B.S. of Department of Finance Management, Chung Hua University Specialist of Silicon Motion Inc. specialist of Advanced Scientific Corp.	【Note 05】	N.A.	N.A.	N.A.
Director of Product Division/R&D Division 3	Malaysia	Gan Wee Kuan	M	2012.02.24	104,052	0.05%	5,451	0.00%	0	0.00%	B.S. of Department of Electrical and Computer Engineering, NCTU	【Note 06】	N.A.	N.A.	N.A.
Director of Sales & Marketing Division 1	Taiwan	Tsai Shu Hui	F	2012.02.24	208,114	0.11%	3,115	0.00%	0	0.00%	B.S. of Department of Applied English, Fu Jen Catholic University English Teacher of Gram English Center Sales/Production Control of Silicon Motion Inc.	【Note 07】	N.A.	N.A.	N.A.
Director of Sales & Marketing Division 2	Taiwan	Tsay Huei Chen	F	2012.02.24	9,701	0.00%	169	0.00%	0	0.00%	B.S. of Department of Automatic Control Engineering, Feng Chia University University of Exeter, UK, MBA in International Management Teaching Assistant, department of Automatic Control Engineering, Feng Chia University Vice Director of Sales Department of Tripod Technology Inc.	【Note 08】	N.A.	N.A.	N.A.
Director of R&D Division 1	Taiwan	Cheng Kuo Yi	M	2012.08.01	54,134	0.03%	1,558	0.00%	0	0.00%	Master of Graduate Institute of Electric Engineering, National Taiwan University of Science and Technology	【Note 09】	N.A.	N.A.	N.A.
Director of R&D Division 2/7	Taiwan	Ma Chung Hsun	M	2012.08.01	0	0.00%	0	0.00%	0	0.00%	Master of Graduate Institute of Physics, National Central University VicePresident of King Byte Information Corp.	【Note 10】	N.A.	N.A.	N.A.
Director of R&D Division 5	Taiwan	Lin Jui Chieh	M	2006.05.01	0	0.00%	0	0.00%	0	0.00%	Master of Graduate Institute of Electrical and Computer Engineering, NCTU Vice Manager of Faraday Technology Inc.	N.A.	N.A.	N.A.	N.A.
Director of Finance/Accounting&Investment Division	Taiwan	Chiu Shu Hua	F	2012.12.01	0	0.00%	0	0.00%	0	0.00%	B.S. of Department of Economics, National Central University ViceAssistant Officer of Deloitte & Touch CPAs	【Note 11】	N.A.	N.A.	N.A.

【Note 01】CEO of Phison Electronics Corporation; Directors Representative and Chairman,Lian Xu Dong Investment Corporation,OSTEK Corporation,Phisontech Electronics Taiwan Corp., Memoryexchange Corporation;Directors Representative, KingstonSolutions Inc.;Director, Phisontech Electronics(Malaysia) Sdn. Bhd., Global Flash Limited, EpoStar Electronics (BVI) Corporation,Core Storage Electronic (Samoa) Limited, HYCON Technology Corporation,Cheng He Investment Co., Ltd.

【Note 02】President of Phison Electronics Corporation; Directors Representative, Lian Xu Dong Investment Corporation, Phisontech Electronics Taiwan Corp. ;Director, Phisontech Electronics (Malaysia) Sdn. Bhd., Global Flash Limited, Core Storage Electronic (Samoa) Limited.

【Note 03】Vice-President of Phison Electronics Corporation; Directors Representative and Chairman of Emtops Electronics Corporation ;Directors Representative of Microtops Design Corporation, OSTEK Corporation ; Director of Phison Electronics Japan Corp., Power Flash (Samoa) Limited.

【Note 04】Director Representative of Phisontech Electronics Taiwan Corp.

【Note 05】Supervisor Representative of Lian Xu Dong Investment Corporation.

【Note 06】Director Representative of OSTEK Corporation

【Note 07】Director of Power Flash (HK) Limited; Director Representative of Phisontech (Shenzhen) Limited.

【Note 08】Director of Power Flash (HK) Limited.

【Note 09】Be appointed by EpoStar Electronics (BVI) Corporation as a Director Representative of EpoStar Electronics Corporation.

【Note 10】Supervisor of MicroTops Design Corporation; Director Representative of Emtops Electronics Corporation.

【Note 11】Director Representative of Lian Xu Dong Investment Corporation; Supervisor Representative of Phisontech Electronics Taiwan Corp. and Memoryexchange Corporation.

3.3 Remuneration of Directors, Supervisors, President, and Vice Presidents

Remuneration of Directors (Independent Director Included)

Unit: NT$ thousands

Title	Name	Remuneration								Ratio of Total Remuneration (A+B+C+D) to Net Income (%)【Note 2】		Relevant Remuneration Received by Directors Who are Also Employees								Ratio of Total Compensation (A+B+C+D+E+F+G) to Net Income (%)【Note 2】		Compensation Paid to Directors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Severance Pay (B)		Directors Compensation(C)【Note 1】		Allowances (D)				Salary, Bonuses, and Allowances (E)【Note 9】		Severance Pay (F)【Note 10】		Employee Compensation (G)【Note 1】						
																The company		Companies in the consolidated financial statements				
		The company	All companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	Cash	Stock	Cash	Stock	The company	Companies in the consolidated financial statements	
Chairman	Pua Khein Seng	300	300	0	0	42,000	42,000	0	0	0.73%	0.73%	66,664	66,664	322	322	39,207	0	39,207	0	2.58%	2.58%	N.A.
Director	AwYong Chee Kong																					
Director	Kuang Tzung Horng																					
Director【Note 4】	Chen An Chung																					
Director【Note 5】	Hsu Chih Jen																					
Director【Note 6】	Toshiba Corporation																					
Director【Note 6】	Toshiba Corporation Representative: Hiroto Nakai																					
Director【Note 7】	Toshiba Memory Semiconductor Taiwan Corporation																					
Director【Note 7】	Toshiba Memory Semiconductor Taiwan Corporation Representative: Hiroto Nakai																					
Director【Note 8】	Toshiba Memory Corporation																					
Director【Note 8】	Toshiba Memory Corporation Representative: Hiroto Nakai																					
Independent Director	Wang Chen Wei																					
Independent Director	Wang Shu Fen																					

Compensation to Directors of the most recent year for services provided for the companies in the financial statements (e.g. non-employee consultant position) except listed above: None.

【Note 1】According to the resolutions made at the board of directors on Mar 16 of 2018, this company will remunerate the employees (NT$ 670,000 thousand) and the directors/supervisors (NT$ 60,000 thousand). Up to this time, the employee list of the remuneration and the amount of remuneration for directors/supervisors have not been decided. This table is a suggestion.

【Note 2】Profit after tax: according to the individual financial statements, the profit after tax in 2017 is NT$5,760,972 thousand.

【Note 3】The Company re-elected its Directors and Supervisors on June 13, 2017.

【Note 4】Director, Chen An Chung resigned on June 12, 2017.

【Note 5】Director of Hsu Chih Jen takes office on 13th of June, 2017.

【Note 6】Toshiba Corporation and Hiroto Nakai representative of Toshiba Corporation resigned on June 12, 2017.

【Note 7】Toshiba Memory Semiconductor Taiwan Corporation and Hiroto Nakai representative of Toshiba Memory Semiconductor Taiwan Corporation appointed on June 13, 2017. Due to Toshiba Group organizational restructuring, so Toshiba Memory Semiconductor Taiwan Corporation resigned on Aug. 1 2017.

【Note 8】Toshiba Memory Corporation and Hiroto Nakai representative of Toshiba Memory Corporation appointed on September 27, 2017.

【Note 9】Up to this time, there is no employee stock option certificates, restricted employee stocks, and stocks of capital increase by cash in 2017.

【Note 10】This is the severance pay required by the relevant laws.

Table of Range of Remuneration

Range of Remuneration	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements
Under NT$ 2,000,000	Toshiba Memory Semiconductor Taiwan Corporation		Toshiba Memory Semiconductor Taiwan Corporation	
NT$2,000,001 ~ NT$5,000,000	Chen An Chung, Hsu Chih Jen, Toshiba Corporation, Toshiba Memory Corporation		Chen An Chung , Toshiba Corporation, Toshiba Memory Corporation	
NT$5,000,001 ~ NT$10,000,000	Pua Khein Seng, AwYong Chee Kong, Kuang Tzung Horng, Wang Chen Wei, Wang Shu Fen		Wang Chen Wei, Wang Shu Fen, Hsu Chih Jen	
NT$10,000,001 ~ NT$15,000,000	0	0	0	0
NT$15,000,001 ~ NT$30,000,000	0	0	Kuang Tzung Horng	
NT$30,000,001~ NT$50,000,000	0	0	Aw Yong Chee Kong	
NT$50,000,001 ~ NT$100,000,000	0	0	Pua Khein Seng	
Over NT$100,000,000	0	0	0	0
Total	10	10	10	10

Remuneration of Supervisors

Unit: NT$ thousands

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="6">Remuneration</th><th colspan="2" rowspan="2">Ratio of Total Remuneration (A+B+C) to Net Income (%)【Note 2】</th><th rowspan="3">Compensation Paid to Supervisors from an Invested Company Other than the Company’s Subsidiary</th></tr>
<tr><th colspan="2">Base Compensation (A)</th><th colspan="2">Bonus to Supervisors (B)【Note 1】</th><th colspan="2">Allowances (C)</th></tr>
<tr><th>The company</th><th>Companies in the consolidated financial statements</th><th>The company</th><th>Companies in the consolidated financial statements</th><th>The company</th><th>Companies in the consolidated financial statements</th><th>The company</th><th>Companies in the consolidated financial statements</th></tr>
<tr><td>Supervisor</td><td>Wang Huei Ming</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">18,000</td><td rowspan="3">18,000</td><td rowspan="3">0</td><td rowspan="3">0</td><td rowspan="3">0.31%</td><td rowspan="3">0.31%</td><td rowspan="3">N.A.</td></tr>
<tr><td>Supervisor</td><td>Chen Chiun Hsiou</td></tr>
<tr><td>Supervisor</td><td>Yang Jiunn Yeong</td></tr>
</table>

【Note 1】According to the resolutions made at the board of director meeting on Mar 16 of 2018, this company will remunerate the bonus to directors/supervisors total amount of NT$ 60,000 thousand. Up to this time, the amount of remuneration for directors/supervisors have not been decided. This table is a suggestion.

【Note 2】Profit after tax: according to the individual financial statements, the profit after tax in 2017 is NT$5,760,972 thousand.

Table of Range of Remuneration

<table>
<tr><th rowspan="3">Range of Remuneration</th><th colspan="2">Name of Supervisors</th></tr>
<tr><th colspan="2">Total of (A+B+C)</th></tr>
<tr><th>The company</th><th>Companies in the consolidated financial statements</th></tr>
<tr><td>Under NT$ 2,000,000</td><td>0</td><td>0</td></tr>
<tr><td>NT$2,000,001 ~ NT$5,000,000</td><td>0</td><td>0</td></tr>
<tr><td>NT$5,000,001 ~ NT$10,000,000</td><td>Wang Huei Ming, Chen Chiun Hsiou, Yang, Jiunn Yeong</td><td>Wang Huei Ming, Chen Chiun Hsiou, Yang, Jiunn Yeong</td></tr>
<tr><td>NT$10,000,001 ~ NT$15,000,000</td><td>0</td><td>0</td></tr>
<tr><td>NT$15,000,001 ~ NT$30,000,000</td><td>0</td><td>0</td></tr>
<tr><td>NT$30,000,001 ~ NT$50,000,000</td><td>0</td><td>0</td></tr>
<tr><td>NT$50,000,001 ~ NT$100,000,000</td><td>0</td><td>0</td></tr>
<tr><td>Over NT$100,000,000</td><td>0</td><td>0</td></tr>
<tr><td>Total</td><td>3</td><td>3</td></tr>
</table>

Remuneration of the President and Vice Presidents

Unit: NT$ thousands

Title	Name	Salary(A)		Severance Pay (B)【Note 3】		Bonuses and Allowances (C)【Note 4】		Employee Compensation (D)【Note 1】				Ratio of total compensation (A+B+C+D) to net income (%)【Note 2】		Compensation Paid to the President and Vice Presidents from an Invested Company Other than the Company's Subsidiary
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
								Cash	Stock	Cash	Stock			
CEO	Pua Khein Seng	17,528	17,528	373	373	51,155	51,155	39,207	0	39,207	0	1.88%	1.88%	N.A
President	AwYong Chee Kong													
Vice President	Kuang Tzung Horng													
Vice Technical President	Hsu Chih Jen													
Vice President	Yeou Long Sheng													

【Note 1】According to the resolutions made at the board of directors on Mar 16 of 2018, this company will remunerate the employees total amount of NT$ 67,000 thousand compensation. Up to this time, the employee list of the remuneration has not been decided. This table is a suggestion.

【Note 2】Profit after tax: according to the individual financial statements, the profit after tax in 2017 is NT$5,760,972 thousand.

【Note 3】This is the severance pay required by the relevant laws.

【Note 4】Up to this time, there is no employee stock option certificates, restricted employee stocks, and stocks of capital increase by cash in 2017.

Table of Range of Remuneration

<table>
<tr><th rowspan="2">Range of Remuneration</th><th colspan="2">Name of President and Vice Presidents</th></tr>
<tr><th>The company</th><th>Companies in the consolidated financial statements</th></tr>
<tr><td>Under NT$ 2,000,000</td><td colspan="2">Yeou Long Sheng</td></tr>
<tr><td>NT$2,000,001 ~ NT$5,000,000</td><td>0</td><td>0</td></tr>
<tr><td>NT$5,000,001 ~ NT$10,000,000</td><td colspan="2">Chih Jen Hsu</td></tr>
<tr><td>NT$10,000,001 ~ NT$15,000,000</td><td colspan="2">Kuang Tzung Horng</td></tr>
<tr><td>NT$15,000,001 ~ NT$30,000,000</td><td>0</td><td>0</td></tr>
<tr><td>NT$30,000,001 ~ NT$50,000,000</td><td colspan="2">Aw Yong Chee Kong</td></tr>
<tr><td>NT$50,000,001 ~ NT$100,000,000</td><td colspan="2">Pua Khein Seng</td></tr>
<tr><td>Over NT$100,000,000</td><td>0</td><td>0</td></tr>
<tr><td>Total</td><td>5</td><td>5</td></tr>
</table>

Remuneration of Management Team

As of 16/3/2018; Unit: NT$ thousands

	Title	Name	Employee Compensation - in Stock (Fair Market Value)	Employee Compensation - in Cash 【Note 1】	Total	Ratio of Total Amount to Net Income (%) 【Note 2】
Executive Officers	CEO	Pua Khein Seng	0	73,700	73,700	1.28%
	President	Aw Yong Chee Kong				
	Vice President	Kuang Tzung Horng				
	Vice President	Yeou Long Sheng				
	Vice Technical President	Hsu Chih Jen				
	Director of Administration Division	Liu Hsiu Chin				
	Director of Product Division/R&D Division 3	Gan Wee Kuan				
	Director of Sales & Marketing Division 1	Tsai Shu Hui				
	Director of Sales & Marketing Division 2	Tsay Huei Chen				
	Director of R&D Division 1	Cheng Kuo Yi				
	Director of Innovation Technology R&D Group-R&D Division 2/7	Ma Chung Hsun				
	Director of Innovation Technology R&D Group-R&D Division 5	Lin Jui Chieh				
	Director of Finance/Accounting&Investment Division	Chiu Shu Hua				

【Note 1】According to the resolutions made at the board of directors meeting on Mar 16 of 2018, this company will remunerate the employees total amount of NT$ 67,000 thousand compensation. Up to this time, the employee list of the remuneration has not been decided. This table is a suggestion.

【Note 2】 Profit after tax: according to the individual financial statements, the profit after tax in 2017 is NT$5,760,972 thousand.

Comparison of Remuneration for Directors, Supervisors, Presidents and Vice Presidents in the Most Recent Two Fiscal Years and Remuneration Policy for Directors, Supervisors, Presidents and Vice Presidents should be illustrated based on the ratio of remuneration to net income, remuneration resolution process and the relevance between performance and the future risk.

The ratio of total remuneration paid by the Company and by all companies included in the consolidated financial statements for the two most recent fiscal years to directors, supervisors, presidents and vice presidents of the Company, to the net income.

Title \ Category	Ratio of total remuneration paid to directors, supervisors, presidents and vice presidents to net income (%)				Percentage of change The company	Percentage of change Companies in the consolidated financial statements
	2016		2017			
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements		
Directors	2.23%	2.23%	2.58%	2.58%	0.35%	0.35%
Supervisors	0.34%	0.34%	0.31%	0.31%	(0.03%)	(0.03%)
President and Vice President	1.35%	1.35%	1.28%	1.28%	(0.07%)	(0.07%)

Note: The Profit after tax of 2016 and 2017 are NT$4,866,992 thousand and NT$5,760,972 thousand, respectively.

● According to the articles of the company, the following illustrations are made.

According to the Article 19 of the company, if the company earns a profit, 8% to 19% of it should be used as the employee remuneration and less than 1.5% of it could be used as the Directors/Supervisors remuneration. If the company is still in accumulated loss, the profit should be used to compensate this loss first.

The employee remuneration can be rewarded in stocks or cash to the employee if the criteria are met. The Director/Supervisor remuneration can only be rewarded in cash.

In the first section, profit means the pre-tax income before the employee remuneration and the Director/ Supervisor remuneration are rewarded.

The employee and Director/ Supervisor remuneration should be decided in the board of directors with the presence of two-thirds of directors and the agreement of half of the directors. These decisions should be reported to the shareholders' meeting.

The profit of this company in 2017 is NT$ 7,443,206,235 (profit means the pre-tax income before the employee remuneration and the Director/Supervisor remuneration are rewarded). The board of directors on Mar 16, 2018 decided that this company will remunerate the employees (NT$ 670,000,000 in total; 9.00% of the profit) and the directors/supervisors (NT$ 60,000,000 in total; 0.81% of the profit).The remuneration will be rewarded in cash and these decisions will be reported to the regular shareholders' meeting on June 8 of 2018.

● The analysis and comparison of remuneration for Directors, Supervisors, Presidents and Vice Presidents in the most recent two fiscal years is listed in this section.

The ratio of the remuneration for Directors, Supervisors, Presidents and Vice Presidents to the net income of the company in 2017 was increased or decreased compare with the year of 2016. This is because the profit and net income of the company in 2017 were both increased compared with the year of 2016 and the management of the company purpose to retain compensation to employees by reducing the amount of compensation they receive.

The ratio of the remuneration for Directors, Supervisors, Presidents and Vice Presidents to the consolidated net income in 2017 was increased or decreased compare with the year of 2016. This is because the consolidated profit and net income of the company in 2017 were both increased compared with the year of 2016 and the management of the company purpose to retain compensation to employees by reducing the amount of compensation they receive.

Ratio of remuneration to net income, remuneration resolution process and the relevance between performance and the future risk.

● Ratio of Directors/Supervisors remuneration to net income, remuneration resolution process and the relevance between performance and the future risk: The remuneration for Directors, Supervisors, Presidents and Vice Presidents are decided according to their involvement and contribution, as well as the standards in this industry.

● Ratio of President/Vice President remuneration to net income, remuneration resolution process and the relevance between performance and the future risk: The policy of remuneration for President/Vice President is to consider the balance of salary and remuneration, the standards in this industry, the responsibility of the positions and their contribution to the business goals.

The procedure of deciding remuneration is to consider the overall performance of the company. The time and job responsibility of the employees are also considered. Other factors include goal accomplishment, performance on other positions, salary of equivalent positions and the financial status of the company. The remuneration of management team will be reviewed by the salary and remuneration committee and then submitted to board of directors for discussion and approval.

3.4 Implementation of Corporate Governance

Board of Directors

A total of 11 meetings of the Board of Directors were held in the previous period. The attendance of director and supervisor were as follows:

Title	Name	Actual Attendance	Commission Letter Attendance	Percentage of Actual Attendance (%)	Remark
Chairman	Pua Khein Seng	9	2	81.82%	2000.10.24 elected; The Eighth Term on 2017.06.13 Reelected.
Director	Aw Yong Chee Kong	11	0	100.00%	2002.02.15 elected; The Eighth Term on 2017.06.13 Reelected.
Director	Kuang Tzung Horng	10	0	90.91%	2008.06.13 elected; The Eighth Term on 2017.06.13 Reelected.
Director	Chen An Chung	5	0	100.00%	2014.06.17 elected; Former director whose term ended on June 12, 2017.
Director	Hsu Chih Jen	6	0	100.00%	2011.06.15 elected; 2014.06.16 outgoing; 2017.06.13 New Replacement.
Director	Representative: Hiroto Nakai; Toshiba Corporation	1	4	20.00%	2002.06.25 elected; Former director whose term ended on June 12, 2017.
Director	Representative: Hiroto Nakai; Toshiba Memory Semiconductor Taiwan Corporation	1	2	33.33%	The Eighth Term on 2017.06.13 New elected; 2017.08.01 resigned.
Director	Representative: Hiroto Nakai; Toshiba Memory Corporation	0	1	0.00%	The Eighth Term on 2017.06.13 New Replacement.
Independent Director	Wang Shu Fen	11	0	100.00%	2003.11.12 elected; The Eighth Term on 2017.06.13 Reelected.
Independent Director	Wang Chen Wei	9	2	81.82%	2014.06.17 elected; The Eighth Term on 2017.06.13 Reelected.
Supervisor	Yang Jiunn Yeong	11	0	100.00%	2011.06.15 elected; The Eighth Term on 2017.06.13 Reelected.
Supervisor	Wang Huei Ming	8	0	72.73%	2008.06.13 elected; The Eighth Term on 2017.06.13 Reelected.
Supervisor	Chen Chiun Hsiou	10	0	90.91%	2014.06.17 elected; The Eighth Term on 2017.06.13 Reelected.

The attendance of Independent director in 2017 were as follows:

◎：Actual Attendance ☆：Commission Letter Attendance ＊：Absence

2017	1st Meeting	2nd Meeting	3rd Meeting	4th Meeting	5th Meeting	1st Meeting of The Eighth Term	2nd Meeting of The Eighth Term	3rd Meeting of The Eighth Term	4th Meeting of The Eighth Term	5th Meeting of The Eighth Term	6th Meeting of The Eighth Term
Wang Shu Fen	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎	◎
Wang Chen Wei	☆	◎	◎	◎	◎	☆	◎	◎	◎	◎	◎

Other mentionable items:

1. If any of the following circumstances occur, the dates of the meetings, sessions, contents of motion, all independent directors' opinions and the company's response should be specified:

(1) Matters referred to in Article 14-3 of the Securities and Exchange Act.：

Date of Board of Directors Meeting	Period	Content of motion	Independent director's opinion	The company handles the opinions of independent directors
2017.01.13	1th Meeting of 2017	The List of first issuing Employee Stock Option under the "FY2016 Employee Stock Option Plan" for managerial officers	Proposal was approved as proposed	The motion was approved.
		The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	Proposal was approved as proposed	The motion was approved.
		To approve the revisions to "Procedure of Acquisition and Disposal of Assets"	Proposal was approved as proposed	The motion was approved.
		Amendment to the "Authorizing Table"	Proposal was approved as proposed	The motion was approved.
2017.03.20	2nd Meeting of 2017	Amendment to the "Procedure of Acquisition and Disposal of Assets"、 "Operational Procedures for Loaning of Company Funds"、"Operational Procedures for Endorsements and Guarantees" and "Procedure of Engaging in Derivatives Trading"	Proposal was approved as proposed	The motion was approved.
		Amendment to the "Authorizing Table"	Proposal was approved as proposed	The motion was approved.
		Proposal for the issuance plan of private placement for common shares	Proposal was approved as proposed	The motion was approved.
2017.07.27	3rd Meeting of The Eighth Term	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2016 and the Performance Incentive Bonus and the Employee Compensation during 2016 for managerial officers	Proposal was approved as proposed	The motion was approved.
2017.11.13	6th Meeting of The Eighth Term	The proposal of "FY2017 Employee Stock Option Plan"	Proposal was approved as proposed	The motion was approved.
		The proposal of the "2018 Annual Audit Plan"	Proposal was approved as proposed	The motion was approved.

(2) Other matters involving objections or expressed reservations by independent directors that were recorded or stated in writing that require a resolution by the board of directors.：None.

2.If there are directors' avoidance of motions in conflict of interest, the directors' names, contents of motion, causes for avoidance and voting should be specified:

Date of Board of directors	content of motion	Name of Director	Causes for Avoidance	Voting or Not【Note 1】
2017.01.13	The List of first issuing Employee Stock Option under the "FY2016 Employee Stock Option Plan" for managerial officers	Director of Kuang Tzung Horng	Interested party of the discuss motion	No
	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	Director of Pua Khein Seng、Aw Yong Chee Kong、Kuang Tzung Horng	Interested party of the discuss motion	No
2017.07.27	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2016 and the Performance Incentive Bonus and the Employee Compensation during 2016 for managerial officers	Director of Pua Khein Seng、Aw Yong Chee Kong、Kuang Tzung Horng; Independent Director of Wang Shu Feng 、Wang Chen Wei	Interested party of the discuss motion	No

【Note 1】 Directors who are in interest conflict have avoided the discussions and voting.

3. Goals of the current and the recent years to improve the functions of board of directors (such as establishing audit committee, improving the information disclosure) and evaluation of the implementation:

(1) Improve the functions of board of directors:

A. The board of directors was operated based on the "Regulations of Board of directors Proceedings" of this company. There were no major defects and irregularities.

B. Since 2015, this company started the questionnaire of directors/supervisors evaluation based on the Article 6 of "Self-evaluation or peer-evaluation of the board of directors of ◯◯ Co., Ltd.". Based on these evaluations, as well as "Performance evaluation of directors/supervisors", "attendance of directors/supervisors to board of directors", and "Advanced trainings of directors/supervisors", the performance of directors and supervisors were evaluated to implement company governance and promote the functions and efficiency of board of directors.

C. Advanced trainings of directors/supervisors: this company arranges advanced trainings every year for directors and supervisors to obtain relevant information, which benefits their core values, professional advantages and capabilities. Please refer to p.47- p 49 of this annual report for further information about the advanced trainings of directors/supervisors.

(2) Evaluation of the implementation:

A. This company reveals its finance and business information on the Taiwan Stock Exchange Market Observation Post System to ensure the information disclosure; the attendance of directors/supervisors to board of directors and the advanced trainings of directors/supervisors were also disclosed on the Taiwan Stock Exchange Market Observation Post System to disclose the information and improve the governance of this company.

Attendance of Supervisors at Board of directors

A total of 11 meetings of the Board of Directors were held in the 2017. The attendance of supervisors was as follows:

Title	Name	Actual Attendance	Percentage of Actual Attendance (%)	Remark
Supervisor	Yang Jiunn Yeong	11	100.00%	2011.06.15 elected; The Eighth Term on 2017.06.13 Reelected.
Supervisor	Wang Huei Ming	8	72.73%	2008.06.13 elected; The Eighth Term on 2017.06.13 Reelected.
Supervisor	Chen Chiun Hsiou	10	90.91%	2014.06.17 elected; The Eighth Term on 2017.06.13 Reelected.

Other mentionable items:

1. Composition and responsibilities of supervisors:

(1) Communications between supervisors and the Company's employees and shareholders:
The supervisor can understand the actual operation of the company through the Board of Directors or through the audit reports from the audit department or through checking the company’s financial、business information at any time. They can ask the relevant officers to provide the reports. The company’s employee, shareholders, stakeholder and major shareholders can communicate with supervisors by mails or e-mails.

(2) Communications between supervisors and the Company's chief internal auditor and CPA: Communications with the chief internal auditor: Supervisors hold the supervisors meeting each quarter and maintain minutes of the meetings. Internal audit office provides the supervisors with the internal auditing reports on a regular basis, as well as reporting the latest auditing results to the board meetings. Supervisors should check the financial and operational status as needed. If supervisors have any questions about the relevant operations, they should communicate with the departmental mangers immediately to find the solutions to review and improve the status. As for the communication with CPAs, if supervisors have any questions about the financial and operational status, they should communicate with the CPAs of this company and supervise the departmental mangers to find the solutions to review and improve the status.

2. If a supervisor expresses an opinion during a meeting of the Board of Directors, the dates of the meetings, sessions, contents of motion, resolutions of the directors’ meetings and the company’s response to the supervisor’s opinion should be specified: None.

【Note 1】The Company re-elected its Directors and Supervisors on June 13, 2017.

Corporate Governance Implementation Status and Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1.Does the company establish and disclose the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"?		V	This Company has not established the Corporate Governance Best-Practice Principles based on "Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies"	"Corporate Governance Best-Practice Principles" will be established based on the actual needs in the future.
2.Shareholding structure & shareholders' rights				
(1) Does the company establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	V		(1). This company did not establish an internal operating procedure. However, to protect the shareholders' rights, spokesman, deputy spokesman, shareholders service dept. and legal office have been established to respond to shareholders' suggestions and conflicts.	(1). No major deviation.
(2) Does the company possess the list of its major shareholders as well as the ultimate owners of those shares?	V		(2). This company possesses the list of its shareholders from the Stock Transfer Agent to know the shares held by directors, supervisors, management team and major shareholders (over 10% of the stocks). This company has a good communication with them.	(2). No major deviation.
(3) Does the company establish and execute the risk management and firewall system within its conglomerate structure?	V		(3). This company has established the "Regulations of finance and business operations between the Company and its affiliates" and the internal control system to control the risks.	(3). No major deviation.
(4) Does the company establish internal rules against insiders trading with undisclosed information?	V		(4). This company has established "Regulation of preventing internal transactions" to stop any behaviors of internal transaction. Regular internal trainings are also held to stop any behaviors of internal transaction.	(4). No major deviation.
3. Composition and Responsibilities of the Board of Directors				

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
(1) Does the Board develop and implement a diversified policy for the composition of its members?	V		(1). Although this company does not have a diversified policy for the composition of its members, but there are 6 male directors and one female director. In addition two independent directors, we also invite professionals in various areas to serve as directors and supervisors to ensure diversification. Our directors have all the necessary knowledge and skills in various areas, which benefit the development and operation of this company.	(1). No major deviation.
(2) Does the company voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	V		(2).In addition to the remuneration committee required by the relevant laws. Currently setting up a Green and Sustainable Management Committee with the following main functions and powers. We will establish other functional committees based on the operation and actual needs. 1. The promotion and maintenance of ISO9001 / ISO14001 / OHSAS18001 / Sony GP, OEM GP 2. The head of product design serves as the agent of management representative. 3. Establish the hazardous substance management procedure and audit ISO management activities of the relevant units. 4. Green management task force reviewed Laws and regulations every 6 months to ensure that the company is in compliance with the law. 5. Temporary meetings may be convened at any time in response to customers' environmental requirements and rules. The appropriateness	(2). No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			of the management procedure is also discussed to ensure that company products and services can satisfy customer requirements. 6. Maintenance of internal database and development of standard teaching materials for ISO activities implementation, 7. Outside lab testing of hazardous substance content in Phison's main products is carried out every year. 8. Organize two regular new sales green regulations training classes.	
(3) Does the company establish a standard to measure the performance of the Board, and implement it annually?	V		(3). This company reviews the performance of board of directors' on a regular basis to improve the governance, but there is no standard policy to do it now. Since 2015, this company started the questionnaire of directors/supervisors evaluation based on the Article 6 of "Self-evaluation or peer-evaluation of the board of directors' of ○○ Co., Ltd.". Based on these evaluations, as well as "Performance evaluation of directors/supervisors", "attendance of directors/supervisors to board of directors'", and "Advanced trainings of directors/supervisors", the performance of directors and supervisors were evaluated to implement company governance and promote the functions and efficiency of board of directors'.	(3). No major deviation.
(4) Does the company regularly evaluate the independence of CPAs?	V		(4). This company evaluates the independence on a regular basis. On Jan 31 of 2018, the board of directors came to a conclusion that the independence and	(4). No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			eligibility of CPAs are qualified.	
4.Does the company establish a communication channel and build a designated section on its website for stakeholders, as well as handle all the issues they care for in terms of corporate social responsibilities?	V		This company have some departments to take charge of the following affairs: 1.Handling corporate registration and amendment registration： The Shareholders Service Dept. will be in charge of company registration and change registration based on the resolutions from board of directors or shareholders meeting and other related laws. 2.Handling matters relating to board of directors' and shareholders meetings according to laws, and assisting the company with compliance with laws and regulations governing such meetings and producing minutes of board of directors' and shareholders meetings： According the Article 4 of the board of director's proceedings, the Shareholders Service Dept. is the unit to administer the meeting proceedings. So, the Shareholders Service Dept. should collect all the motions from all other departments and submit them to the board of directors for discussion. This company commits Horizon Securities to conduct the affairs of shareholders' meetings. 3.Updatest laws and regulations relevant to company operation: The board chairman of this company will appoint relevant departments and legal office to understand the effects of most update laws and regulations on the operation of this company. 4. Assist Directors and Supervisors abiding by the laws: In the re-election year, this company provides new directors (independent directors included) and supervisors with the handbook	No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			of laws and regulations. In addition, at least 6 hours of trainings will be provided for director and supervisor to understand the laws and regulations. <u>5.Affairs relating to investor relations：</u> To ensure the shareholders' rights, this company has spokesman, deputy spokesman, shareholders service dept. and legal office to deal with the suggestions and conflicts. This company also establishes an IR department to answer the questions from shareholders. Shareholders can go to company website and find the "stockholders' area" to submit the suggestions and opinions.	
5. Does the company establish a communication channel and build a designated section on its website for stakeholders (including but not limited to shareholders, employees, customers, and suppliers), as well as handle all the issues they care for in terms of corporate social responsibilities?	V		This company communicates well with its employees, customers, suppliers, shareholders, official organizations and local communities and respects their rights. Contact information of the spokesman and departments is listed on the website. In addition, there is another section on the website for those who question about some issues of corporate social responsibility. The following channels are for communication with all parties: <u>1. For employees:</u> This company has mailboxes for them to send opinions. In addition, forums and opinions survey are held on a regular basis to communicate with employees. <u>2. For customers:</u> Phone calls and emails are sent every day. Customer satisfaction surveys are conducted every year. Customer telephone lines are set up for communication. <u>3. For suppliers:</u> There is an online platform for suppliers and evaluations are conducted every half year.	No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			4. For shareholders: Shareholders can express their opinions on shareholders' meetings or by mails. The spokesman of this company will deal with these issues. 5. For official organizations: Communications are conducted by seminars and official documents. 6. For local communities: This company can accept the complaints from local communities at any time and will participate in community activities and charity event.	
6. Does the company appoint a professional shareholder service agency to deal with shareholder affairs?	V		This company commits Horizon Securities to conduct the stock affairs.	No major deviation.
7. Information Disclosure				
(1) Does the company have a corporate website to disclose both financial standings and the status of corporate governance?	V		(1) This company posts its financial and business information on the Market Observation Post System and establishes the website (www.phison.com) to disclose relevant information.	(1) No major deviation.
(2) Does the company have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	V		(2)a. This company has established Chinese, English, Japanese and Simplified Chinese website. b. The website is updated on a regular basis. c. Contact information of spokesman：antonioyu@phison.com	(2) No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			yvonng_yang@ phison.com d. Refer to Market Observation Post System for relevant information.	
8. Is there any other important information to facilitate a better understanding of the company's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, supplier relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors)?	V		(1) Status of employee rights and employee wellness: This company provides employees with healthy, secure and human-based working environment based on the laws and internal administration measures. There are principles and rules about employment, promotion, reward/punishment, welfare, payroll, training, etc. to offer a fair competition and code of conduct. This company has established employee welfare committee, sexual harassment appeal committee, pension committee, etc. to protect employees' rights and welfare. Since 2011, this company has committed the "Hsinchu Lifeline Association/Employee Assistance Service Center" to help employees solving all kinds of problems. (2)Investor Relationship: This company has dedicated personnel to solve the problems for the investors and will hold juridical person seminar to illustrate the business on a regular basis. Investors may contact the IR department of this company by phone or email for their questions. (3). Supplier Relationship: This company keeps a good relationship with the suppliers and has the policy and regulations to communicate with suppliers. This company also signs contracts with suppliers to protect rights of both parties. (4). Stakeholders' rights: This company has established	No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			the "Regulations of financial business between affiliated companies" and the "Management operation of transaction with stakeholders" to protect the rights of stakeholders and this company. This company also signs contracts with suppliers to protect rights of both parties. (5). Advanced training of directors and supervisors: The advanced trainings of directors and supervisors in 2017 were listed in P. 47-P 49 of the annual report. Directors and supervisors of this company all have their expertise in their area. This company will arrange advanced trainings for directors and supervisors based on the laws and regulations in Taiwan. (6). Status of risk management policies and risk evaluation: This company has measures and evaluation standard to manage and evaluate risks. A. Financial risk (Finance and Accounting Department) a. To evaluate the effects of interest, exchange rate, inflation on the net income. b. To evaluate the policy of high risk and high leverage investment, loan, endorsement and derivative financial products and to evaluate the main causes of profit or loss. B. Legal risk (Legal Affair Office) a. The major risks are lawsuits and contract disputes. Reviewing the contracts can lower the risks. b. To analyze the causes of the disputes and to try to settle the disputes and to seek external legal assistance for	

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			resolving the disputes. C. Intellectual property risk(Intellectual Property Office) a. By extensive patent strategy, this company protects the rights of itself and customers. b. To abide by the relevant laws of intellectual property and to claim the rights for protecting intellectual rights. D. Information risk(Information Department) a. To plan information security polity and all kinds of information security measures to lower the risk of information security. b. For the purpose of ensuring effective information security system, knowledge and response measures of information security will be notified by emails, posts and monthly meetings. E. Environment risk(Plant Affairs Department) a. To evaluate the effects of operations on the natural environment, security and employee health. b. By continuous hazard identifications and risk evaluation, this company can control the risk at the tolerant level to protect environment from hazards. <u>(7) Implementation of customer service:</u> The company's website is provide contact information for customers and dedicated area for stakeholders to send complaints. <u>(8) Buying liability insurances for directors and supervisors:</u> According to the Article 16.2 of the company, "This company should buy liability insurances	

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			for directors and supervisors during their terms to cover the damage due to their business operation", this company may buy the liability insurances for directors and supervisors every year. After buying insurances, this should be reported to the board of directors meeting and posted on the Taiwan Stock Exchange Market Observation Post System. Please refer to page 51 of the annual report.	

9.Please explain the improvements which have been made in accordance with the results of the Corporate Governance Evaluation System released by the Corporate Governance Center, Taiwan Stock Exchange, and provide the priority enhancement measures.

Number	Evaluation Item	Improvement	Actions to improve
1.9	Does the company upload the English meeting notice 30 days before the regular shareholders' meeting?	This company had upload the English meeting notice 30 days (2017.05.12) before the 2017 regular shareholders' meeting (2017.06.13).	N.A.
1.10	Does the company upload the English proceeding manual and supplemental documents 21 days before the regular shareholders' meeting?	This company had upload the English proceeding manual and supplemental documents 21 days (2017.05.22) before the 2017 regular shareholders' meeting.	N.A.
1.11	Does the company upload the English annual report 7 days before the regular shareholders' meeting?	This company had upload the English annual report 7 days (2017.05.26) before the 2017 regular shareholders' meeting.	N.A.
2.15	Does the company disclose the communication with independent directors, internal audit director and CPAs (financial reports, financial status, etc.) on the website?	N.A.	The company will be improving on the criteria of the assessment indicators.
2.22	Does the company evaluate the performance of the board of directors' on a regular basis (at least once per year)	This company started the questionnaire of directors/supervisors evaluation based on the Article 6 of	The company will be improving on the criteria of the assessment indicators.

Evaluation Item		Implementation Status			Deviations from “the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
		Yes	No	Abstract Illustration	
	and disclose the result on the company website or annual report?			"Self-evaluation or peer-evaluation of the board of directors’ of ○○Co., Ltd." in 2015. Based on these evaluations, as well as "Performance evaluation of directors/supervisors", "attendance of directors/supervisors to board of directors’", and "Advanced trainings of directors/supervisors", the performance of directors and supervisors were evaluated to implement company governance and promote the functions and efficiency of board of directors’.	
3.16	Does the list of shareholders, who have at least 5% of the company stocks or are one of the first 10 major shareholders, be posted in the annual report or on the company website?			This company has disclosed the list of major shareholders in the annual report and post it on the company website in 2017.	N.A.
3.17	Does the company disclose the financial status, business status and company governance, etc. on the website?			This company has disclosed the financial status, business status and company governance on the website in 2017.	N.A.
4.9	Does the company disclose the employee welfare, retirement system and the implementation on the website?			This company has disclosed the employee welfare, retirement system, and the implementation on the website.	N.A.

Composition, Responsibilities and Operations of the Remuneration Committee

Professional Qualifications and Independence Analysis of Remuneration Committee Members

As of 10/4/2018

Title	Criteria / Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years' Work Experience			Independence Criteria 【Note1】								Number of Other Public Companies in Which the Individual is Concurrently Serving as a Remuneration Committee Member	Remarks
		An instructor or higher position in a department of commerce, law, finance, accounting, or other academic department related to the business needs of the Company in a public or private junior college, college or university	A judge, public prosecutor, attorney, Certified Public Accountant, or other professional or technical specialist who has approved a national examination and been awarded a certificate in a profession necessary for the business of the Company	Has work experience in the areas of commerce, law, finance, or accounting, or otherwise necessary for the business of the Company	1	2	3	4	5	6	7	8		
Independent Director	Wang Shu Fen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	3	NA
Independent Director	Wang Cheng Wei			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	NA
Other Member	Chung Wen Chiu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	NA

【Note 1】 Please tick the corresponding boxes that apply to a member during the two years prior to being elected or during the term(s) of office.

1. Not an employee of the Company or any of its affiliates.
2. Not a director or supervisor of affiliated companies. Not applicable in cases where the person is an independent director of the parent company, or any subsidiary as appointed in accordance with the Act or with the laws of the country of the parent or subsidiary.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company, or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three sub-paragraphs.
5. Not a director, supervisor, or employee of a corporate shareholder who directly holds 5% or more of the total number of outstanding shares of the Company, or who holds shares ranking in the top five holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares of a specified company or institution which has a financial or business relationship with the Company.
7. Not a professional individual, who is an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting services or consultation to the Company or to any affiliate of the Company, or a spouse thereof.
8. Not a person of any conditions defined in Article 30 of the Company Law.

Attendance of Members at Remuneration Committee Meetings

There are 3 members in the Remuneration Committee.

The terms of this section of Remuneration Committee: June 21, 2017 to June 12, 2020. A total of 4 Remuneration Committee meetings were held in 2017. The attendance record of the Remuneration Committee members was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance Rate (%)	Remarks
Convener	Wang Shu Fen	4	0	100.00%	The First Term 2011.11.23 appointed; The Third Term 2017.06.21 Reelection.
Committee Member	Wang Cheng Wei	2	0	50.00%	The Second Term 2014.06.25 appointed; The Third Term 2017.06.21 Reelection.
Committee Member	Chung Wen Chiu	4	0	100.00%	The Second Term 2014.06.25 appointed; The Third Term 2017.06.21 Reelection.

Other mentionable items:

1. If the board of directors declines to adopt or modifies a recommendation of the remuneration committee, it should specify the date of the meeting, session, content of the motion, resolution by the board of directors, and the Company’s response to the remuneration committee’s opinion: None.
2. Resolutions of the remuneration committee objected to by members or expressed reservations and recorded or declared in writing, the date of the meeting, session, content of the motion, all members’ opinions and the response to members’ opinion should be specified: None.

Corporate Social Responsibility

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
1. Corporate Governance Implementation				
(1). Does the company declare its corporate social responsibility policy and examine the results of the implementation?		V	(1). This company has not established its corporate social responsibility policy.	(1). This company will establish its corporate social responsibility policy in the future based on actual needs.
(2). Does the company provide educational training on corporate social responsibility on a regular basis?	V		(2). This company will illustrate its business ideals and corporate social responsibility in all meetings and hold educational trainings course on an irregular basis.	(2). No major deviation.
(3). Does the company establish exclusively (or concurrently) dedicated first-line managers authorized by the board to be in charge of proposing the corporate social responsibility policies and	V		(3). This company has established the dedicated "Green and Sustainability Management Committee" to fulfill corporate social responsibility.	(3). No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
reporting to the board?				
(4). Does the company declare a reasonable salary remuneration policy, and integrate the employee performance appraisal system with its corporate social responsibility policy, as well as establish an effective reward and disciplinary system?	V		(4). This company has established the work rule and the regulations of Payroll、Employees performance、Reward/punishment and other relevant, etc. for employees to follow and reward to employees , the company is indeed implemented.	(4). No major deviation.
2. Sustainable Environment Development				
(1). Does the company endeavor to utilize all resources more efficiently and use renewable materials which have low impact on the environment?	V		(1). This company has established an ISO committee to enforce all kinds of environment protection policies and measures, environmental health and safety policies, energy management policies, ISO14001 Environment Management system, greenhouse gas examination, green product and green supply chain. All of the reusable items are collected and sent to recycling firms for reuse to protect our environment.	(1). No major deviation.
(2). Does the company establish proper environmental management systems based on the characteristics of their industries?	V		(2). This company has approved the standard of ISO 14001 Environmental management in 2008. This company also abides by the ISO 14001 standard to build the environmental management system and follow the laws of environmental protection and respect the commitment to customers. Considering the impacts on environment, this company has established goals and projects and collaborate with affiliates to improve the environmental protection, save energy and reduce wastes to protect our	(2). No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
			environment. This company has approved the standard of OHSAS 18001 Occupational Health and Safety Assessment Series. This company abides by the standard of OHSAS 18001 and follows the laws of occupational health and safety and respect the committee to customers. Considering the impacts on environment, this company has established goals and projects and collaborate with affiliates to lower the risks of occupational health and safety. This company has an internal protocol of environmental health and safety, such as air pollution control, water pollution control, waste control, chemical control, noise pollution control. These measures can reduce the environmental pollution and the risks of occupational health and safety.	
(3). Does the company monitor the impact of climate change on its operations and conduct greenhouse gas inspections, as well as establish company strategies for energy conservation and carbon reduction?	V		(3). This company has continuously examined the greenhouse gases since 2011 to investigate the consumed resources and produced greenhouse gases. These results may help this company to evaluate the potential risk and opportunity caused by climate change. This company made great efforts to integrate the ISO management system and the laws of environmental health and safety into the daily operations. This company also managed to improve the management of non-hazardous material and prohibit the use of hazardous material to meet the law requirements of WEEE, RoHS	(3). No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
			and REACH. In addition, by comprehensively evaluating the life cycle of our products, we can produce the products which do no harm to the environment or as little as possible. We replaced all the lighting devices by LEDs of high performance and efficiency, elevating the power efficiency by 45%, equivalent to saving 684,461megajoules (1 kWh = 3.6 megajoules). This company strictly enforced all kinds of energy-saving measures and examined greenhouse gases on a regular basis. In addition, setting the air conditioners at a fixed temperature and lowering the water pressure to save water and using renewable energy and reducing the usage of lighting devices are also implemented.	
3. Preserving Public Welfare				
(1). Does the company formulate appropriate management policies and procedures according to relevant regulations and the International Bill of Human Rights?	V		(1). We abide by the laws of Labor Standards Act and respects the international principles of labor rights, such as freedom of association, group negotiation, prohibiting child labor, eliminating forced labor, eliminating hiring discrimination, establishing labor management regulations and protecting all labor rights. Relevant regulations were established to ensure the appropriate working environment and management system.	(1). No major deviation.
(2). Has the company set up an employee hotline or grievance mechanism to handle complaints with appropriate solutions?	V		(2). This company established the mailbox to board chairman, seminars, new employee survey, sex harassment mailbox and interdepartmental meetings to keep a good communication	(2). No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
			and a friendly relationship with its employees. In the behavioral guidance manual, the appeal channel and mechanism are well documented.	
(3) Does the company provide a healthy and safe working environment and organize training on health and safety for its employees on a regular basis?	V		(3). A. As for maintaining the working environment, this company commits the professional organizations to examine its working environment, including lighting, carbon dioxide, isopropanol, local exhaust, lead and noise. The drinking water is examined with E. coli, bacteria colony every month and the water filters are replaced every month. Elevators are maintained every month. Safety of building is checked on a regular basis; the central kitchen is check every month. Heavy metal test is conducted. B. For the purpose of keep employees healthy, assigning proper jobs, preventing occupational diseases, and avoiding labor disputes, in addition to conforming to relevant laws (Labor Standards Act, Occupational Safety and Health Act, Labor Health Protection Regulation, etc.), new employee physical examination and regular physical examination are also implemented. For those who have health problems, health management and tracking service are also provided. In collaboration with Miaoli Health Department, we obtained health promotion environment certification. We hold many events, such mother classroom, blood donations, healthy breakfast choice and recipe, cancer knowledge, stretching in	(3). No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
			offices, healthy diet, how to increase basic metabolism and detoxification. Breastfeeding seminars were held. Yoga and weight loss programs are provided every quarter. Massage service twice a week by the blind are provided to relax muscle and alleviate pressure. Doctors form Mackay Hospital comes to our plant three times a month to provide health counselling. In the annual physical examination, Pap smear, gynecology ultrasonic examination, and breast ultrasonic examination are provided. In collaboration with Liver Disease Foundation, digestive functions, cancer screening by blood and abdomen ultrasonic examination are provided. Pap caner and flu vaccines are provided. C. To conform to the law requirements, we have some projects, such mother protection, overwork prevention, musculoskeletal protection, and occupational violence prevention. By questionnaire and interviews, the physical and mental condition of employees is taken care of. D. This company holds many free health seminars for employees. We also collaborate with Hsinchu Lifeline to provide counselling for their problems and pressure. The welfare Association of this company has organized many clubs and hold many activities, which benefit the physical and mental conditions of our employees. These clubs include hiking, badminton, basketball, yoga, golf, softball, swimming, boxing aerobics, and hand football.	

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
			E. As for the details of safe and healthy working environment, please refer to the corporation website www.phison.com/ Corporate Sustainability Report/ 2016 Corporate Sustainability Report/Section 7.6 Workplace Health and Safety (P067).	
(4). Does the company setup a communication channel with employees on a regular basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?	V		(4). This company holds employee forums on a regular basis to explain the operation to its employees and keeps a very good relationship with its employees. As for the communication with its employees, please refer to the corporation website www.phison.com/ Corporate Sustainability Report/ 2016 Corporate Sustainability Report/Section 7.5 Employee Communications (P065).	(4). No major deviation.
(5). Does the company provide its employees with career development and training sessions?	V		(5). This company has a very good plan of development and is very willing to help employees obtain necessary knowledge and skills for promotion during his/her current position. As for Cultivation and Education, please refer to the corporation website www.phison.com/ Corporate Sustainability Report/ 2016 Corporate Sustainability Report/Section 7.4 Cultivation and Education (P062).	(5).No major deviation.
(6). Does the company establish any consumer protection mechanisms and appealing procedures regarding research development, purchasing, producing, operating and service?	V		(6). This company provides customers all kinds of service and take after-sale service every seriously. This company has many customer service channels, as well as real-time appeal channel to solve customers' problems.	(6).No major deviation.
(7). Does the company advertise and label its goods and services according to	V		(7). This company labels all necessary information on the packages and user manuals of	(7).No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Explanation	
relevant regulations and international standards?			its products including "manufacturer", "RoHS Mark", "CE safety Mark" and "WEEE recycle Mark" to announce the safety conformity of the products/services and the law conformity of hazardous material.	
(8). Does the company evaluate the records of suppliers’ impact on the environment and society before taking on business partnerships?	V		(8). This company takes the environment protection and social protection very seriously. We will choose the suppliers based on the same standard and check their conformity on a regular basis.	(8). No major deviation.
(9). Do the contracts between the company and its major suppliers include termination clauses which come into force once the suppliers breach the corporate social responsibility policy and cause appreciable impact on the environment and society?	V		(9). This company asks its suppliers to abide by the policy of no commission and no gift. We also prohibit the transactions with stakeholders. If suppliers do not obey these requirements, we will stop the contract immediately. This company demands the most reasonable price, the best quality and the best service. We and suppliers will dedicate ourselves to promote the corporate social responsibility.	(9).No major deviation.
4. Enhancing Information Disclosure				
(1). Does the company disclose relevant and reliable information regarding its corporate social responsibility on its website and the Market Observation Post System (MOPS)?	V		The 2016 "Corporate Sustainability Report" was published based on the principle of The GRI G4 Content Index and The AA1000 Account Ability Principles Standards. This report was posted on the website in June of 2017. Please refer to page 51 of the annual report for the publication of corporate sustainability report.	No major deviation.
5.If the Company has established the corporate social responsibility principles based on “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies”, please describe any discrepancy between the Principles and their implementation： This company has not established the “the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies” and will do so in the future based on the actual needs.				

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	

6. Other important information to facilitate better understanding of the company's corporate social responsibility practices：

(1) <u>Environmental Protection</u>

This company focuses on the R&D of green products and asks its suppliers to abide by the regulations of WEEE (Waste Electrical and Electronic Equipment), RoHS (Restriction of Hazardous Substances), REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) and HF (Halogen Free) to realize the ideas of environmental protection and sustainability in its R&D and the management of affiliates. These fulfill the commitment and responsibility of Phison about environmental protection.

As for the responsibility about environmental protection, please refer to the corporation website www.phison.com/ Corporate Sustainability Report/ 2016 Corporate Sustainability Report/Section 8 Environmental Responsibility (P070).

(2) <u>Community participation, community contributions, social service, social public welfare, human right, health/safety and other social responsibility activities:</u>

A. Charitable Donations: Total amount of 2017 Phison's cash donations to academic institutions and social welfare organizations was 26.13 million.

Phison believes that good wills should be sent out to make the society better. The corporate resources and skills should be used to help those who need help and make them realize the importance of good will and willing to help others. The spread of good will brings more hopes and make more people willing to help, which can make our society better and warm. Phison spent most of its donation on the local charity organizations in Hsinchu and Miaoli County, because they are those who need help most. Allocating resources to those who need help most is the way to maximize the value of the resources. Phison continuously make donations to these charity organizations to help them take care of social vulnerable people.

In addition to charity organizations, our board chairman is very willing to give speeches in schools and charity organizations to share his experience of starting businesses and inspire the young to take actions. He also established many scholarships for poor students and special educations, sponsored the research and training of school associations and donated money to medical research. Besides he also donated money to local farmers' associations, temples and rescuing organizations to improve the equipment or hold relevant events.

B. Caring local community

Phison cared many social vulnerable people organizations in Hsinchu and Miaoli County in recent years, such as nursing home, orphanages, and nursing centers. By visiting these places, Phison can understand the situation in great details and give them proper help (money or material). Phison also took their management team to these charity events to offer more care and help.

C. Caring social vulnerable people

For the purpose of supporting social vulnerable people organizations, Phison established an area on the 7th floor (restaurant) for the disabled to sell their products. These charity sales were held for the social vulnerable people organizations and our employees showed their passion for these events. There were 27 charity sales in 2017.

In our plant, we collect invoices and send-hand material, such as clothes, small home appliances, books, etc. for donation. This activity has been held for 5 years and at least 5 times in a year. The e-bulletin is the place we express our good wills and all charity information will be posted here.

Phison holds charity running events to invite customers and suppliers to join our charity activities. We also invite social vulnerable people to participate, which can make more people

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	

understand, accept and support them.

D. As for the charity events, please refer to the corporation website www.phison.com/ Corporate Sustainability Report/ 2016 Corporate Sustainability Report/Section 9 Spreading Goodwill (P086).

(3) Consumers' rights:

A. The major products of this company are flash memory controller, usb drive and flash memory cards. They are sold to the manufacturers or retailers, so we have no business directly with consumers. Our customers can contact us by telephone, emails or mails to file their complaints.

B. Phison 's most important goals are to satisfy customers' needs, establish excellent management of customer relationship and systemize the customer service protocol. These can ensure our consistent service quality and help customers to create values, as well as creating maximal profit.

C. As for the management of customer relationship, please refer to the corporation website www.phison.com/ Corporate Sustainability Report/ 2016 Corporate Sustainability Report/Section 4.5 Customer Relationship Management (P030).

7. A clear statement shall be made below if the corporate social responsibility reports were verified by external certification institutions:

To ensure the information disclosure, the 2013 corporate social responsibility report of this company has been verified by the third-party organization (bsi, British Standards Institution) on Aug 15, 2014. This report conforms to the standard of GRI G3.1A+ and Top1 of AA1000 AS. The 2016 " Corporate Sustainability Report " was completed based on the standard of GRI G4 and AA1000 and posted on the website in June of 2017.

The 2017 "Corporate Sustainability Report" will be completed based on the standard of GRI G4 and AA1000 in this coming June.

Please go to our website www.phison.com to see Corporate Sustainability Report.

Ethical Corporate Management

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
1. Establishment of ethical corporate management policies and programs				
(1) Does the company declare its ethical corporate management policies and procedures in its guidelines and external documents, as well as the commitment from its board to implement the policies?	V		(1).This company devotes itself to abide by the international regulations and local laws and moral principles agreed by the society, including fair competition, anti-trust, respecting local marketing rules, prohibiting illegal products protecting copyrights and all kinds of intellectual property. This company signs confidential agreements with its	(1). No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
			directors, supervisors and management team and illustrates the rules which should be followed. We will establish the relevant regulations in the future based on the actual needs.	
(2) Does the company establish policies to prevent unethical conduct with clear statements regarding relevant procedures, guidelines of conduct, punishment for violation, rules of appeal, and the commitment to implement the policies?	V		(2). To prevent unethical conduct, we have established the regulations in the employment contracts, as well as the code of work and the regulation of reward/punishment. In addition to asking employees to notify this company in case of conflict of interest, we also set up an email for reporting such behaviors.(whistleblower@phison.com)	(2).No major deviation.
(3) Does the company establish appropriate precautions against high-potential unethical conducts or listed activities stated in Article 2, Paragraph 7 of the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies?	V		(3). This company asks suppliers, contractors and other affiliates to sign documents for guaranteeing no illegal business activities and no bribes.	(3).No major deviation.
2. Fulfill operations integrity policy				
(1) Does the company evaluate business partners’ ethical records and include ethics-related clauses in business contracts?	V		(1). This company has the internal code of work and the regulation of reward/punishment to avoid unethical behaviors. This company selects the suppliers based on the principles of integrity and fairness to find the most competitive companies which are ethical. It is strictly prohibited to take commission or other improper rewards.	(1). No major deviation.
(2) Does the company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of	V		(2). Integrity is one of the five core values of this company and is always the basis of the operation of this company. From board of directors to every unit, our operation is based on integrity. All colleagues, management team and	(2).No major deviation.

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
corporate integrity?			directors should believe and implement this regulation. The management team should take this very seriously and serve as good examples. We had established the dedicated unit "Green and Sustainability Management Committee" to enforce the corporate social responsibility.	
(3) Does the company establish policies to prevent conflicts of interest and provide appropriate communication channels, and implement it?	V		(3). This company has code of work, regulations of reward/punishment to regulate its employees. It is prohibited for employees to endanger the rights of this company because of personal rights.	(3). No major deviation.
(4) Has the company established effective systems for both accounting and internal control to facilitate ethical corporate management, and are they audited by either internal auditors or CPAs on a regular basis?	V		(4).To ensure the ethical operation, this company have established effective systems for both accounting and internal control. Internal auditors approve all kinds of business and report the results to the board of directors'.	(4).No major deviation.
(5) Does the company regularly hold internal and external educational trainings on operational integrity?	V		(5). Integrity is one of the five core values of this company and has been in our culture. We also stress this in all meetings to enforce this core value.	(5).No major deviation.
3. Operation of the integrity channel				
(1) Does the company establish both a reward/punishment system and an integrity hotline? Can the accused be reached by an appropriate person for follow-up?	V		(1). This company has regulations of integrity, regulations of reward/punishment, code of work, etc. for employees to follow. In case of any improper behaviors, please report it to our human resource department by telephone or email (whistleblower@phison.com) or mail.	(1). No major deviation.
(2) Does the company establish standard operating procedures for	V		(2). In the communication protocol of this company, all personnel should keep the informant data confidential.	(2).No major deviation.

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
confidential reporting on investigating accusation cases?				
(3) Does the company provide proper whistleblower protection?	V		(3). This company has regulations that the data of the informants should be kept confidential for protection to avoid that the informants are treated unfairly.	(3). No major deviation.
4. Strengthening information disclosure				
(1) Does the company disclose its ethical corporate management policies and the results of its implementation on the company’s website and MOPS?	V		(1). This company has the website for investors to review the relevant information. The information is posted on the Market Observation Post System for investors to understand the governance.	(1). No major deviation.
5. If the company has established the ethical corporate management policies based on the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies, please describe any discrepancy between the policies and their implementation: this company has not established the " Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies". It will be established in the future based on the actual needs.				
6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies). This company has approved the "management operation of avoiding insider trading" and the "auditing of the insider trading" in the board of directors on Dec 29, 2009. In the "management operation of avoiding insider trading", the articles of "how to define the internal critical information affecting stock price" and "confidential operation and trading prohibition before the internal critical information is announced" are drafted. This company revised these regulations according to the requirements on Mar 24, 2011. We will relay the most update information to the directors, supervisors and management team by documents and emails to avoid insider trading.				

Regulations of Governance and Their Disclosure

Important Regulations	Disclosure
Articles of Association Rules of Procedure for shareholders Meeting Proceedings Rules of Board of directors' Procedure of Selecting Directors and Supervisors Duty Scope of Independent Director Moral Rule of Director, Supervisors and Management Team Organization Articles of Remuneration Committee Procedures for acquisition or disposal of assets Procedures for Lending Funds to Other Parties Procedures for Endorsement and Guarantee Procedures for Engaging in Derivatives Trading The Procedures of Measures to Prevent Insider Trading Ethics Policy	Market Observation Post System: **http://mops.twse.com.tw** Please check at Basic information／E-books／Annual Reports and relevant documents of shareholders' meetings or Corporate Governance/relevant regulations The Company website: **http://www.phison.com** Please check at Investor Relations/ Corporate Governance/Major Internal Policies

Other Important Information Regarding Corporate Governance

Advanced Training of Directors and Supervisors in 2017

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2017
			From	To				
Director	Pua Khein Seng	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	6
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Directors' responsibilities in connection with M&A Transactions	3.0	
Director	AwYong Chee Kong	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	6
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Directors' responsibilities in connection with M&A Transactions	3.0	
Director	Kuang Tzung Horng	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	6
			2017/06/13	2017/06/13	Taiwan	Directors'	3.0	

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2017
			From	To				
					Corporate Governance Association	responsibilities in connection with M&A Transactions		
Director	Hsu Chih Jen	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	6
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Directors' responsibilities in connection with M&A Transactions	3.0	
Juridical Director and Representative	Hiroto Nakai	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	6
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Directors' responsibilities in connection with M&A Transactions	3.0	
Independent Director	Wang Shu Fen	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	6
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Directors' responsibilities in connection with M&A Transactions	3.0	
Independent Director	Wang Chen Wei	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	12
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Directors' responsibilities in connection with M&A Transactions	3.0	
			2017/08/03	2017/08/03	Taiwan Corporate Governance Association	Business Secret Protection and its cases	3.0	
			2017/11/02	2017/11/02	Taiwan	Taxation Act	3.0	

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2017
			From	To				
					Corporate Governance Association	and Practice Update		
Supervisor	Yang Jiunn Yeong	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	6
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Directors' responsibilities in connection with M&A Transactions	3.0	
Supervisor	Wang Huei Ming	2017/06/13	2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Laws in connection with M&A Transactions and their case analysis	3.0	6
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Directors' responsibilities in connection with M&A Transactions	3.0	
Supervisor	Chen Chiun Hsiou	2017/06/13	2017/04/21	2017/04/21	Securities and Futures Institute	Insider trading and corporate social responsibility - 2017 corporate governance series-04.21	3.0	12
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Integrity, governance and corporate social responsibility and their cases	3.0	
			2017/06/13	2017/06/13	Taiwan Corporate Governance Association	Business Secret Protection and its cases	3.0	
			2017/08/25	2017/08/25	Taiwan Academy of Banking and Finance	Corporate Governance Forum-Business continuity	3.0	

Advanced Trainings of Management Team on Governance in 2017:

Title	Date of Training	Sponsoring Organization	Course	Training hours
Accounting Director	2017/08/24-2017/08/25	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hrs.
Deputy Accounting Director	2017/12/07-2017/12/08	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hrs

Advanced Trainings of Internal Auditor on Governance in 2017

Title	Date of Training	Sponsoring Organization	Course	Training hours
Audit Director	2017/04/25	The Institute of Internal Auditors-Chinese Taiwan	The practice of Subsidiaries auditing	6hrs.
Audit Director	2017/09/28	The Institute of Internal Auditors-Chinese Taiwan	Self-protection in legal- How to go react the Process of Investigative and Judicial	6hrs.
Audit Director	2017/11/20	Securities and Futures Institute (SFI)	A workshop about How audits can effectively audit operational audits and compliance checks	6hrs.
Auditor	2017/04/25	Securities and Futures Institute(SFI)	A workshop about the practice of auditing by big data	6hrs.
Auditor	2017/05/12	The Institute of Internal Auditors-Chinese Taiwan	The practice of Manufacturing materials system auditing	6hrs.

Domestic and Overseas Certificate Owned by Finance, Accounting and Stock Personnel

Certificate	Finance, Accounting and Stock Personnel	Auditor
Domestic Certificate	Book keeper of general examination Level B technician for accounting Level C technician for accounting Certified Public Accountants (CPA) Service personnel	Certificate by Institute of Internal Auditors Qualification of Internal Control Skills Test
Overseas Certificate	US Certified Public Accountants (US CPA)	Certified Internal Auditor (CIA) Certification in Risk Management Assurance (CRMA)

Buying Insurances for Directors and Supervisors

Subject	Insurance company	Insurance Amount	Term
All directors and supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2016/01/12~2017/01/12
All directors and supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2017/01/12~2018/01/12

Drafting of Corporate Sustainability Report:

To disclose the information, this company has drafted the Corporate Sustainability Report as follows

Year	Basis	Remark
2013	Conforming to the principles of GRI G3.1A+ and AA1000 AS	Certified by the third-party certification organization (bsi, British Standards Institution) on Aug 15, 2014.
2014	Conforming to the principles of GRI G4 and AA1000	Disclosed on the website in June of 2015.
2015	Conforming to the principles of GRI G4 and AA1000	Disclosed on the website in June of 2016.
2016	Conforming to the principles of GRI G4 and AA1000	Disclosed on the website in June of 2017.
2017	Conforming to the principles of GRI G4 and AA1000	It will be completed in June of 2018.

Internal Control Statement

PHISON ELECTRONICS CORPORATION
Internal Control System Statement

Date: March 16, 2018

The Company states the following with regard to its internal control system during fiscal year 2017, based on the findings of a self-assessment:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability, timeliness, transparency, and regulatory compliance of reporting, and compliance with applicable laws, regulations, and bylaws.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinbelow, the “Regulations”). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring activities. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has assessed the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the assessment mentioned in the preceding paragraph, the Company believes that as of December 31, 2017 its internal control system (including its supervision and management of subsidiaries), encompassing internal controls for understanding the degree of achievement of operational effectiveness and efficiency objectives, reporting of the company reliable, timely, transparent, and complies with applicable rules, and compliance with applicable laws, regulations, and bylaws, is effectively designed and operating, and reasonably assures the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.
7. This statement has been passed by the Board of Directors Meeting of the Company held on March 16, 2018, where zero of the six attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

PHISON ELECTRONICS CORPORATION
Chairman: Pua Khein Seng
President: AwYong Chee Kong

For those who commit CPAs to review the internal control system, the CPA review report should be disclosed: none.

Punishment by Laws or Publication by Internal Control System Before the Publication of this Annual Report: None.

Major Resolutions of Shareholders' Meeting and Board of directors

Major Resolutions of Shareholders' Meeting

<table>
<tr><th>Date</th><th>Resolution</th><th>Implementation</th></tr>
<tr><td rowspan="9">2017.06.13
(Regular shareholders' meeting)</td><td>Recognition Matters
（by board of directors）</td><td></td></tr>
<tr><td>Adoption of the restated 2009 to 2015 Consolidated Financial Statements and revised Business Reports</td><td>This resolution has been approved.</td></tr>
<tr><td>Adoption of the 2016 Business Report and Financial Statements</td><td>The 2016 individual financial statements and consolidated financial statements have been approved by the accountant Dai, Xin-Wei and Fan, Yu-Wei of Deloitte & Touche CPAs Firm and have been approved on Mar 20, 2017 in the board of directors.
The information of the 2016 individual financial statement and consolidated financial statements are as follows
(Unit: In addition to EPS (Basic) is NT$, others in thousand in NT$)
<table>
<tr><th>Statements / Category</th><th>Comprehensive Income Statements</th><th>Consolidated Statements of Comprehensive Income</th></tr>
<tr><td>Operating Revenue</td><td>$43,678,547</td><td>$43,782,512</td></tr>
<tr><td>Gross Profit</td><td>9,207,321</td><td>9,263,738</td></tr>
<tr><td>Operating Income</td><td>4,916,446</td><td>4,842,648</td></tr>
<tr><td>Profit Before Income Tax</td><td>5,532,198</td><td>5,476,926</td></tr>
<tr><td>Net Profit For The Year</td><td>4,866,992</td><td>4,801,843</td></tr>
<tr><td>EPS (Basic)</td><td>NT$ 24.67</td><td>NT$ 24.67</td></tr>
</table></td></tr>
<tr><td>Adoption of the Proposal for Distribution of 2016 Profits</td><td>The Ex-Dividend date of cash dividend is on Jul 12, 2017 and Cash dividend payment day is on Aug 3, 2017 (The proportion is NT$14 every share for shareholder cash dividends).</td></tr>
<tr><td>Election Matters
（by board of directors）</td><td></td></tr>
<tr><td>Re-Election of the Company's 7 directors (including 2 independent directors) and 3 supervisors for the 8th Term</td><td>Elected list for Directors:
Pua Khein Seng, Aw Yong Chee Kong, Kuang Tzung Horng, Toshiba Memory Semiconductor Taiwan Corporation Representative: Hiroto Nakai, Hsu Chih Jen
Elected list for Independent Directors:
Wang Shu Fen, Wang Chen Wei
Elected list for Supervisors:
Yang, Jiunn Yeong, Wang Huei Ming, Chen Chiun Hsiou
The Ministry of Economic Affairs approved the registration on Jul 10, 2017.</td></tr>
<tr><td>Discussion Matters
（by board of directors）</td><td></td></tr>
<tr><td>Proposal for a cash offering by private placement</td><td>This private stock issuance has been cancelled on Apr 19, 2018 in the board of directors and will be reported to the 2018 shareholders' meeting.</td></tr>
</table>

Date	Resolution	Implementation
	Amendment to the Company's partial articles of the Articles of the Corporation	The Ministry of Economic Affairs reply the Company on Jul 10, 2017: According the Article 278, paragraph 1 of the Company Act: "A company shall not increase the amount of its capital until the total number of its authorized shares has been fully issued.", the company's amended charter (increased nominal capital) should be increased and handled for the case, so it has not be registered temporarily.
	Amendment to part of the "Procedures for Acquisition or Disposal of Assets", "Procedures for Lending Funds to Other Parties", "Procedures for Endorsement and Guarantee" and "Procedures for Engaging in Derivatives Trading"	This resolution was implemented and post on Market Observation Post System on Jun 13, 2017, the company have follow the amend procedures.
	Amendment to part of the "Rules of Procedure for Shareholders' Meeting"	This resolution was implemented and post on Market Observation Post System on Jun 13, 2017, the company have follow the amend procedures.
	Release of the New Directors from Non-Competition Restrictions	This resolution was implemented and post on Market Observation Post System on Jun 13, 2017.
2017.09.27 (Special shareholders' meeting)	Election Matters （by board of directors）	
	Release of the New Director from Non-Competition Restrictions	Elected list for Directors: Toshiba Memory Corporation Representative: Hiroto Nakai The Ministry of Economic Affairs approved the registration on Oct 17, 2017.
	Discussion Matters （by board of directors）	
	Release of the New Directors from Non-Competition Restrictions	This resolution was implemented and post on Market Observation Post System on Sep 27, 2017.

Important Resolutions by Board Mattings

Date	Resolution	Implementation
2017.06.13 1st Meeting of the eighth term	To elect a new chairman of the Eighth Term Board of Directors of the Company	Elected and approved by all the attended board members, Pua Khein Seng is the Company's new chairman. The Ministry of Economic Affairs approved the registration on Jul 10, 2017.
2017.06.21 2nd Meeting of the eighth term	For the matters regarding FY2016 cash dividends distribution	The Ex-Dividend date of cash dividend is on Jul 12, 2017 and Cash dividend payment day is on Aug 3, 2017. (The proportion is NT$14 every share for shareholder cash dividends).
	The Company proposed to apply private placement of new common shares with specific subscribers for listing on OTC market (Issued in 2014 First time)	According to Article 43-6 of Securities and Exchange Act, the Compnay's privately placed shares had been issued 5,000,000 shares (issued 2014 first time) The privately placed shares has been approved by Financial Supervisory Commission R.O.C Securities and Futures Bureau, Jin-Quan-Zheng-Fa Number 10600049974 letter on December.28, 2017 and TPEx has agree to start trading on the counter on January 10, 2018 and has released it in the Market Observation Post System (MOPS) on Jan 14, 2018.
	The credit line of banks for the Company	This resolution has been implemented.
	The credit line of foreign exchange and derivatives for the Company	This resolution has been implemented.
	To appoint the third session remuneration committee members	The three term of three new remuneration committee members with their term of office coming into effect immediately after passing the resolution by the Board of Directors until June 12th, 2020. It terminates with the end of term of the board directors appointing the committee member. The independent directors of Ms. Shu-Fen Wang, Mr. Chen-Wei Wang and Ms. Wen-Chiu Chung are to be appointed as third Remuneration Committee members and has released it in the Market Observation Post System (MOPS) on Jan 21, 2018.
2017.07.27 3rd Meeting of the eighth term	（Proposed by the Remuneration Committee）Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2016 and the Performance Incentive Bonus and the Employee Compensation during 2016 for managerial officers.	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	（Proposed by the Remuneration Committee）Reviewing the new managerial officers, to be submitted by the company, for the remuneration pre-examination executed by the Remuneration Committee	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	（Proposed by the Remuneration Committee）Review the Remuneration of the managerial officers to be newly appointed	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	（Proposed by the Remuneration Committee）The meeting schedule of the Remuneration Committee for the year 2018	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
2017.08.10 4th Meeting of the eighth term	Consolidated Financial Statements for the Six Months Ended June 31, 2017 and 2016	The consolidated financial statements of the 2nd quarter of 2017 have been approved on Aug 10, 2017 in the board of directors. The information of the consolidated financial statements of

<table>
<tr><th>Date</th><th>Resolution</th><th>Implementation</th></tr>
<tr><td rowspan="4"></td><td></td><td>the 2nd quarter of 2017 is as follows (in thousand in NT$):(2017/01/01-2017/06/30)
<table>
<tr><th>Statement / Category</th><th>Consolidated Statements of Comprehensive Income</th></tr>
<tr><td>Operating Revenue</td><td>20,048,360</td></tr>
<tr><td>Operating Income</td><td>3,597,542</td></tr>
<tr><td>Profit Before Income Tax</td><td>3,511,394</td></tr>
<tr><td>Net Profit For The Year</td><td>2,872,549</td></tr>
<tr><td>Total Comprehensive Income For The Year</td><td>2,942,996</td></tr>
<tr><td>EPS(Basic)</td><td>NT$14.57</td></tr>
</table></td></tr>
<tr><td>By-election of the Company's one Director</td><td>Due to Toshiba Group organizational restructuring, so Toshiba Memory Semiconductor Taiwan Corporation resigned of Phison's Director at Aug. 1 2017. The Company has By-election one Director in 2017 Special Shareholders' Meeting.</td></tr>
<tr><td>The Company Board of Directors to nominate the nominees one Directors list</td><td>The nominees list of a new Director nominated by the Company board of directors is Toshiba Memory Corp. (Representative Hiroto Nakai)</td></tr>
<tr><td>The agenda of the Company's 2017 Special Shareholders Meeting</td><td>The Company hold the 2017 Special Shareholders' Meeting on Sep 27,2017.</td></tr>
<tr><td rowspan="4">2017.08.30
5th Meeting of the eighth term</td><td>To examine the nominated candidates list of a new director who will be elected in the 2017 Special Shareholders' Meeting</td><td>This resolution has been implemented and will be submitted to 2017 Special Shareholders' Meeting</td></tr>
<tr><td>To release the new Directors' non-compete restrictions</td><td>This resolution has been implemented and will be submitted to 2017 Special Shareholders' Meeting.</td></tr>
<tr><td>The credit line of banks for the Company</td><td>This resolution has been implemented.</td></tr>
<tr><td>The credit line of foreign exchange and derivatives for the Company</td><td>This resolution has been implemented.</td></tr>
<tr><td rowspan="5">2017.11.13
6th Meeting of the eighth term</td><td>Consolidated Financial Statements for the Nine Months Ended September 31, 2017 and 2016</td><td>It has been approved on Nov 13, 2017 in the board of directors. The information of the consolidated financial statements of the 3rd quarter of 2017 is as follows:(2017/01/01-2017/09/30)
<table>
<tr><th>Statement / Category</th><th>Consolidated Statements of Comprehensive Income</th></tr>
<tr><td>Operating Revenue</td><td>31,221,987</td></tr>
<tr><td>Operating Income</td><td>5,374,972</td></tr>
<tr><td>Profit Before Income Tax</td><td>5,358,479</td></tr>
<tr><td>Net Profit For The Year</td><td>4,472,291</td></tr>
<tr><td>Total Comprehensive Income For The Year</td><td>4,550,213</td></tr>
<tr><td>EPS(Basic)</td><td>NT$22.69</td></tr>
</table></td></tr>
<tr><td>The proposal of "FY2017 Employee Stock Option Plan</td><td>This resolution has been implemented. The employee stock purchase certificate has been approved by Financial Supervisory Commission R.O.C Securities and Futures Bureau, Jin-Quan-Zheng-Fa Number 1060047052 letter on Dec 5, 2017.</td></tr>
<tr><td>The credit line of banks for the Company</td><td>This resolution has been implemented.</td></tr>
<tr><td>The credit line of foreign exchange and derivatives for the Company</td><td>This resolution has been implemented.</td></tr>
<tr><td>The proposal of the "2018 Annual Audit Plan"</td><td>This resolution has been implemented.</td></tr>
</table>

Date	Resolution	Implementation
2018.01.31 7th Meeting of the eighth term	（Proposed by the Remuneration Committee）The List of first issuing Employee Stock Option under the “FY2017 Employee Stock Option Plan” for managerial officers	This resolution has been approved by the board of directors and has been implemented. The chairman has been authorized to decide the actual date of issuing the stock options.
	（Proposed by the Remuneration Committee）The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	（Proposed by the Remuneration Committee）Amendment to the” Payroll Regulation”	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	The Company proposed evaluate the CPA independence and suitability	Based on the Occupational Moral Regulation Announcement No.10, Laws of The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, this company established an evaluation for the CPA independence and competence. We also asked the Deloitte & Touche CPAs Firm to sign an independence statement. The evaluation result is that the CPAs are qualified to be the CPAs of this company.
2018.03.16 8th Meeting of the eighth term	The proposal for the compensation of employees, director’s/supervisors during 2017	This resolution has been implemented and will be reported to 2018 shareholders' meeting.
	（Proposed by the Remuneration Committee）The consideration of the remuneration of board of directors and the employee compensation for managerial directors during 2017	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	（Proposed by the Remuneration Committee）Review the modified proposal for the Compensation of Performance Incentive Bonus during second half of 2017 for managerial officers	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	（Proposed by the Remuneration Committee）Review the amendment to the “Payroll Regulation” for Employees”	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	Amendment to the “Rules of Procedure for Meetings of Board of Directors”	This resolution has been implemented and will be reported to 2018 shareholders' meeting.
	To revisions the partial articles of the「Rules governing responsibility range of independent directors」	This resolution has been implemented.
	The business operation report and the financial statements of the Company for Year 2017	This resolution has been implemented and will be submitted to the 2018 shareholders' meeting for recognition.
	Adoption of the Proposal for Distribution of 2017 Profits	This resolution has been implemented and will be submitted to the 2018 shareholders' meeting for recognition.
	To discuss and approve the Company’s 2018 business plan	This resolution has been implemented.
	Amendment to the “Authorizing Table”	This resolution has been implemented.
	To approve the Internal Control System Statement of Year 2017	This resolution has been implemented.
	Proposal for the issuance plan of private placement for common shares	This resolution has been implemented and will be submitted to the 2018 shareholders' meeting for discussion.

<table>
<tr><th>Date</th><th>Resolution</th><th>Implementation</th></tr>
<tr><td rowspan="5"></td><td>The agenda of the Company’s 2018 Annual Shareholders’ Meeting</td><td>This resolution has been implemented.</td></tr>
<tr><td>The Company proposed to apply private placement of new common shares with specific subscribers for listing on OTC market (Issued in 2014 Second time)</td><td>According to Article 43-6 of Securities and Exchange Act, the Compnay’s privately placed shares had been issued 11,900,000 shares (issued 2014 Second time)
According to Article 43-8 of Securities and Exchange Act, these privately placed shares were limited to transfer until March 23, 2018. In Article 43-8 of the Securities and Exchange Act. Once the period of restriction of transfer has elapsed, the company may file a TPEx listing application only after first applying to the TPEx for a letter of approval and, on the basis of that letter, completing issuance examination and approval procedures with the Competent Authority.</td></tr>
<tr><td>The credit line of banks for the Company</td><td>This resolution has been implemented.</td></tr>
<tr><td>The credit line of foreign exchange and derivatives for the Company</td><td>This resolution has been implemented.</td></tr>
<tr><td>For the operations and business development needs, the Company plan to invest not more than U.S. $6,600 thousands indirectly invested in a China-based company through a third-region company to Hefei, Anhui Province</td><td>This resolution has been implemented.</td></tr>
<tr><td>2018.04.19
9th Meeting of the eighth term</td><td>The Company proposed to stop the private placement of new common shares</td><td>This resolution has been implemented and will be reported to 2018 shareholders' meeting.</td></tr>
<tr><td rowspan="4">2018.05.11
10th Meeting of the eighth term</td><td>（Proposed by the Remuneration Committee） The performance evaluation for managerial officers as well as the proposal for the fixed annual salary adjustment for managerial officers</td><td>This proposal by Remuneration Committee has been approved by board of directors and has been implemented.</td></tr>
<tr><td>（Proposed by the Remuneration Committee)To approve the revisions to the partial articles of Regulations for 「Employee Meal Management」</td><td>This proposal by Remuneration Committee has been approved by board of directors and has been implemented.</td></tr>
<tr><td>（Proposed by the Remuneration Committee)To approve the revisions of internal control systems to “Organization Articles of the Employee Welfare Committee” and “Implementation Rules of the Employee Welfare Committee”</td><td>This proposal by Remuneration Committee has been approved by board of directors and has been implemented.</td></tr>
<tr><td>Consolidated Financial Statements for the Three Months Ended March 31, 2018 and 2017</td><td>It has been approved on May 11, 2018 in the board of directors. The information of the consolidated financial statements of the first quarter of 2018 is as follows:(2018/01/01-2018/03/31)
<table>
<tr><th>Statement / Category</th><th>Consolidated Statements of Comprehensive Income</th></tr>
<tr><td>Operating Revenue</td><td>9,299,553</td></tr>
<tr><td>Operating Income</td><td>1,040,836</td></tr>
<tr><td>Profit Before Income Tax</td><td>972,740</td></tr>
<tr><td>Net Profit For The Year</td><td>882,304</td></tr>
<tr><td>Total Comprehensive Income For</td><td>927,166</td></tr>
</table></td></tr>
</table>

Date	Resolution	Implementation	
		The Year	
		EPS(Basic)	NT$4.48
	The credit line of banks for the Company	This resolution has been implemented.	
	The credit line of foreign exchange and derivatives for the Company	This resolution has been implemented.	

Major Issues of Record or Written Statements Made by Any Director or Supervisor Dissenting to Important Resolutions Approved by the Board of Directors: None.

Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D：None.

3.5 Information Regarding the Company's Audit Fee and Independence

Accounting Firm	Name of CPA		Period Covered by CPA's Audit	Remarks
Deloitte & Touche CPAs Firm	Dai Xin Wei	Fan Yu Wei	2017/1/1~2017/12/31	N.A.

In thousand in NT$

	Fee Items / Fee Range	Audit Fee	Non-audit Fee	Total
1	Under NT$ 2,000		400	400
2	NT$2,000（included）～NT$4,000			
3	NT$4,000（included）～NT$6,000			
4	NT$6,000（included）～NT$8,000	6,650		6,650
5	NT$8,000(included)～NT$10,000			
6	Over NT$10,000 （included）			

3.5.1 Non-audit fee for the CPAs, the Firm and the affiliates:
NT$6,650 thousands is Audit Fee, NT$400 thousands of Non-audit Fee, including Reports for Transfer Pricing 300 thousands and Checklist for Employee Stock Option 100 thousands.

3.5.2 If the CPAs were replaced and the audit fee is less than that of the previous year, the amount of audit fee and the reasons should be disclosed: not applicable.

3.5.3 The audit fee is less than that of the previous year by 15%, the amount of audit fee, ratio and the reasons should be disclosed: not applicable.

3.6 Replacement of CPA: none.

3.6.1 About the former CPA: not applicable.

3.6.2 About the successor CPA: not applicable.

3.6.3 The opinion from the former CPA about the 10.6.1 and 10.6.2.3 in the Regulations Governing Information to be Published in Annual Reports of Public Companies: not applicable.

3.7 The company's chairperson, general manager, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm：none.

3.8 Stock Transfer and Pledge of Directors, Supervisors, Management Team and Major Shareholders Who Own 10% of the Stock Before the Annual Report is Published.

Title	Name	2017		As of Apr 10 2018	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Chairman／CEO	Pua Khein Seng	0	(1,500,000)	0	0
Director／President	AwYong Chee Kong	0	0	0	0
Director／Vice President	Kuang Tzung Horng	(70,000)	0	0	0
Director	Chen An Chung【Note 2】	0	0	【Note 2】	【Note 2】
Vice Technical President	Hsu Chih Jen【Note 3】	0	0	0	0
Director／Major shareholders	Toshiba Corp.【Note 4】	0/ (12,296,416)	0/0	【Note 4】	【Note 4】
Director Toshiba Memory Corp. Representative	Hiroto Nakai【Note 4】	0	0	【Note 4】	【Note 4】
Director	Toshiba Memory Semiconductor Taiwan Corporation【Note 5】	0	0	【Note 5】	【Note 5】
Director Toshiba Memory Semiconductor Taiwan Corporation Representative	Hiroto Nakai【Note 5】	0	0	0	0
Director／Major shareholders	Toshiba Memory Corp. 【Note 6】	0/0	0/0	0	0
Director Toshiba Memory Corp. Representative	Hiroto Nakai【Note 6】	0	0	0	0
Independent Director	Wang Shu Fen	0	0	0	0
Independent Director	Wang Chen Wei	0	0	0	0
Supervisor	Wang Huei Ming	0	0	0	0
Supervisor	Yang Jiunn Yeong	0	0	0	0
Supervisor	Chen Chiun Hsiou	0	0	0	0
President	Yeou Long Sheng【Note 7】	0	0	0	0
Director of Product Division、Director of Innovation Technology R&D Group-R&D Division 3	Gan Wee Kuan	(5,000)	0	0	0
Director of Sales & Marketing Group-Sales & Marketing Division 1	Tsai Shu Hui	0	0	0	0
Director of Sales & Marketing Group-Sales & Marketing Division 2	Tsay Huei Chen	0	0	0	0
Director of Innovation Technology R&D Group-R&D	Cheng Kuo Yi	(25,000)	0	0	0

Division 1					
Director of Innovation Technology R&D Group-R&D Division 2、Director of Innovation Technology R&D Group-R&D Division 7	Ma Chung Hsun	0	0	0	0
Director of Innovation Technology R&D Group-R&D Division 5	Lin Jui Chieh	0	0	0	0
Director of Administration Division	Liu Hsiu Chin	0	0	0	0
Director of Finance/Accounting&Investment Division	Chiu Shu Hua	0	0	0	0

【Note 1】The Company re-elected its Directors and Supervisors on June 13, 2017.

【Note 2】Director, Chen An Chung resigned on June 12, 2017.

【Note 3】Director of Hsu Chih Jen takes office on 13th of June, 2017.

【Note 4】Toshiba Corp. and Director Representative Hiroto Nakai was finished his term of office on 12th June, 2017. Major shareholder of Toshiba Corp. was discharge on 24th July, 2017.

【Note 5】Toshiba Memory Semiconductor Taiwan Corporation and Hiroto Nakai representative of Toshiba Memory Semiconductor Taiwan Corporation appointed on June 13, 2017. Due to Toshiba Group organizational restructuring, so Toshiba Memory Semiconductor Taiwan Corporation resigned on Aug. 1 2017.

【Note 6】Toshiba Memory Corp. and Director Representative Hiroto Nakai was takes offices on 27th Sep.,2017. TMC acquires more than 10% of the total issued equity shares of Phison on 27th July,2017 and who becomes a majority shareholder on the same day.

【Note 7】President, Yeou Long Sheng appointed on Sep 20, 2017.

Shares Trading with Related Parties: None.

3.9 Relationship among the Top Ten Shareholders

As of 10/4/2018

Name	Current Shareholding		Spouse's/minor's Shareholding		Shareholding by Nominee Arrangement		Name and Relationship Between the Company's Top Ten Shareholders, or Spouses or Relatives Within Two Degrees		Remarks
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Toshiba Memory Corp.	19,821,112	10.06%	Not Applicable	Not Applicable	1,000	0.00%	N.A.	N.A.	N.A.
Representative: Hiroto Nakai	0	0.00%	0	0.00%	0	0.00%	N.A.	N.A.	N.A.
Trusted Investment Account of Kingston Technology Inc. by CTBC Bank	13,103,000	6.65%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Trusted Investment Account of Employees' Provident Fund for France Paris Islam Property by Standard Chartered	8,048,000	4.08%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Pua Khein Seng	4,557,972	2.31%	806,262	0.41%	470,000	0.24%	N.A.	N.A.	N.A.
Yang Jiunn Yeong	4,549,114	2.31%	0	0.00%	0	0.00%	N.A.	N.A.	N.A.
AwYong Chee Kong	3,355,745	1.70%	0	0.00%	0	0.00%	N.A.	N.A.	N.A.
Ng Hon Wai	3,316,760	1.68%	11,561	0.01%	0	0.00%	N.A.	N.A.	N.A.
Trusted Investment Account of Norway Central Bank by Citi Bank	2,982,504	1.51%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Trusted Investment Account of Van Gaal Emerging Market Stock Index Fund Account by Standard Chartered	2,631,000	1.34%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Stichting APG New Market Stock by Chase Bank	2,217,000	1.12%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.

3.10 Consolidated Number of Shares owned by Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by this Company

As of 3/31/2018 In shares and %

Name of the Investment Company	Investment	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by this Company		Consolidated Investment	
		Shares	%	Shares	%	Shares	%
This company	Kingston Technology Corporation	10,605,000	32.91	4,737,000	14.70	15,342,000	47.61
This company	Emtops Electronics Corporation	9,500,000	100.00	0	0.00	9,500,000	100.00
This company	Lian Xu Dong Investment Corporation	65,000,000	100.00	0	0.00	65,000,000	100.00
This company	Flexmedia Electronics Corp.	482,142	21.43	0	0.00	482,142	21.43
This company	Microtops Design Corporation	2,263,800	49.00	2,356,200	51.00	4,620,000	100.00
This company	Phison Electronics Japan Corp.	900	100.00	0	0.00	900	100.00
This company	Global Flash Limited	21,000,000	100.00	0	0.00	21,000,000	100.00
This company	Phisontech Electronics (Malaysia) Sdn. Bhd.	10,000,000	100.00	0	0.00	10,000,000	100.00
This company	EpoStar Electronics (BVI) Corporation	10,600,000	37.82	0	0.00	10,600,000	37.82
This company	Power Flash (Samoa) Limited	3,200,000	100.00	0	0.00	3,200,000	100.00
This company	Everspeed Technology Limited	1,000,000	100.00	0	0.00	1,000,000	100.00
This company	Regis Investment (Samoa) Limited	100,000	100.00	0	0.00	100,000	100.00
Lian Xu Dong Investment Corporation	Ostek Corporation	900,000	100.00	0	0.00	900,000	100.00
Lian Xu Dong Investment Corporation	PMS Technology Corporation	200,000	33.33	0	0.00	200,000	33.33
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	1,000,000	100.00	0	0.00	1,000,000	100.00
Global Flash Limited	Core Storage Electronic (Samoa) Limited	18,050,000	100.00	0	0.00	18,050,000	100.00
Global Flash Limited	Phisontech (Shenzhen) Limited	【Note 1】	100.00	0	0.00	【Note1】	100.00
Power Flash (Samoa) Limited	Power Flash (HK) Limited	3,000,000	100.00	0	0.00	3,000,000	100.00
Core Storage Electronic (Samoa) Limited	Hefei Core Storage Electronic Limited	【Note2】	100.00	0	0.00	【Note2】	100.00
Everspeed Technology Limited	MemoryExchange Corporation	40,950,000	100.00	0	0.00	40,950,000	100.00
Everspeed Technology Limited	Fast Choice Global Limited	50,000	100.00	0	0.00	50,000	100.00
Everspeed Technology Limited	Cloud Solution Global Limited	5,950,440	100.00	0	0.00	5,950,440	100.00
Regis Investment (Samoa) Limited	RealYou Investment Limited	50,000	100.00	0	0.00	50,000	100.00

【Note1】Investment of USD 1,790,000 / NT$53,096,000

【Note2】Investment of USD 18,000,000 / NT$576,780,000.

【Note3】Investment by Equity Method.

IV. Capital Overview

4.1 Capital and Shares

4.1.1 Source of Capital

Issued Shares

In NT$ in shares

Month/ Year	Par Value (NT$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT$ thousands)	Shares	Amount (NT$ thousands)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
2000.11	10	12,000	120,000	3,000,000	30,000,000	Registered capital	N.A.	Note 01
2002.03	10	12,000	120,000	5,000,000	50,000,000	Capital increased by cash:NT$ 20,000,000	N.A.	Note 02
2002.05	38	12,000	120,000	6,407,948	64,079,480	Capital increased by surplus:NT$ 6,739,480 and capital increased by cash:NT$ 7,340,000	N.A.	Note 03
2003.01	45	12,000	120,000	7,907,948	79,079,480	Capital increased by cash:NT$ 15,000,000	N.A.	Note 04
2003.04	10	30,000	300,000	17,329,055	173,290,550	Capital increased by surplus:NT$ 66,533,250 and capital increased by capital reserve:NT$ 27,677,820	N.A.	Note 05
2003.08	28	30,000	300,000	17,695,055	176,950,550	Capital increased by cash:NT$ 3,660,000	N.A.	Note 06
2004.08	10	60,000	600,000	35,751,099	357,510,990	Capital increased by surplus:NT$ 180,560,440	N.A.	Note 07
2004.11	10	60,000	600,000	35,958,099	359,580,990	Capital increased by employee stock option:NT$ 2,070,000	N.A.	Note 08
2005.01	10	60,000	600,000	36,232,099	362,320,990	Capital increased by employee stock option:NT$ 2,740,000	N.A.	Note 09
2005.06	10	60,000	600,000	36,255,099	362,550,990	Capital increased by employee stock option:NT$ 230,000	N.A.	Note 10
2005.08	10	60,000	600,000	47,155,124	471,551,240	Capital increased by surplus:NT$ 108,580,250 andcapital increased by employee stock option:NT$ 420,000	N.A.	Note 11
2005.11	110	60,000	600,000	51,680,124	516,801,240	Capital increased by cash:NT$ 45,000,000 and capital increased by employee stock option:NT$ 250,000	N.A.	Note 12
2006.02	10	60,000	600,000	52,212,124	522,121,240	Capital increased by employee stock option:NT$ 5,320,000	N.A.	Note 13
2006.05	10	60,000	600,000	52,708,124	527,081,240	Capital increased by employee stock option:NT$ 4,960,000	N.A.	Note 14
2006.08	10	80,000	800,000	70,577,124	705,771,240	Capital increased by surplus:NT$ 177,500,000 and capital increased by employee stock option:NT$ 1,190,000	N.A.	Note 15
2007.01	120.5	100,000	1,000,000	72,577,124	725,771,240	**Private common stock NT$20,000,000**	N.A.	Note 16
2007.07	214	100,000	1,000,000	76,577,124	765,771,240	**Private common stock NT$40,000,000**	N.A.	Note 17
2007.08	10	130,000	1,300,000	100,180,261	1,001,802,610	Capital increased by surplus:NT$ 217,731,370 andcapital increased by employee stock option:NT$ 18,300,000	N.A.	Note 18
2007.11	239	130,000	1,300,000	101,180,261	1,011,802,610	**Private common stock NT$10,000,000**	N.A.	Note 19
2008.06	128	130,000	1,300,000	102,380,261	1,023,802,610	**Private common stock NT$12,000,000**	N.A.	Note 20
2008.06	165	130,000	1,300,000	104,480,261	1,044,802,610	**Private common stock NT$21,000,000**	N.A.	Note 20
2008.09	10	130,000	1,300,000	126,766,313	1,267,663,130	Capital increased by surplus:NT$ 222,860,520	N.A.	Note 21
2009.03	53	180,000	1,800,000	128,466,313	1,284,663,130	**Private common stock NT$17,000,000**	N.A.	Note 22
2009.05	117.5	180,000	1,800,000	134,066,313	1,340,663,130	**Private common stock NT$56,000,000**	N.A.	Note 23
2009.08	10	180,000	1,800,000	146,727,286	1,467,272,860	Capital increased by surplus:NT$ 126,609,730	N.A.	Note 24
2010.02	10	180,000	1,800,000	147,264,786	1,472,647,860	Capital increased by employee stock option:NT$ 5,375,000	N.A.	Note 25
2010.05	10	180,000	1,800,000	147,517,286	1,475,172,860	Capital increased by employee stock option:NT$ 2,525,000	N.A.	Note 26
2010.07	10	180,000	1,800,000	147,537,286	1,475,372,860	Capital increased by employee stock option:NT$ 200,000	N.A.	Note 27
2010.08	10	230,000	2,300,000	177,040,743	1,770,407,430	Capital increased by surplus:NT$ 295,034,570	N.A.	Note 28
2010.11	10	230,000	2,300,000	177,078,743	1,770,787,430	Capital increased by employee stock option:NT$ 380,000	N.A.	Note 29

Month/ Year	Par Value (NT$)	Authorized Capital		Paid-in Capital		Remark		
		Shares	Amount (NT$ thousands)	Shares	Amount (NT$ thousands)	Sources of Capital	Capital Increased by Assets Other than Cash	Other
2011.01	10	230,000	2,300,000	177,360,243	1,773,602,430	Capital increased by employee stock option:NT$ 2,815,000	N.A.	Note 30
2011.05	10	230,000	2,300,000	178,526,243	1,785,262,430	Capital increased by employee stock option:NT$ 11,660,000	N.A.	Note 31
2011.07	10	230,000	2,300,000	178,633,743	1,786,337,430	Capital increased by employee stock option:NT$ 1,075,000	N.A.	Note 32
2011.10	10	230,000	2,300,000	178,753,243	1,787,532,430	Capital increased by employee stock option:NT$ 1,195,000	N.A.	Note 33
2012.01	10	230,000	2,300,000	178,832,743	1,788,327,430	Capital increased by employee stock option:NT$ 795,000	N.A.	Note 34
2012.05	10	230,000	2,300,000	180,021,743	1,800,217,430	Capital increased by employee stock option:NT$ 11,890,000	N.A.	Note 35
2012.08	10	230,000	2,300,000	180,025,743	1,800,257,430	Capital increased by employee stock option:NT$ 40,000	N.A.	Note 36
2012.11	10	230,000	2,300,000	180,162,243	1,801,622,430	Capital increased by employee stock option:NT$ 1,365,000	N.A.	Note 37
2013.02	10	230,000	2,300,000	180,473,993	1,804,739,930	Capital increased by employee stock option:NT$ 3,117,500	N.A.	Note 38
2014.07	10	230,000	2,300,000	185,473,993	1,854,739,930	**Private common stock NT$ 50,000,000**	N.A.	Note 39
2015.03	10	230,000	2,300,000	197,373,993	1,973,739,930	**Private common stock NT$119,000,000**	N.A.	Note 40
2016.12	10	230,000	2,300,000	197,073,993	1,970,739,930	Eliminating treasury stock of NT$3,000,000	N.A.	Note 41

【Note01】This capital increase was approved by the Ministry of Economic Affairs on 2000.11.08 with the letter Chung No.89521752.
【Note02】This capital increase was approved by the Ministry of Economic Affairs on 2002.03.25 with the letter Chung No.09131849090.
【Note03】This capital increase was approved by the Ministry of Economic Affairs on 2002.05.23 with the letter Chung No.09132153980.
【Note04】This capital increase was approved by the Ministry of Economic Affairs on 2003.01.28 with the letter Chung No.09231612830.
【Note05】This capital increase was approved by the Ministry of Economic Affairs on 2003.04.28 with the letter Shan No.09201127820.
【Note06】This capital increase was approved by the Ministry of Economic Affairs on 2003.08.04 with the letter Chung No.09232463150.
【Note07】This capital increase was approved by the Ministry of Economic Affairs on 2004.08.26 with the letter Chung No.09332620870.
【Note08】This capital increase was approved by the Ministry of Economic Affairs on 2004.11.12 with the letter Chung No.09333010190.
【Note09】This capital increase was approved by the Ministry of Economic Affairs on 2005.01.18 with the letter Chung No.09431571170.
【Note10】This capital increase was approved by the Ministry of Economic Affairs on 2005.04.18 with the letter Chung No.09431980500.
【Note11】This capital increase was approved by the Ministry of Economic Affairs on 2005.08.31 with the letter Chung No.09432758570.
【Note12】This capital increase was approved by the Ministry of Economic Affairs on 2005.11.08 with the letter Shan No.09401222320.
【Note13】This capital increase was approved by the Ministry of Economic Affairs on 2006.02.16 with the letter Shan No.09501027990.
【Note14】This capital increase was approved by the Ministry of Economic Affairs on 2006.05.22 with the letter Shan No.09501093420.
【Note15】This capital increase was approved by the Ministry of Economic Affairs on 2006.08.08 with the letter Shan No.09501172160.
【Note16】This capital increase was approved by the Ministry of Economic Affairs on 2007.01.12 with the letter Shan No.09601006390.
【Note17】This capital increase was approved by the Ministry of Economic Affairs on 2007.07.04 with the letter Shan No.09601142790.
【Note18】This capital increase was approved by the Ministry of Economic Affairs on 2007.08.27 with the letter Shan No.09601209920.
【Note19】This capital increase was approved by the Ministry of Economic Affairs on 2007.11.16 with the letter Shan No.09601280340.
【Note20】This capital increase was approved by the Ministry of Economic Affairs on 2008.06.30 with the letter Shan No.09701153220.
【Note21】This capital increase was approved by the Ministry of Economic Affairs on 2008.09.02 with the letter Shan No.09701224760.
【Note22】This capital increase was approved by the Ministry of Economic Affairs on 2009.03.06 with the letter Shan No.09801042190.
【Note23】This capital increase was approved by the Ministry of Economic Affairs on 2009.05.22 with the letter Shan No.09801102570.
【Note24】This capital increase was approved by the Ministry of Economic Affairs on 2009.07.24 with the letter Shan No.09801161440.
【Note25】This capital increase was approved by the Ministry of Economic Affairs on 2010.02.24 with the letter Shan No.09901035290.
【Note26】This capital increase was approved by the Ministry of Economic Affairs on 2010.05.14 with the letter Shan No.09901098090.
【Note27】This capital increase was approved by the Ministry of Economic Affairs on 2010.07.19 with the letter Shan No.09901160360.
【Note28】This capital increase was approved by the Ministry of Economic Affairs on 2010.08.24 with the letter Shan No.09901189940.
【Note29】This capital increase was approved by the Ministry of Economic Affairs on 2010.11.24 with the letter Shan No.09901263780.
【Note30】This capital increase was approved by the Ministry of Economic Affairs on 2011.01.17 with the letter Shan No.10001009260.
【Note31】This capital increase was approved by the Ministry of Economic Affairs on 2011.05.18 with the letter Shan No.10001102080.
【Note32】This capital increase was approved by the Ministry of Economic Affairs on 2011.07.26 with the letter Shan No.10001170190.
【Note33】This capital increase was approved by the Ministry of Economic Affairs on 2011.10.18 with the letter Shan No.10001239220.
【Note34】This capital increase was approved by the Ministry of Economic Affairs on 2012.01.20 with the letter Shan No.10101014700.
【Note35】This capital increase was approved by the Ministry of Economic Affairs on 2012.05.09 with the letter Shan No.10101083930.
【Note36】This capital increase was approved by the Ministry of Economic Affairs on 2012.08.15 with the letter Shan No.10101167840.
【Note37】This capital increase was approved by the Ministry of Economic Affairs on 2012.11.13 with the letter Shan No.10101235590.
【Note38】This capital increase was approved by the Ministry of Economic Affairs on 2013.02.20 with the letter Shan No.10201030590.
【Note39】This capital increase was approved by the Ministry of Economic Affairs on 2014.07.03 with the letter Shan No.10301126590.
【Note40】This capital increase was approved by the Ministry of Economic Affairs on 2015.03.11 with the letter Shan No.10401035870.
【Note41】This capital increase was approved by the Ministry of Economic Affairs on 2016.12.05 with the letter Shan No.10501280670.

Type of Stock

As of 4/10/2018; In shares

Share Type	Authorized Capital			Remarks
	Issued Shares	Un-issued Shares	Total Shares	
Common Stock	197,073,993	32,926,007	230,000,000	11,900,000 shares are capital increase by private common stock; 185,173,993 shares are listed in TPEx shares

4.1.2 Status of Shareholders

As of 4/10/2018; In shares and %

Type of shareholder / Amount	Government Agencies	Financial Institution	Other Juridical Persons	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders	2	21	136	20,710	656	21,525
Shareholding (shares)	1,246,000	1,534,790	6,502,027	56,387,214	131,403,962	197,073,993
Percentage	0.63%	0.78%	3.30%	28.61%	66.68%	100.00%

4.1.3 Shareholding Distribution Status

As of 4/10/2018; In shares

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage(%)
1 to 999	8,761	790,986	0.40
1,000 to 5,000	10,627	18,838,810	9.56
5,001 to 10,000	985	7,582,995	3.85
10,001 to 15,000	294	3,761,441	1.91
15,001 to 20,000	173	3,135,576	1.59
20,001 to 30,000	194	4,894,102	2.48
30,001 to 50,000	159	6,338,189	3.22
50,001 to 100,000	119	8,471,189	4.30
100,001 to 200,000	80	11,424,291	5.80
200,001 to 400,000	63	17,508,975	8.88
400,001 to 600,000	23	10,915,694	5.54
600,001 to 800,000	9	6,333,690	3.21
800,001 to1,000,000	10	8,510,189	4.32
Over 1,000,001	28	88,567,866	44.94
Total	21,525	197,073,993	100.00

【Note 1】All the shares of this company are common stocks; no preferred stock is issued.

4.1.4 List of Major Shareholders

As of 4/10/2018; In shares

Shareholder's Name	Shareholding (shares)	%
Toshiba Memory Corp.	19,821,112	10.06%
Trusted Investment Account of Kingston Technology Inc. by CTBC Bank	13,103,000	6.65%
Trusted Investment Account of Employees' Provident Fund for France Paris Islam Property by Standard Chartered	8,048,000	4.08%
Pua Khein Seng	4,557,972	2.31%
Yang Jiunn Yeong	4,549,114	2.31%
AwYong Chee Kong	3,355,745	1.70%
Ng Hon Wai	3,316,760	1.68%
Trusted Investment Account of Norway Central Bank by Citi Bank	2,982,504	1.51%
Trusted Investment Account of Van Gaal Emerging Market Stock Index Fund Account by Standard Chartered	2,631,000	1.34%
Stichting APG New Market Stock by Chase Bank	2,217,000	1.12%

4.1.5 Market Price, Net Worth, Earnings, Dividend and Relevant Information in the Previous Two Years

In NT$

Item			2016	2017	Current Year Before Mar 31, 2018
Market Price per Share	Highest	Before Revision	287.50	450.00	324.00
		After Revision	287.50	450.00	
	Lowest	Before Revision	204.50	245.50	267.00
		After Revision	204.50	245.50	
	Average【Note 1】	Before Revision	243.56	336.95	302.86
		After Revision	243.56	336.95	
Net Worth per Share	Before Distribution		116.70	132.23	137.22
	After Distribution		102.70	—	—
Earnings per Share	Weighted Average Shares (thousand shares)		199,851	199,840	199,357
	Earnings Per Share	Diluted	24.67	29.23	4.48
		Adjusted Diluted	—	—	—
Dividends per Share	Cash Dividends		14.00	17.00【Note 6】	—
	Stock Dividends	Dividends from Retained Earnings	0.00	0.00	—
		Dividends from Capital Surplus	0.00	0.00	—
	Accumulated Undistributed Dividends		0.00	0.00	—
Return on Investment	Price/Earnings Ratio【Note 3】		9.87	11.53	—
	Price/Dividends Ratio【Note 4】		17.40	19.82	—
	Cash Dividend Yield Rate(%)【Note 5】		5.75	5.05	—

【Note 1】Average market price per Share= Annual turnover value/ Annual turnover.
【Note 2】International Financial Reporting Standards is adopted (consolidated statements).
【Note 3】Price / Earnings Ratio = Average Market Price / Earnings per Share.
【Note 4】Price / Dividend Ratio = Average Market Price / Cash Dividends per Share.
【Note 5】Cash Dividend Yield Rate = Cash Dividends per Share / Average Market Price.
【Note 6】It needs to be approved in the 2108 shareholders' meeting.

4.1.6 Dividends Policy and Implementation

4.1.6.1 Dividends Policy on the Articles of the company:

Base on Phison’s Article 19.1 of the company, if there is net profit in the final financial statements, after offsetting any loss from prior year(s), 10% of the profit should be appropriated into capital reserve; however, if the capital reserve is up to the paid-in capital, this requirement is not applicable. Some of the profit will be appropriated to preferred capital reserve according to the laws and regulations. The remaining net earnings can be appropriated along with prior accumulated unappropriated retained earnings based on the resolution decided by the board of directors. The dividends proposed by the board of directors will be submitted to the shareholders' meeting. Our dividends policy depends on the investment environment of the future, capital demand, domestic and overseas competition and budget, as well as shareholders' rights, dividends balance and long-term financial plans. The actual distribution plans are proposed by the board of directors and then approved by the shareholders' meeting. Dividends are either cash or shares. The ratio of cash dividends should not less than 10% of the total shareholders' dividends.

4.1.6.2 The dividends distribution in this shareholders' meeting:

The surplus distribution of 2017 has been approved by the board of directors on Mar 16, 2018 and will submit this surplus distribution to 2018 shareholders meeting. The board of directors plans to cash distribute NT$ 3,350,257,881 (NT$ 17 per share) to the shareholders who own the stock on the base date. The smallest unit of dividends is NT$1 and dividends below this unit will be omitted, and the aggregate of cash dividend less than NT$1 shall be transferred to the Employee Welfare Committee. The paid-in capital shares of the company before Mar 16, 2018 is 197,073,993 shares. Upon the shareholders' meeting approves this proposal, the board of directors is authorized to determine the base date of distributing dividends and other affairs. If the number of shares varies, the board of directors is authorized to adjust the dividends accordingly.

4.1.6.3 If the dividends policy will be adjusted, it needs to be illustrated: none.

4.1.7 Effects of the dividends distribution on the operation performance and EPS of this company: not applicable.

4.1.8 Compensation of employees, directors, and supervisors:

4.1.8.1 The percentages or ranges with respect to employee, director, and supervisor compensation, as set forth in the company's articles of incorporation.

According to the Article 19 of the company, if the company earns a profit, 8% to 19% of it should be used as the employee remuneration and less than 1.5% of it could be used as the Directors/Supervisors remuneration. If the company is still in accumulated loss, the profit should be used to compensate this loss first.

The employee remuneration can be rewarded in stocks or cash to the employee if the criteria are met. The Director/Supervisor remuneration can only be rewarded in cash.

In the preceding paragraph, profit means the pre-tax income before the employee remuneration and the Director/Supervisor remuneration are rewarded.

The employee and Director/Supervisor remuneration should be decided in the board of directors with the presence of two-thirds of directors and the agreement of half of the directors. These decisions should be reported to the shareholders' meeting.

4.1.8.2 The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the 2017.

4.1.8.2.1 Basis of the 2017 Cash Remuneration for Employees, Directors and Supervisors.

The profit of this company in 2017 is NT$ 7,443,206,235 (Profit refers to the Profit Before Income Tax and before deducting the remuneration to employees Bonus and Directors' and Supervisors' Remuneration) and the company will remunerate the employees (NT$ 670,000,000 in total; 9.00% of the profit) and the directors/supervisors (NT$ 60,000,000 in total; 0.81% of the profit). The remuneration will be rewarded in cash.

4.1.8.2.2 Basis of the 2017 Stock Remuneration for Employees: there is no stock remuneration in 2017.

4.1.8.2.3 Difference is Adjusted by Accounting Principles: there is no difference in the 2017 employees, Directors' and Supervisors' Remuneration.

4.1.8.3 Information on any approval by the board of directors of distribution of compensation:

4.1.8.3.1 The amount of any employee compensation distributed in cash or stocks and compensation for directors and supervisors. If there is any discrepancy between that amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed.

The board of directors of the company approved to distribute the employees remuneration NT$ 670,000,000 and the directors/supervisors remuneration NT$ 60,000,000 on Mar 16, 2018. There is no difference between the actual distribution and the estimated distribution.

4.1.8.3.2 The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation: there is no stock remuneration in 2017

4.1.8.4 In Case of Difference for the 2017 Employee, Directors and Supervisors Remuneration, Disclose the Amount, Cause and Treatment:

The difference of the 2016 remuneration for employees, directors and supervisors (distributed in 2017) is as follows:

In NT$

Distribution	Amount Approved by shareholders' meeting	Estimated Amount	Difference	Cause and Treatment
Employee Remuneration	550,000,000	550,000,000	0	N.A.
Directors and Supervisors Remuneration	55,000,000	55,000,000	0	

4.1.9 Buyback of Treasury Stock:N.A.

4.2 Status of Corporate Bonds: N.A.

4.3 Status of Preferred Stocks: N.A.

4.4 Status of Global Depository Receipts: N.A.

4.5 Status of Employee Stock Option Plan:

4.5.1 Effect of unexpired employee stock options on the shareholders' rights before the annual report is published.

As of 24/5/2018

Type of Stock Option	1st employee stock option in 2016	1st employee stock option in 2017
Approval date	Dec 6, 2016	Dec 5, 2017
Issue date	This employee stock option was not issued. According to the related regulations, it is expired, so cannot be issued after Dec 5, 2017.	Not issued.
Units issued		8,000,000 Units
Shares of stock options to be issued as a percentage of outstanding shares		Not issued.
Duration		4 years
Conversion measures		Issued by new stocks
Conditional conversion periods and percentages		Two years after the employee stock option was issued, 50% of the option can be traded. Three years after the employee stock option was issued, 100% of the option can be traded. In the above term, if it is the day in which the option cannot be traded, the option is restricted.
Converted shares		Not issued.
Exercised amount		Not issued.
Number of shares yet to be converted		Not issued.
Adjusted exercise price for those who have yet to exercise their rights		Not issued.
Unexercised shares as a percentage of total issued shares		Not issued.
Impact on possible dilution of shareholdings		Two years after the employee stock option was issued, 50% of the option can be traded. Three years after the employee stock option was issued, 100% of the option can be traded. Impact of these options on the shareholder's rights was gradually decreased, so the impact is limited.

4.5.2 List of Executives Receiving Employee Stock Options and the Top Ten Employees with Stock Options: none.

4.6 Issuance of New Restricted Employee Shares: there is restricted shares issued before the annual report is published and in 2017.

4.6.1 Effect of unexpired employee stock options on the shareholders' rights before the annual report is published: not applicable.

4.6.2 List of Executives Receiving Employee Stock Options and the Top Ten Employees with Stock Options: not applicable.

4.7 Status of New Shares Issuance in Connection with Mergers and Acquisitions: there are no new shares in connection with mergers and acquisitions in 2017 before the annual report is published.

4.8 Finance Plans and Implementation: the previous cash replenishments by private placement and their implementation are listed as follows:

4.8.1 Second batch of cash replenishments by private placement in 2014

4.8.1.1 Details of the Plan

- Date of Approval: the shareholders' meeting of the company has approved the cash replenishments by private placement on Jun 17, 2014. The private placement of common shares is not more than 50,000,000 shares. The board meeting has approved to issue 11,900,000 shares for the second batch of the private placement of common shares in 2014 on Feb 6, 2015.
- The cash replenishment is made on Feb 12, 2015.
- Date of this information was posted to the website Financial Supervisory Commission appointed on Feb 6, 2015.
- Capital Source:

In NT$

Shareholders	Date of Payment	Shares	Price	Total Amount
Kingston Technology Corporation	Feb 12, 2015	10,400,000 shares	NT$ 180 per share	2,142,000,000
Advantech Investment Inc.		1,500,000 shares		

- Purpose and Progress

In NT$

Purpose	Completed Before	Capital Needed	Estimated 2015 By April
Substantial operating funds	2015.04	2,142,000,000	2,142,000,000

4.8.1.2 Implementation:

In NT$

Item	Implementation Status			Cause of Advance or Delay and Improvement
Substantial operating funds	Amount	Estimated	2,142,000,000	This was completed in the second quarter of 2015.
		Actual	2,142,000,000	
	Progress(%)	Estimated	100%	
		Actual	100%	
Total	Amount	Estimated	2,142,000,000	—
		Actual	2,142,000,000	
	Progress(%)	Estimated	100%	
		Actual	100%	

4.8.1.3 Effect of Implementation

Payment of the cash replenishment by private placement is NT$2,142,000,000 has paid on Feb 12, 2015 and the item was completed in second quarter of 2015. The purpose of this capital increasing was for substantial operating funds to improve the financial structure and introduce strategic investors. The effects are as follows:

- Enrich the working capital to improve financial structure

As for the financial structure, after receiving the fund from this private placement of common shares and completing the purpose of substantial operating funds, the debt ratio of the company was increased from 27.69% in 2015 to 28.08% in 2016. It's mainly because of the increase of foreign currency bank loan which aims to avoid the risk of US Dollar currency changing frequently, and in 2016 the major materials-Nand flash supply is shortage and the customer order is increased, in order to satisfy the needs, the company increased material purchase, thus the account payable was increased. By introducing the fund, the operating fund from the loan of financial institutions was slightly increased to keep the debt level in stable and stabilize the source of the long-term operation fund. It helped the company for the stability of long-term investments plan. In 2016, the company has acquired lands and a new building is under construction, so the ratio of long-term fund to property, plant and equipment was 24.48 % drop from 2015.

As for solvency, the current ratio and liquidity ratio of the company in 2016 are 300.48% and 241.07% respectively, slightly decreased than those of 318.26% and 250.14% in 2015, the current ratio and liquidity ratio of the company in 2017 are 321.41% and 240.85% respectively. The current ratio is improved. The current assets in 2016 and 2017 was NT$26,755,344 thousand and NT$ 28,809,687 thousand respectively which is 7.78% and 16.06% growth than NT$24,823,621 thousand in 2015. The current debt in 2016 and 2017 was NT$8,904,060 thousand and NT$8,963,408 thousand respectively which is 14.16% and 14.92% growth than NT$7,799,912 thousand in 2015. It's mainly because of the increase of foreign currency bank loan which aims to avoid the risk of US Dollar currency changing frequently, and in 2017 and 2016 the major materials-Nand flash supply is shortage, in order to satisfy the customers' needs in time, the company increased material purchase, thus the account payable was increased. By introducing the fund to state the solvency, thus the current ratio and liquidity ratio of the company in 2017 and 2016 only slightly changed from 2015.

As given above, after issuing cash replenishment by private placement, the financial structure and solvency were improved compared to the previous year. Therefore, this cash replenishment has resulted in the reasonable effects.

Financial Structure and Solvency of Phison Electronics Corp. from 2013 to 2017

Item	Year	2013	2014	2015	2016	2017
Financial Structure(%)	Debt ratio	34.47	29.20	27.69	28.08	25.82
	Ratio of long-term fund to property, plants and equipments.	922.81	1,026.76	1,255.03	947.81	923.11
Solvency(%)	Current ratio	262.53	301.74	318.26	300.48	321.41
	Liquidity Ratio	188.05	220.77	250.14	241.07	240.85

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

- Introducing Strategic Investor

The company issued the common shares by private placement to the US Company, Kingston Technology Corporation, in June of 2014. Kingston Technology Corporation is the world's top three NAND Flash module brands and one of the company's top ten customers. Due to the shares of private placement is restricted to trade within 3 years, the company introduces the Kingston Technology Corporation to be a shareholder to maintain the long-term partnership, which promote our competitiveness and reputation.

The operating revenue of the company from 2013 to 2017 are NT$ 31,396,516 thousand, NT$ 32,819,532 thousand, NT$ 37,409,177 thousand, NT$ 43,782,512 thousand and NT$41,864,759 thousand respectively. The operating income of the company from 2013 to 2016 are NT$ 3,861,397 thousand, NT$ 2,790,032 thousand, NT$ 4,226,904 thousand, NT$4,842,648 thousand and NT$6,731,692 thousand respectively. The net profit before tax from 2013 to 2017 are NT$ 4,222,780 thousand, NT$ 3,322,429 thousand, NT$ 4,473,264 thousand, NT$5,476,926 thousand and NT$6,717,870 thousand respectively. The operating revenue was continuously growing from 2013 to 2016, except slightly decreasing in 2017 as the memory chip market remain on the sidelines. Compared to 2013, the decrease of the operating income and the net profit before tax in 2014 was because of NT$965,218 thousand drop of gross profit. And the change of gross profit is resulted from the oversupply of NAND Flash, and then the related products price was decline. However the operating income and the net profit before tax in 2015 and 2017 were higher than those in 2013, thus way of introducing strategic investor to ensure the long-term development for the company is effective and has resulted in the reasonable effects.

The Revenue and Profit from 2013 to 2017 of Phison Electronics Corp.

Item	2013	2014		2015		2016		2017	
	Amount	Amount	Growth Rate(%)	Amount	Growth Rate(%)	Amount	Growth Rate(%)	Amount	Growth Rate(%)
Operating Revenue	31,396,516	32,819,532	4.53%	37,409,177	19.15%	43,782,512	39.45%	41,864,759	33.34%
Operating Income	3,861,397	2,790,032	(27.75%)	4,226,904	9.47%	4,842,648	25.41%	6,731,692	74.33%
Profit Before Income Tax	4,222,780	3,322,429	(21.32%)	4,473,264	5.93%	5,476,926	29.70%	6,717,870	59.09%

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

V. Operation Overview

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Main areas of business operations

This company mainly focuses on the controller of flash memory and the design of the peripheral devices integration.

- R&D, production and sale of the controller for USB drives.
- R&D, production and sale of the controller for flash memory card(SD/CF) and system products.
- R&D, production and sale of the controller for solid state disk (SSD) and system products.
- Controller for the built-in flash products of smart phones, tablets, etc.: such as eMMC and UFS, etc.

5.1.1.2 Percentages of Major Products to Net Operating Revenue

In thousand in NT$

Item	2017	
	Amount	Percentage (%)
Flash memory module products	27,811,701	66.43
Integrated circuit	7,091,450	16.94
Controller	6,787,562	16.21
Others	174,046	0.42
Total	41,864,759	100.00

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

5.1.1.3 Current Major Product (Service)

- Controller for flash drives and system products.
- Controller for flash cards and flash card system products: such as SD card and microSD card.
- Controller for the built-in flash products of mobile devices.
- Controllers for SSD and SSD products.

5.1.1.4 New Major Product (Service) under Development

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

5.1.2 Current Status of the Industry

5.1.2.1 Current status and development of the industry.

Because this company focuses on the controller of flash memory and the design of the peripheral devices integration. We will illustrate the current status and development of the flash memory and NAND Flash products in this industry:

- Current status and development of flash memory in this industry

  NAND Flash memory is the most suitable component for massive data storage and its unit cost is the lowest, so it can be used in the portable devices for storage, such as mobile drives and memory card. The NAND Flash technology has gradually transferred into the TLC chips with 3D structure from the MLC chips with 2D structure. 3D TLC chips have the advantage of cost, but need a controller to maintain the accuracy of data. In the past, built-in memory and SSD can only use 2D MLC chips. In the future, by the use of new controllers, 3D TLC chips will be used in built-in memory and SSD.

Recently NAND Flash has been supplied in the areas other than PC and gradually been used in many devices other than flash memory and mobile drives. Flash memory will be needed in many mobile devices, such as tablets and smart phones. In addition, many devices have replaced traditional hard disks by flash memory, such as SSD and built-in eMMC. These trends are pretty favorable for the NAND Flash industry.

However, with the improvement of NAND Flash manufacturing process, the technology of NAND Flash is more and more difficult because more bits for error correction are needed and the integration with controller is critical. Most of the technologies for controllers, such as wear leveling and bad block management, are to extend the life of NAND Flash.

Phison Electronics Corporation has dedicated itself to the R&D of NAND Flash controllers and the system products for more than 10 years. The know-how of NAND Flash management technology and self-expectation have driven all personnel in Phison to develop more technology patents of NAND Flash. Due to these efforts, Phison Electronics Corporation has been the leader in the market.

- NAND Flash memory has been the main-stream storage device and many new applications have been proposed. This company has developed many solutions in different areas.

Controller for USB 3.0 mobile Drives and Products

USB 3.0 is designed for fast transferring of audio and video data. It is 10 times faster than USB 2.0 and has the advantages of backward compatibility, better power management and larger power capacity. The theoretic speed of USB 2.0 is 480Mb per second and the theoretic speed of USB 3.0 is greatly promoted to 5Gb per second. Therefore, for those USB 2.0 products, the maximal actual transferring speed is just 28MB ~ 30MB per second. If these products adopt USB 3.0, the transferring speed can be greatly promoted to over 200MB per second, which saves a lot of data transferring time. This company is the first one to propose the USB 3.0 controllers for 4 channels and 8 channels alternating transferring, which improve the power consumption and the heat accumulation, as well as decreasing the PCB size and lowering the total cost. We have developed the USB 3.0 mobile dive with the reading speed of 400 MB per second and the writing speed of 300 MBper second. Its data accessing performance is almost the same with that of SSD and it can accommodate more than 1TB of NAND Flash in a mobile drive.

We also continue to develop USB 3.0 controllers and mobile drives with high performance/price ratio to provide more customers with convenience and performance of USB 3.0.

Controller Chips and Products for SDCards

SD (Secure Digital) memory card(including microSD card) is the most used storage device in high-resolution DSLR, sports and UAV digital cameras, dashboard cameras, printers, smart phones and tablets. In recent years, the need for high capacity cards is increased. TLC with features of low cost and high capacity is widely used in the consumer electronics. Because feature phones are gradually replaced by smart phones, high capacity microSD cards become more and more popular. Phison Electronics Corporation make efforts to develop new features, support new-generation SD4.0 specification, provide high capacity cards with better writing/reading performance. We also enter the niche market to provide products with higher additional value to satisfy the needs for premium memory cards. In addition, for the DVR and UAV cameras which need uninterrupted recording feature, this company has developed the special and customer-made SD/microSD solution. These products have been verified by the customers and been stably produced.

eMMC

Controllers for eMMC flash memory is developed for the memory needs of smart phone. Because the market of smart phones is expanding and needs higher performance, the requirements for controllers are higher and higher, such as high-speed transferring, simultaneous reading and writing, background operation, security and power-saving. International NAND Flash Supplier, such as Samsung, Toshiba, SanDisk, SK Hynix and Micron, all make their efforts to develop eMMC. It is a new trend and the growth in the future is enormous because many products need it, such as smart phone, tablets, set-top box and smartTV. This built-in flash memory does not only satisfy the need of smart phones, but also has higher reliability than other storage cards. Phison Electronics Corporation has been working in this area for quite a long time. The NAND Flash management technology and the experience of many years are the most important basis for developing this product. In addition, Phison Electronics Corporation has enough technology patents to lead in the competition and provide competitive products. We have developed the controllers with the specification of eMMC 5.x built-in flash memory, which is established by JEDEC. These products have been adopted by international suppliers and the production of these products is very stable. We also make efforts to develop the next generation high-speed eMMC 5.x and UFS 2.0,

UFS

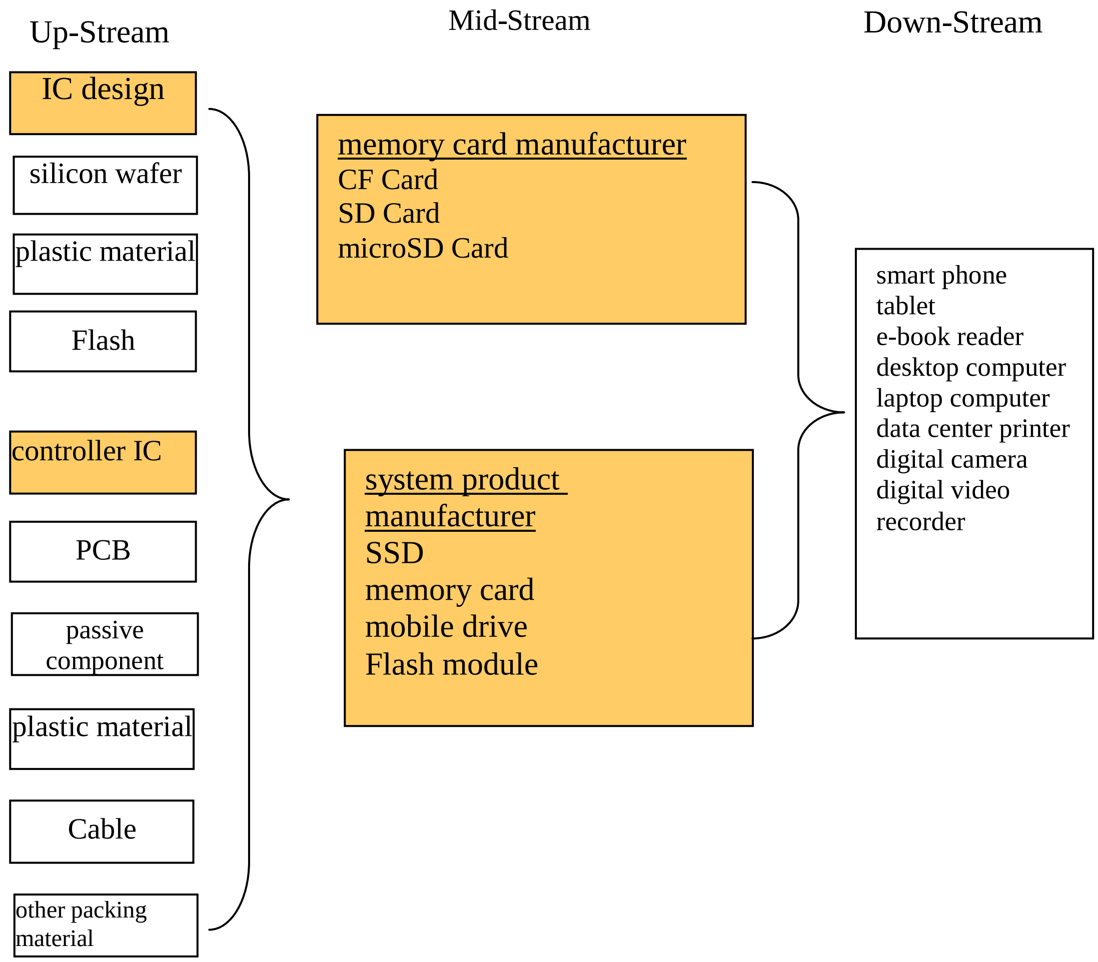
With the improvement of smart phone functions, the processors of them are more advanced, more APPs are installed and the resolution of cameras is getting higher. All of these improvements need higher performance and higher storage capacity. Because the limitation of eMMC transferring interface, the data transferring speed is very difficult to be promoted. Therefore, the industry has established the new interface specification UFS (Universal Flash Storage). Currently, the data transferring speed of UFS2.0 is 3~4 times faster than that of eMMC. In the future, higher speed will be developed. In addition, UFS also includes the widely-adopted SCSI structure and supports multi-thread data access, which makes good use of the memory features. This company has completed the verification of prototype products and will continue to put resources into the development of UFS controllers and integration solutions. In addition to expanding the market share of eMMC, we will promote the penetration rate of the storage media in advanced hand-held devices.

SSD

All of traditional IT and electronic products used hard disks as storage media in the past, but the software and hardware in computer industry have been developed rapidly. Currently, the speed of hard disks cannot catch up with the speed of other software and hardware, so SSD was developed to fix this problem. Unlike the magnetic disks used as the storage media in traditional hard disks, SSD uses flash memory as storage media and have the advantages of writing/reading speed, smooth use, power consumption, noise, weight, size, etc. After cloud technology and tablets are more and more popular, the need for SSD becomes more urgent. Hence, Phison Electronics Corporation has dedicated itself to develop new controllers of flash memory and system products. Currently, we have all kinds of SSD chips for SATA and PCIE interfaces and comprehensive solutions to satisfy the needs of all parties. We will continue to design innovative and advanced products to promote the performance of SSDs and lower the unit cost. Phison Electronics Corporation will create greater values for SSD products.

5.1.2.2 Relationship of Up-stream, Mid-stream and Down-stream in this Industry

This company focused on the controllers of flash memory and the system products of SSD, eMMC, mobile drives and memory cards. We are in the up-stream and mid-stream of this industry.



5.1.2.3 Trends and Competition of Products

- Trends of Products

  Controller:

  Controller for SSD and eMMC: the design is toward multiple function integration, larger memory, faster speed, random access speed, access stability, longer life, supporting all specifications and transferring interfaces, low voltage, low cost and single chip.

  Controller for flash memory: the design is toward faster speed, access stability, supporting all specifications and transferring interfaces, small size, low voltage, low cost and single chip.

  Mobile drive:the design is toward larger memory, faster speed, small size, data security and software platform integration.

  To sum up, this company will focus on the application of flash storage to develop products of single function and products of multiple function integration. We will keep inputting our innovation on the new products.

- Competition

  The trend of NAND Flash is toward built-in application and the technology required in this trend is getting higher and higher. Most of the business opportunities and core technology are in the hands of big NAND Flash suppliers. The controller suppliers in Taiwan are with less and less advantages, which making the participants to integrate or jump out of this market. In a very short period, if the participants cannot upgrade their technology from USB2.0 mobile drives and SD card controllers to SSD, built-in memory, eMMC and USB3.0 controllers, they have been kicked out of this industry. Phison Electronics Corporation invested lots of R&D resources to upgrade all core technologies and enter the areas of SSD an eMMC. We have done great business in retailers and PC OEM market. By strategic alliance, our sales performance is getting better and better. Although there are many IC companies trying to develop built-in controllers to join this competition, the most critical factor is the close relationship with the international big NAND Flash suppliers to participate in the supply chain. In the future, Phison Electronics Corporation will continue to develop products, establish strategic alliance, vertically integrate the industry and build high/middle/low levels of SSD/eMMC/UFS product line to maintain our competeviness

The core technology of Flash products is the controllers and the integration of their firmware and software. Firmware technology is the key to the rapid development of all kinds of flash memory supporting all major specifications and owning high compatibility, which benefit the competeviness in the market. This company has great capability of designing controllers for flash memory and firmware, as well as the capability of integrating the technologies for system products. We can provide all things from ICs to technology solutions and have unique and premium competitiveness, which benefit our future growth in the market.

5.1.3 Current Status of Technology and R&D

5.1.3.1 Technology level of the Business

This company mainly focuses on the R&D, design, manufacturing and sales of controllers for flash memory, mobile drives, flash memory cards, SSDs, eMMC built-in modules, etc. The core technology of these products is the controllers and the integration of their firmware and software. This company has great capability of designing controllers for flash memory and firmware, as well as the capability of integrating the technologies for system products. We can provide all things from ICs to technology solutions and have unique and premium competitiveness, which benefit our future growth in the market

5.1.3.2 R&D of the Business

This company has a very excellent R&D team who are young, hard-working, creative and experience of many years. They have the experience of developing flash products and focuses on the controllers for flash memory and the peripheral systems. We are the leader in the development of controllers for flash memory and provide comprehensive technology solutions. The R&D team works very hard to be among the first three suppliers of controllers and peripheral systems.

5.1.3.3 R&D Expenditure of the lastest year and as of the date of annual report published.

In thousands in NT$;%

Year / Item	2017	Mar 31, 2018
R&D Expenditure	3,713,829	629,797
Net Operating Revenue	41,864,759	9,299,553
R&D Expenditure to Net Operating Revenue	8.87%	6.77%

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

5.1.3.4 Successful Technology or Products

- Successful Results of R&D

Year	Results of R&D
2016	(1) The lower power consumption MIPI Gear 3 PHY as the host interface to the UFS Unipro flash memory. (2) The USB 3.0 flash drive supporting high-speed randomly writing. (3) The SD/micro SD supporting high-speed, high-resolution and long-time uninterrupted video recording. (4) The core circuit module to manage flash memory, simplify firmware operation process, promote data transfer speed and lower power consumption. (5) The power-saving technology to effectively lower the system power

Year	Results of R&D
	consumption and the power consumption of SSD products. (6) The SD/micro SD with high-speed randomly writing and reading performance for the internally-built flash memory of hand-held devices.
2017	(1) Developed a lower power MIPI Gear 4 PHY as the host interface for the UFS Unipro flash memory controller chip. (2) The advanced process PCIe G3x4 and MIPI PHY were developed for better performance and energy efficient (3) Developed the latest generation of LDPC+ DSP error correction module, which is able to more effectively support 3D Nand. (4) Developed USB3.1 flash disk that supports high speed random write. (5) Developed flash memory management core circuit modules to simplify the firmware operation process, increase data transmission efficiency, and reduce power consumption. (6) Developed the SD/microSD card with high random read/write performance which can be used to expand the built-in flash memory capacity of handheld devices. (7) Develop various control chips and solutions that support 3D Nand.

- Technology Patents of this Company

  This company made great efforts to develop the technologies for the flash memory application and has been successful on some critical technologies. We applied the patens for them. Up to Apr 30, 2018, there are 319 patent applications all over the world and 1,415 patents have been gratified.

5.1.4 Long-term and Short-term Business Plans

5.1.4.1 Short-term Business Plans

- Marketing/ Sales Strategy:

  We will take the measures of strategic alliance to collaborate with large corporations in this industry and expand our market share. These measures could promote our technology status and market share of the products and create a bigger market demand.

  We will establish different sales strategies based on the customer types and global market to satisfy the needs of the market and customers and promote the global sales.

  We will explore the markets in China and developing countries to expand our market share and accommodate various customers.

- R&D

  We will continue to improve the functions of the controllers for all kinds of flash memory to support all kinds of specifications and integration. The R7D is toward high performance, low power consumption, long life, high capacity, high compatibility.

  The products will be more diversified and their functions and specifications will be improved to meet customers' needs.

  The R&D will be toward data storage, embedded and data security to develop new products with single function or function integration.

- Production Strategies:

  We will continuously improve the management of the balanced marketing and production. In addition, we will keep expanding outsourcing plants and improve their management.

  We will continuously lower the production cost and search for material of good quality and lower price. We will also improve the OEM production capability and promote the product yield, which can cut down the cost and maximize profit.

  We will improve inventory management to make use of them as much as possible.

We will take the measures of strategic alliance to establish the marketing and production strategies in different areas and markets to effectively lower the production and marketing cost and serve the local customers.

We will continuously improve the collaboration with the material suppliers to better manage material inventory, production and marketing.

- Management and Finance:

We will follow the regulations of self-management and corporate governance. By trading the capital market, we will promote the company reputation and recruit excellent talents.

We will keep a good relationship with banks, improve the credibility check to ensure creditor's rights, and check the receipt and payment on a regular basis to improve financial status.

Improve financial structure: we will continue to lower the operation cost, improve capital management, and take hedge measures of foreign currency rate. These measures can secure the financial operations and management to maximize the profit of this company.

We will make good use of theTIPTOP GP ERP System, AgentFlow system, EasyFlow GP operation process management system, SmartFlow electronic form system, etc. to integrate resources, promote business efficiency and improve operation processes.

We will implement human management and robust systems to enhance the internal cohesion.

We will improve the educational trainings to promote work efficiency and human resource.

Effective management of human resource and operating process: we will continue to improve the internal operation processes to promote work efficiency, work quality and human resource.

5.1.4.2 Long-term Business Development Plan

- Marketing policy: we will continue to improve the training of salesman, collect more market information, establish the customer service network, establish agent network, expand global market and enter big economies all over the world.
- R&D policy: we will continue to the technologies of new generation, develop new product lines based on the needs of the market, develop products with high additional value, promote the variety and competitiveness of our products, maintain innovation capability and focus on innovation to maintain our leadership in the market of flash memory application.
- Production policy: we will keep good relationships with material suppliers and fibs and seek new suppliers to reduce the risks. We will continue to use the advanced manufacturing process to cut down the cost and improve the marketing and quality control to enhance our competitiveness.
- Business management policy: By recruiting new personnel, creating more products, expanding domestic and overseas market share, collaborating with international strategic partners and integrating resources, we will continue to boost our business and become the international leader of flash memory application.

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.1.1 Sales Regions of Major Products (Services)

In thousand in NT$

Year / Area	2016	2017
	Operating Revenue	Operating Revenue
Asia	22,372,435	23,853,418
America	15,741,311	13,514,981
Europe	5,348,709	4,126,140
Australia	318,926	368,827
Others	1,131	1,393
Total	43,782,512	41,864,759

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

5.2.1.2 Market Share and Demand/Supply/Growth in the Future

- Market Share: not applicable because there is no statistical data.
- Demand/Supply/Growth in the Future

Supply

The application of flash memory becomes broader and broader, and the market demand is growing fast. Therefore, the manufacturers without advanced technology will lose their competitiveness. The major suppliers of controller chips are Phison, Marvel, Silicon Motion, Broadcom, Solid State System, Alcor, ITE Tech, WINBOND, IROC, ASolid, JMicron, Gigastone, etc. The manufacturers of Nand flash application products are Scandisk, Kingston and Micron, etc. (overseas) and Phison, Transcend, Apacer, Adata, Silicon Power, DELTA ELECTRONICS, LIWANLI, TONG HSING ELECTRONIC, FORMOSA TAFFETA, SUNNIC, etc. (domestic).

Demand

The application of Nand Flash is expanding as the memory chip's price is getting reasonable and the multimedia and protable products become popular. The Nand Flash applied product lines is growth. Not only the USB and SD Card which using in many digital and 3C products, but the eMMC using in smart mobiles and the SSD with fast read and write speed using in PC, note book and data center is gradually replace the hard disk. Thus, Nand flash is the most popular and stable storage media, the market should grow firmly.

Growth

In 2017, the sales amount of SSD controllers and products accounted for 40% of the total income, 13% higher than that in the previous year. We also developed UFS controllers for the best choice of next-generation high-performance built-in storage devices. Our R&D team will continue to make efforts in the development of IP and the miniature of manufacturing processes to provide more products and benefit the future development.

Because the market of internet and smart applications is growing and the data centers of cloud computing are establishing, the penetration rate of SSDs is growing very fast. Phison Electronics Corporation has announced all kinds of NAND Flash controllers for different SSD applications, including controllers supporting PCIe Gen 3x2, Gen 3x4 NVMe specification, which is the main product of Phison to be used in the main-stream devices. As for the high-end applications/SSD application market of corporate level. Completed the controllers of 8-channel PCIe Gen3x4 and the premium U.2 SSDs. As for the built-in applications, Phison Electronics Corporation leads the world to enter the eMMC and UFS area, pushing the portable storage devices into a new generation. We developed a new controller supporting UFS2.1 and the StrongECC^{TM} 、 advance LDPC and CoProcessor^{TM} structure, which can be used for low power consumption, excellent error correction and similar performance to SSD. As for memory cards, Phison Electronics Corporation announced the SD/microSD controllers supporting SD6.0 A2 specification, which has the advantage of high-speed random access and is faster than the current specification of SD5.1 A1. In addition, it supports the more competitive 3D TLC Nand Flash and can be used in the storage devices with high capacity. As for the USB products, Phison Electronics Corporation announced the new portable SSD SU31, which can be used in the virtualreality applications to bring its capacity into full play. In addition, the new iDUO Lightning and C-Thru USB3.1 solutions can provide the storage with the capacity of charging for phones and portable devices during using them.

With the rapid development of flash memory application products, the development of NAND Flash controller chips are also rising and flourishing. The price of flash memory material was rapidly changed, making the marketing more competitive. Under the highly unpredictable situation, we predict that, in 2017, the flash memory application products will be massivelyused in the hand-held devices, and other SSD application products will also replace traditional hard disks to a great extent because SSD products are with higher stability and speed and the cost trend will further descend. Therefore, the NAND Flash controller chips will be used more in the future. Phison Electronics Corporation will continue to develop new controller chip applications for NAND Flash products to provide service and products of system integration and application. In response to the technology industry change and the flash products application trend, Phison Electronics Corporation will also continue to invest new manufacturing processes and new technology specification to timely provide various application products. We will focus on promoting the application of SSD, eMMC and new products in all kinds of technology devices. We will also develop new generation of built-in high-speed eMMC and UFS controller chips for all kinds of hand-held devices, such as smart phones and tablets. In addition, we will continue to develop new SSD products for the ultrabook, industrial computers and the data storage devices for high-speed corporation application and IoT to provide the technology and service of total solutions to meet the needs in the market. We promise to promote our competitive capability and expand the market share.

5.2.1.3 Niche for Competitions

- Professional, Young and Stable R&D Team to Develop New Technology and Products Rapidly

The R&D team of Phison Electronics Corporation has been in the industry of NAND Flash peripheral devices and been one of the pioneers in this area. Our R&D team is young, hard-working, creative and fast. Since its establishment in 2000, it has successfully developed controllers for many components, such as USB3.0 NAND flash memory, SD 4.0 UHS-II, eMMC 5.X, SATA SSD, PCIE SSD and security USB mobile drive. In the future, we will continue to improve the trainings for R7D personnel, provide the personnel with all kinds of benefits, and recruit new excellent personnel to promote the experience and technology, which make our products more competitive and create different new products.

- Strong Shareholders and Strategic Alliance

In the market, there are only a few NAND Flash suppliers, such as Toshiba. In addition, there are many specification of small memory cards. Most of the NAND Flash peripheral products have patent protection. Hence, how to obtain enough NAND Flash memory material and how to obtain relevant patent authorization are critical issues to us.

Since the establishment, this company made lots of efforts to develop advanced technology and new application areas. We have kept good relationship with all flash manufacturers and introduced strategic partner Toshiba in 2002. Toshiba has NAND Flash fibs, which can provide us with flash memory. Toshiba is also the creator of Secure Digital and xD-Picture specifications and has cross-authorization of many small memory card specifications. Therefore, the partnership with big flash memory manufacturers helps us developing all kinds of flash memory controllers. We introduced strategic partners, Kingston Technology Corporation and Advantech Investment Inc., in 2014~2015 by private stock issuance. We participated in the private stock issuance of Apacer Technology Inc., which benefits us in obtaining stable source of flash material and expanding retailer channels.

We will continue to establish a comprehensive development plan and long-term strategic alliance to integrate all resources and develop new product lines. These can expand our market share and provide the market with more products, as well as benefiting adjustment for the market change and creating competitiveness for us to sustain our business.

- Competitive Advantages of Having Design and Retailer End

This company developed NAND Flash controllers and designed many products, such as flash memory reader and SSD、Nand flash application products. Most of the assembly and production works are outsourcing to other partner companies. Products are sold by the retailer channel in Taiwan or overseas retailer channels in Europe, America, Japan, etc. Other traditional IC design companies just develop chips and sell the products to the system assembly companies. Once more competitive companies join in this area, there will be many risks, such as decreased gross profit and increased inventory. We are not like the assembly module companies, which can only make smaller profit. We stand at the two ends of design and sales, which provides higher additional values. Our business income is higher than that of IC design companies and our profit is higher than that of the assembly companies. Therefore, we sell controllers to the famous companies, such as Toshiba and

Kingston. Because we are quite familiar with controllers, our system products can be developed very fast and then sell to our customers in US, Europe and Japan. It is obvious that our business model is very competitive.

5.2.1.4 Advantages, Disadvantages and Responsive Strategy in the Long-term Development

Advantages:

- Comprehensive Fragmentation of Production in the Semiconductor Industry.
  Our country has a very comprehensive fragmentation of production in the semiconductor industry. Fabs, packaging pants and testing plants have reached the economic scale and can provide professional services. These provide companies of controllers for flash memory with excellent support.
- Rapid Growth of SSD Market
  SSDs have excellent feature of high performance, low power consumption and low failure rate and the price of flash memory in SSDs is greatly reduced because of the advanced manufacturing processes. Traditional hard disks have been replaced by SSDs in a great deal of personal and cloud storage devices. This company has developed high-performance SSD controllers supporting the third generation SATA and PCIe NVMe, and has the critical technologies to develop new models with faster transferring speed and lower power consumption. These new products make SSDs with higher performance and lower cost. Because the SSD market is rapidly growing, this company will rapidly satisfy the needs of the market and provide the market with more products to ensure the leadership of this company.
- Growth of Smart Phones Promotes Growth of Small Memory Cards
  With the advance of NAND Flash manufacturing processes, the unit price of flash memory is getting glower and lower, which brings down the price of small memory cards. In addition, the applications of flash memory have been expanded into many home appliances, not just consumer products, such as smart phones. It is expected that the market of small memory cards will be rapidly growing in the future.
- The application of flash memory has been used in many products, such as mobile drives, memory cards, cell phones and portable video and audio devices. It has been further used in SSD products, eMMC of mobile devices and car GPS products. Is application is still growing and therefore promotes the flash memory product industry.

Disadvantages and Responsive Strategy:

- Rapid Growth and More Competitors
  Responsive strategy: this company has excellent technology design capability of NAND Flash controllers and firmware for the faster product development, more additional value of products, and function integration, which provide our customers with more diversified and comprehensive solutions. We will continue to enhance our R&D of technologies to keep our leadership in this industry and maximize our profit.
- Flash Memory in Control of Big International Suppliers
  Responsive strategy: we will keep close partnership with big international flash memory suppliers (such as Toshiba, Micro, Hynix, etc.) and seek the opportunity of establishing strategic alliance. We will pay close attention to the specification change, market change and price change of flash memory to adjust our inventory accordingly and reduce the risk of inventory.
- More Product Specifications
  Responsive strategy: because the specification of flash memory is established by big international suppliers and the specification of small memory cards are quite diversified, this company has to pay close attention to the development of all kinds of specifications of memory cards and flash memory. By catching up with the development, we can rapidly develop our products and promote the functions, additional value and market compartmentation, which make the life cycle of products longer and the unexpected impacts on our products.

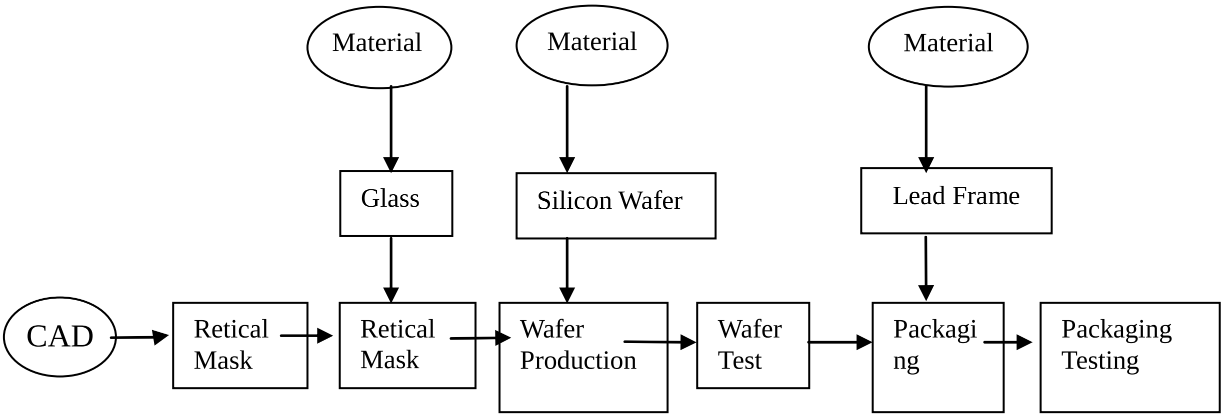
5.2.2 Main Use and Manufacturing Process of Major Products

5.2.2.1Main Use of Major Products

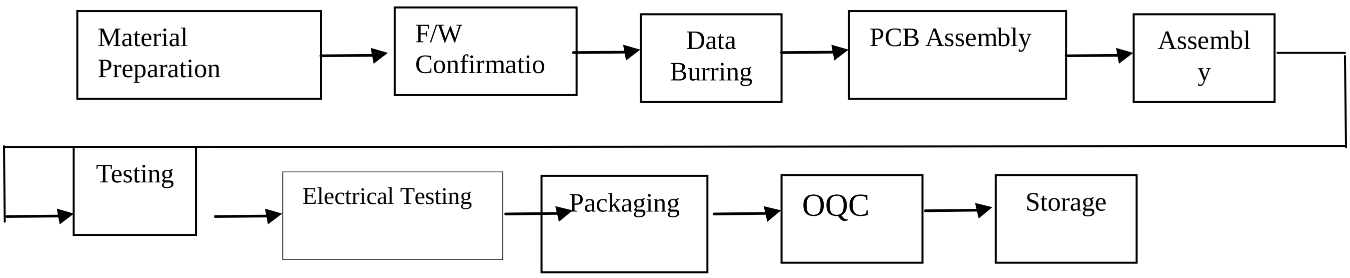
Product Category	Use
Flash memory system products	These are the storage devices with flash memory (mobile drive, flash memory card, SSD and built-in memory). Because USB interface, cameras, cell phones and laptop computers become more and more popular, these products are convenient for fast data access.為
Flash memory controller chips	These products are used as I/O interface of common system products, to control and integrate between the firmware instruction set and the flash memory, enabling the system products and flash memory to translate instruction and transfer data.

5.2.2.2Manufacturing Process

- Manufacturing Process of Controller IC



- Manufacturing Process of Flash Memory Reader



5.2.3 Supply Status of Major Material

The Major materials of our products are flash memory, controller, PCB, case, connector and cable. The supply status is as follows:

Major Material	**Major Supplier**	**Supply Status**
Controller	United Microelectronics Corporation, Taiwan Satori Co., Ltd.	Normal
Flash Memory	Toshiba, Micron Asia, SanDisk	Normal
PCB	Taiwan Printed Circuit Board Techvest Co, Ltd., In Power Minute Co., Ltd.	Normal
Connector, Case	Liang Meng Plastics share Co., Ltd. Wei Jeng Industrial Co., Ltd.	Normal

5.2.4 The name and proportion of the suppliers or customers who has occupied more than 10% of the total amount of purchase or operating revenue in any of the past two years and the reasons for the increase or decrease:

5.2.4.1 The suppliers who has occupied more than 10% of the total amount of purchase in any of the past two years.

The major suppliers in the last two years

In thousand in NT$

	2016				2017				20178(as of Mar 31)			
Item	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer
1	A	18,830,260	65.03	Subsidiary of a corporate member of the Corporation's board of directors	A	12,335,671	42.85	Sub-subsidiary of parent company of the corporations legal board of directors	B	3,849,132	58.36	Sub-subsidiary of parent company of the corporations legal board of directors
					B	3,210,897	11.15	Sub-subsidiary of parent company of the corporations legal board of directors	C	1,212,380	18.38	Sub-subsidiary of parent company of the corporations legal board of directors
	Others	10,124,601	34.97		Others	13,238,757	46.00		Others	1,534,376	23.26	
	Net Purchase	28,954,861	100.00		Net Purchase	28,785,325	100.00		Net Purchase	6,595,888	100.00	

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

Cause of Change:

The company's major materials of products are flash memory and controller. In 2016 and 2017, the percentages of supply from A company are 65.03% and 42.85% respectively. In 2017, the percentages of supply from B company are 11.15% and other Toshiba Corp. is 12.91%. The total purchase from Toshiba Group is around 66.91%. There is no significant change in purchase from A company, so no analysis for the year of 2017. In The first quarter of 2018, the percentage of purchase from B company is 58.36% and C company is 18.38%. Due to Toshiba Group organizational restructuring, so the total percentage of purchase from Toshiba Group is 76.74%.

5.2.4.2 The customers who has occupied more than 10% of the total amount of purchase in any of the past two years

The major customers in the last two years

In thousand in NT$

	2016				2017				2018 (Before Mar 31)			
Item	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer
1	A	7,658,918	17.49	N.A.	A	9,217,685	22.02	N.A.	A	1,991,188	21.41	
2	Others	36,123,594	82.51	N.A.	Others	32,647,074	77.98	N.A.	Others	7,308,365	78.59	
	Net Sales	43,782,512	100.00		Net Sales	41,864,759	100.00		Net Sales	9,299,553	100.00	

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

Cause of Change:

In 2016 and 2017, the percentages of sales to A company are 17.49% and 22.02% respectively. The company shiped to A company from 2010, and have a collaboration with A company in the development of new system products and controllers in the last years. There is no significant change in sales to A company, so no analysis for the year 2017. In 2018 first quarter, the percentages of sales to A company is 21.41%. There is no significant change in sales to A company, so no analysis for the period.

5.2.5 Production in the last two years

In thousand pieces/in thousand in NT$

Year / Production Amount / Major Product	2016			2017		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Flash memory module product	—	193,137	26,899,115	—	90,757	20,187,760
Integrated circuit	—	89,843	4,009,802	—	91,216	6,427,969
Controllers	—	354,762	3,420,890	—	365,868	3,661,689
Others	—		147,847	—		56,362
Total		637,742	34,477,654		547,841	30,333,780

Note: The company develops the controllers and the outsourcing factories take the result produce the chips or system. Then we buy these chips to produce Nand flash application products or to sell them. The Flash memory controllers in this table list only those sold directly, thus the production is from the purchase information.

5.2.6 Sales in the last two years

In thousand pieces/in thousand in NT$

Year / Production Amount / Major Product		2016		2017	
		Quantity	Amount	Quantity	Amount
Flash memory module product	Domestic【Note 1】	34,108	6,850,531	18,870	6,060,169
	Overseas	159,230	26,248,355	72,583	21,751,533
Integrated circuit	Domestic【Note 1】	34,507	310,296	29,035	786,027
	Overseas	161,784	4,177,808	129,575	6,305,423
Controllers	Domestic【Note 1】	21,433	376,155	30,594	621,396
	Overseas	333,028	5,719,138	334,950	6,166,166
Others	Domestic【Note 1】	Not applicable	62,084	Not applicable	57,697
	Overseas	Not applicable	38,145	Not applicable	116,348
Total	Domestic【Note 1】	90,048	7,599,066	78,499	7,525,289
	Overseas	654,042	36,183,446	537,108	34,339,470

【Note 1】Domestic sales refer to the sales to Taiwan.

【Note 2】Others refer to the material or products sold other than Nand flash application products and controllers, and the income of patent royalty and labor.

【Note 3】International Financial Reporting Standards is adopted (Consolidated Statements)

5.3 Human Resources in the Previous Two Years Before the Publication of the Annual Report

As of 30/4/2018

Year		2016	2017	2018 (Before Apr 30)
Number of Employees	Department Head	56	58	58
	Production Employee	48	46	47
	Regular Personnel	1,220	1,395	1,422
	Total	1,324	1,499	1,527
Average Age		34.00	33.78	33.87
Average Years of Service		4.6	5.6	4.94
Education	Ph.D.	0.68	0.80	0.92
	Masters	51.89	54.77	55.6
	Bachelor's Degree	43.20	40.49	39.42
	Senior High School	3.93	3.67	3.8
	Below Senior High School	0.30	0.27	0.26

Note: International Financial Reporting Standards is adopted (Consolidated Statements)

5.4 Environmental Protection Expenditure

Our major products are flash memory controllers, mobile drives, flash memory cards, etc. All of our products are produced by the qualified manufacturers conforming to laws and regulations of environmental protection in manufacturing processes.

5.4.1 The loss or penalty caused by environmental pollution during the latest year and up to the printing date of this annual report:

Until the publication of this annual report, there is no loss or penalty by the authorities.

5.5 Labor Relations

5.5.1 Welfare, advanced education, training, retirement for the employees of this company and the agreements between the company and its employees and all protection measures of employees' rights.

5.5.1.1 Welfare of the employees:

Company:

- Guaranteed salary of 12 months.
- Remuneration for employees to share the profit.
- Salary adjustment each year based on the work performance.
- Year-end bonus of two months.
- Incentive bonus based on the business.
- No promotion barrier.
- Encourage employees to make innovations and high patent bonus will be paid.
- Comprehensive educational trainings and arrangement.
- Encourage employees to introduce excellent personnel and high recruiting bonus will be paid.
- Labor Insurance, National Health Insurance, Pension System, Group Insurance and Travel Insurance.
- Two days off per week and flexible shift arrangement.
- The vacation system in this company is better than the requirement of Labor Standard Act. Annual special vacation will be given after 3 months of service.
- Five days of paternity leave and three days for family with pay.
- Nice gifts to senior employees.
- Employees can advance salary for buying cars or emergency help, etc.

Comfortable, safe and human working environment and leisure environment:

Company:

- Self-owned plant(30 thousand square meters) and equipment.
- Regular free physical examinations every year and health seminars for our employees.
- Leisure Center(with treadmills, aerobics bikes, gym bikes, mobile boxing target, hand football, etc.) and yoga classroom and outdoor complex ball park.
- Assistance of life services for employees (mental/legal/financial/management services).
- Medical Assistance.
- Three months of housing for new employees.
- Restaurants, coffee bars and parking lot (30 thousand square meters)
- Meal subsidy.
- Premium farms to provide high quality of organic vegetables and fruits.

Welfare Committee:

- Welfare and leisure activities provided by the Welfare Committee.
- Subsidy for marriage, child birth, death, hospitalization, etc.
- Domestic and overseas travel subsidy every year.
- Family days and irregular events. Party subsidy every half year.
- Bonus/voucher of three festivals and birthday.
- Gift/voucher/bonus of Labor Day.
- Year-end party with interesting activities and plenty of gifts. Even the smallest gifts are nice.
- This company provides many clubs and funding support. Currently, there are clubs of swimming, aerobics, yoga, softball, basketball, badminton, hiking, etc.
- Discounts in appointed stores.

5.5.1.2 Advanced Education and Trainings for Employees:

To train the personnel for the operation of this company, we hold yearly educational trainings based on the needs of our business every year. Employees can select internal trainings or external trainings to improve their personnel skills. In addition to promoting the management capability and professional skills for human resources of this company, we also encourage our employees to serve as training instructors to train their second expertise.

In 2017, the total expenditure of educational trainings is NT$ 2,336,451. There are 7 categories of trainings, which are listed as follows:

Category	Times	Persons	Hours	Total Cost
Professional Skills	164	1,610	1,059	$603,711
Quality	46	239	505	$300,411
Auxiliary Skills	8	275	35	$289,891
Health and Security	20	24	307	$54,100
Management	10	429	64	$553,422
Self-inspiration	6	223	18	$128,000
Language	11	118	330	$406,916
Total	265	2,918	2,318	**$2,336,451**

5.5.1.3 Pension System and its implementation:

This company has the regulations for employee pension. It applies to all full-time employees. It regulates the pension payment.

If the employee chooses the pension system of Labor Standard Act, the pension will be paid as follows. Based on the length of the service, if it is below 15 years (included), two units per full year will be paid. If it is over 15 years, each full year over the 15 years will add one unit to the pension. However, the maximal number of units is 45. The length below half a year is counted as half a year; the length over half a year but below one year is counted as one year. From Feb of 2001, 3% of the salary is appropriated into the employee pension fund. From Jul of 20016, 2% of the salary is appropriated into the employee pension fund and then transferred to the special account in the Central Trust Bureau under the name of The Supervisory Committee of Workers' Retirement Fund.

If the employee chooses the pension system of Labor Pension Statutes, the pension will be paid as follows. Employees first choose the length of service which applies to this system. From the start date to the leave date, their companies should appropriate no less than 6% of the salary into the personal pension account. In addition to the amount appropriated by the company, employees may deposit less than 6% of the salary into personal pension account. Two times of appropriation percentage change are allowed.

Agreement Between the Employees and the Company and the Measures to Protect Employees' rights:

This company takes the welfare, career, personal skill improvement and opinions of the employees very seriously, so the relationship is always good and there is no dispute in the previous two years.

5.5.2 The loss or penalty caused by disputes between the employees and the company during the latest year and up to the printing date of this annual report:

In 2017, before the publication of the annual report, the relationship is pretty good and there is no dispute causing any loss. It is anticipated that there will be no such dispute in the future.

5.6 Important Contracts

The important contracts which are still valid or will be expired soon before the publication of the annual report are as follows:

Agreement	Counterparty	Period	Major Contents	Restrictions
Patent Authorization Agreement	Ritek Technology Inc.	2007/10/25 to 2023/12/03; until the patent right is expired.	Phison license Ritek to use its USB drive patents.	N.A.
Technology Authorization Agreement	4C Entity	Valid from 2003/03/07 for 20 years (until 2023/3/6)	4C CPRM/CPPM Technology License	Paying license fee and annual fee.
Authorization Agreement	Netac Technology Inc.	Since 2007/12/20 until all patents of both parties are expired.	Mutual license	License fee
Technology Cooperation Agreement	Intel Corporation	Since 2008 without end date	Collaboration in the establishment of USB3.0 final specification	Regulations for Intellectual property ownership and confidentiality obligation
Authorization Agreement	ARM PLA	Since 2009/08/10 to the time in which termination notice document is sent out.	Physical IP license agreement	Paying license fee and annual fee.
Authorization Agreement	Virage Logic Corporation	2009/12/07; no term limitation	License agreement on database use	Regulations for Database use and confidentiality obligation
Authorization Agreement	Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC)	2010/01/22; no term limitation	License agreement on database use	Regulations for Database use and confidentiality obligation
Authorization Agreement	Faraday Technology Corp	2014/08/11~2019/08/10	Use of the UMCL110 manufacturing process database	Regulations for Database use and confidentiality obligation
Authorization Agreement	Universal Serial Bus Implementers Forum, Inc. (USB-IF)	2010/05/24~ the License is valid forever.	USB-IF trademark authorization	Regulations for USB-IF Membership responsibility and confidentiality obligation
Authorization Agreement	Faraday Technology Corp	2010/11/11~2021/3/2	Use of the UMC L55 manufacturing process database	Regulations for Database use and confidentiality obligation
Authorization Agreement	Avery Design Systems, Inc.	2011/06/28; no term limitation	Software license and maintenance	Regulations for Database use and confidentiality obligation
MIPI Membership Agreement	MIPI Alliance Inc.	2012/04/18; no term limitation	Membership and relevant license agreement	Regulations for MIPI Membership responsibility and confidentiality obligation
USB 3.0 Adopters Agreement	Intel Corp.	2012/08/09; no term limitation	Adoption of USB3.0	Regulations for USB3.0specification use and confidentiality obligation
Development Commitment Agreement	National Tsing Hua University	2012/08/1~ development is finished.	Technology development agreement	Development fee and license
Authorization Agreement	Serial ATA International Organization (SATA-IO)	2013/5/31~ valid forever	Certificate mark license	license fee
Investment Agreement	1.Cal-Comp Industrial de Semiconductors S.A. 2.Cal-Comp Holding (Brazil) S.A.	Valid from2015/12/1	Investment of Cal-Comp Industrial de Semiconductors S.A. (Brazil)	N.A.
Patent Assignment Agreement	PhotoFast Inc.	Valid from 2016/5/12	Phison assigned Pendrive patent to PhotoFast	N.A.
Investment Agreement	Faraday Technology Corp	2016/06/13~2021/06/12	Use of the L110AE manufacturing process database	Regulations for Database use and confidentiality obligation
Investment Agreement	Faraday Technology Corp	2015/9/11 ~2020/9/10	Use of the UMCL0.153µm manufacturing process database	Regulations for Database use and confidentiality obligation
Construction Agreement	Ruentex Inc.	2016/06/30~ 2017/12/31 (including the completion of supplemental construction)	Ruentex is to build the third-stage plants	Paying construction expenditure

VI. Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Consolidated Balance Sheets and Consolidated Statements Of Comprehensive Income – Taiwan-IFRSs adopte

Condensed Consolidated Balance Sheets –Taiwan-IFRSs adopted

In thousand in NT$

Item \ Year		Financial Summary for The Last Five Years					2018 before Mar 31 【Note 2】
		2013	2014	2015	2016	2017	
Current assets		20,227,171	20,721,552	24,823,621	26,755,344	28,809,687	30,455,209
Property, Plant and Equipment		1,594,666	1,634,020	1,637,395	2,426,451	2,822,881	2,830,717
Intangible assets		134,501	126,804	198,623	222,297	218,130	191,876
Other assets		501,274	1,215,415	1,759,148	2,571,547	3,275,906	3,518,971
Total assets		22,457,612	23,697,791	28,418,787	31,975,639	35,126,604	36,996,773
Current liabilities	Before distribution	7,704,817	6,867,447	7,799,912	8,904,060	8,963,408	9,850,166
	After distribution	9,599,794	9,078,036	10,168,400	11,663,096	【Note 1】	【Note 1】
Non-current liabilities		37,037	52,803	69,013	73,354	104,881	103,509
Total liabilities	Before distribution	7,741,854	6,920,250	7,868,925	8,977,414	9,068,289	9,953,675
	After distribution	9,636,831	9,130,839	10,237,413	11,736,450	【Note 1】	【Note 1】
Equity attributable to owners of the corporation		14,022,030	16,517,480	20,328,329	22,992,825	26,058,315	27,043,098
Share capital		1,804,740	1,854,740	1,973,740	1,970,740	1,970,740	1,970,740
Capital surplus		3,349,156	4,487,500	6,514,569	6,652,449	6,660,502	6,674,831
Retained earnings	Before distribution	8,879,375	10,180,296	11,951,378	14,395,601	17,390,657	18,709,228
	After distribution	6,984,398	7,969,707	9,582,890	11,636,565	【Note 1】	【Note 1】
Other equity		(11,241)	(5,056)	(111,358)	(25,965)	36,416	(311,701)
Treasury stock		0	0	0	0	0	0
Non-controlling interest		693,728	260,061	221,533	5,400	0	0
Total equity	Before distribution	14,715,758	16,777,541	20,549,862	22,998,225	26,058,315	27,043,098
	After distribution	12,820,781	14,566,952	18,181,374	20,239,189	【Note 1】	【Note 1】

【Note 1】 The surplus distribution proposal of 2017 has not been approved by the shareholders'' meeting.

【Note 2】 The financial data of 2018 first quarter is reviewed by the Auditors.

【Note 3】 According to the Rule No. 1050036477 issued FSC, the Corporation has restated its consolidated financial statements from 2009 to 2015. The financial data from 2013 to 2015 are base on the restated consolidated finance statements.

Condensed Balance Sheets –Nonconsolidated, Taiwan-IFRSs adopted

In thousand in NT$

Item \ Year		Financial Summary for The Last Five Years					2018 before Mar 31
		2013	2014	2015	2016	2017	
Current assets		17,451,501	19,604,860	23,059,353	25,128,170	27,076,135	Not applicable 【Note 2】
Property, Plant and Equipment		1,586,275	1,628,996	1,629,662	2,392,803	2,793,102	
Intangible assets		110,861	103,164	174,308	217,763	212,108	
Other assets		729,071	1,407,579	2,792,935	3,687,775	4,496,367	
Total assets		19,877,708	22,744,599	27,656,258	31,426,511	34,577,712	
Current liabilities	Before distribution	5,819,334	6,174,651	7,260,460	8,360,393	8,433,967	
	After distribution	7,714,311	8,385,240	9,628,948	11,119,429	【Note 1】	
Non-current liabilities		36,344	52,468	67,469	73,293	85,430	
Total liabilities	Before distribution	5,855,678	6,227,119	7,327,929	8,433,686	8,519,397	
	After distribution	7,750,655	8,437,708	9,696,417	11,192,722	【Note 1】	
Equity attributable to shareholders of the parent		14,022,030	16,517,480	20,328,329	22,992,825	26,058,315	
Equity attributable to shareholders of the parent		1,804,740	1,854,740	1,973,740	1,970,740	1,970,740	
Equity attributable to shareholders of the parent		3,349,156	4,487,500	6,514,569	6,652,449	6,660,502	
Retained earnings	Before distribution	8,879,375	10,180,296	11,951,378	14,395,601	17,390,657	
	After distribution	6,984,398	7,969,707	9,582,890	11,636,565	【Note 1】	
Other equity interest		(11,241)	(5,056)	(111,358)	(25,965)	36,416	
Treasury stock		0	0	0	0	0	
Non-controlling interest		0	0	0	0	0	
Total equity	Before distribution	14,022,030	16,517,480	20,328,329	22,992,825	26,058,315	
	After distribution	12,127,053	14,306,891	17,959,841	20,233,789	【Note 1】	

【Note 1】The surplus distribution proposal of 2017 has not been approved by the shareholders' meeting.
【Note 2】There is no individual financial statements for the first quarter of 2018, so it is not applicable.
【Note 3】According to the Rule No. 1050036477 issued FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2012 to 2015 are based on the revised finance statements.

Condensed Consolidated Statements of Comprehensive Income –Taiwan-IFRSs adopted

In thousand in NT$ except for EPS (in NT$)

Item \ Year	Financial Summary for The Last Five Years 2013	2014	2015	2016	2017	2018 before Mar 31 【Note 1】
Operating revenues	31,396,516	32,819,532	37,409,177	43,782,512	41,864,759	9,299,553
Gross profit	6,334,452	5,369,234	7,627,464	9,263,738	11,499,622	1,813,416
Operating income	3,861,397	2,790,032	4,226,904	4,842,648	6,731,692	1,040,836
Non-operating income and expenses	361,383	532,397	246,360	634,278	(13,822)	(68,096)
Profit before income tax	4,222,780	3,322,429	4,473,264	5,476,926	6,717,870	972,740
Net profit of the continuing operations	3,567,978	2,781,074	3,896,693	4,801,843	5,761,290	882,304
Loss of the discontinuing operation	0	0	0	0	0	0
Net profit for the year	3,567,978	2,781,074	3,896,693	4,801,843	5,761,290	882,304
Other comprehensive Income(Loss) for the Year, Net of Income tax	(1,594)	(3,174)	(131,438)	82,863	57,409	44,862
Total Comprehensive Income for the Year	3,566,384	2,777,900	3,765,255	4,884,706	5,818,699	927,166
Net profit attributed to the owners of parent company	3,170,543	3,201,149	4,000,009	4,866,992	5,760,972	882,304
Net profit attributed to non-controlling interests	397,435	(420,075)	(103,316)	(65,149)	318	0
Total comprehensive income attributed to owners of the parent company	3,168,835	3,202,083	3,875,369	4,950,331	5,816,473	927,166
Total comprehensive income attributed to non-controlling interests	397,549	(424,183)	(110,114)	(65,625)	2,226	0
Earnings per share (EPS)	17.57	17.48	20.41	24.67	29.23	4.48

【Note 1】The financial data of 2018 first quarter is reviewed by the Auditors.

【Note 2】According to the Rule No. 1050036477 issued FSC, the Corporation has restated its consolidated financial statements from 2009 to 2015. The financial data from 2013 to 2015 are base on the restated consolidated finance statements.

Condensed Statements of Comprehensive Income –Nonconsolidated, Taiwan-IFRSs adopted

In thousand in NT$ except for EPS (in NT$)

Item \ Year	Financial Summary for The Last Five Years 2013	2014	2015	2016	2017	2018 before Mar 31
Operating revenues	31,261,024	32,842,545	37,048,926	43,678,547	41,773,532	Not Applicable 【Note 1】
Gross profit	5,726,936	5,545,586	7,525,281	9,207,321	11,449,095	
Operating income	3,446,688	3,174,235	4,299,367	4,916,446	6,723,101	
Non-operating revenues and expenses	309,923	553,372	262,008	615,752	(9,896)	
Net profit before tax	3,756,611	3,727,607	4,561,375	5,532,198	6,713,205	
Net profit of the continuing operations	3,170,543	3,201,149	4,000,009	4,866,992	5,760,972	
Loss of the discontinuing operation	0	0	0	0	0	
Net profit for the year	3,170,543	3,201,149	4,000,009	4,866,992	5,760,972	
Other comprehensive Income(Loss) for the Year, Net of Income tax	(1,708)	934	(124,640)	83,339	55,501	
Total Comprehensive Income for the Year	3,168,835	3,202,083	3,875,369	4,950,331	5,816,473	
Net profit attributed to the owners of parent company	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Net profit attributed to non-controlling interests	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Total comprehensive income attributed to owners of the parent company	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Total comprehensive income attributed to non-controlling interests	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	
Earnings per share (EPS)	17.57	17.48	20.41	24.67	29.23	

【Note 1】There is no individual financial statements for the first quarter of 2017, so it is not applicable.

【Note 2】According to the Rule No. 1050036477 issued FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2012 to 2015 are based on the revised finance statements.

6.1.2 Auditors’ Opinions from 2013 to 2017

Year	Accounting Firm	CPA	Audit Opinion
2013	Deloitte & Touche CPAs Firm	Tai Hsin-Wei, Fan Yu-Wei	Modified Unqualified Opinion
2014	Deloitte & Touche CPAs Firm	Tai Hsin-Wei, Fan Yu-Wei	Modified Unqualified Opinion
2015	Deloitte & Touche CPAs Firm	Tai Hsin-Wei, Fan Yu-Wei	Modified Unqualified Opinion
2016	Deloitte & Touche CPAs Firm	Tai Hsin-Wei, Fan Yu-Wei	Unqualified Opinion
2017	Deloitte & Touche CPAs Firm	Tai Hsin-Wei, Fan Yu-Wei	Unqualified Opinion

6.2 Five-Year Financial Analysis - Taiwan-IFRSs adopted

6.2.1 Five-Year Consolidated Financial Analysis – Taiwan IFRSs Adopted

In %

Item	Year	Financial Analysis for The Last Five Years					2018 (as of Mar 31)
		2013	2014	2015	2016	2017	
Financial structure	Debt ratio(%)	34.47	29.20	27.69	28.08	25.82	26.90
	Long-term fund to property, plant and equipment rotio(%)	922.81	1,026.76	1,255.03	947.81	923.11	955.34
Liquidity Analysis	Current ratio (%)	262.53	301.74	318.26	300.48	321.41	309.18
	Quick ratio (%)	188.05	220.77	250.14	241.07	240.85	235.79
	Times Interest Earned (times)	1,289.22	1,362.65	1,476.84	2,668.77	1,349.70	510.55
Operating performance Analysis	Average Accounts receivable turnover (times)	8.70	8.59	8.81	9.48	7.95	6.85
	Days sales outstanding	41.95	42.49	41.43	38.50	45.91	53.28
	Average Inventory turnover (times)	5.85	4.90	5.52	6.59	4.89	4.17
	Average Accounts payable turnover (times)	6.16	6.20	7.16	8.51	8.09	7.44
	Average Inventory turnover Days	62.39	74.48	66.12	55.38	74.64	87.52
	Property, plant and equipment turnover (times)	21.02	20.33	22.87	21.55	15.95	13.16
	Total assets turnover (times)	1.54	1.42	1.44	1.45	1.25	1.03
Profitability Analysis	Return on total assets (%)	17.49	12.06	14.96	15.91	17.18	9.80
	Return on Equity (%)	26.14	17.66	20.88	22.05	23.49	13.29
	Pre-tax income to paid-in capital ratio(%)	233.98	179.13	226.64	277.91	340.88	197.44
	Net Profit ratio (%)	11.36	8.47	10.42	10.97	13.76	9.49
	Basic Earnings per share (NT$)	17.57	17.48	20.41	24.67	29.23	4.48
Cash flow	Cash flow ratio (%)	22.54	17.27	55.68	55.62	43.20	19.36
	Cash flow adequacy ratio (%)	96.66	112.83	114.25	116.20	92.61	133.09
	Cash flow reinvestment ratio (%)	1.96	(4.15)	10.18	11.02	4.18	6.89
Leverage	Operating leverage	1.04	1.06	1.05	1.05	1.05	1.09
	Financial leverage	1.00	1.00	1.00	1.00	1.00	1.00

1.Causes of change for the last two years:

(1) The Times Interest Earned times down is because of the increasing of Interest Expenses in 2017.

(2) The Average Inventory turnover down and Average Inventory turnover Days raising is because of the increasing of inventory in the end of 2017.

(3) The Property, plant and equipment turnover down because of the Factory 3 was completed in 2017.

(4) The Pre-tax income to paid-in capital groth is because of the increasing of operating profit in 2017.

(5) The Cash flow ratio, the Cash flow adequacy ratio and the Cash flow reinvestment ratio down is because of decreasing of the operating cash flow as inventory in the end of 2017 is increasing.

【Note】According to the Rule No. 1050036477 issued FSC, the Corporation has restated its financial statements from 2009 to 2015. The financial data from 2013 to 2015 are based on the restated finance statements.

6.2.2 Financial Analysis –Nonconsolidated, Taiwan-IFRSs adopted

In %

Item	Year	Financial Summary for The Last Five Years				
		2013	2014	2015	2016	2017
Financial structure	Debt Ratio(%)	29.46	27.38	26.50	26.84	24.64
	Long-term fund to property, plant and equipment ratio(%)	883.96	1,013.97	1,247.40	960.92	932.95
Liquidity Analysis	Current ratio (%)	299.89	317.51	317.60	300.56	321.04
	Quick ratio (%)	230.61	230.26	244.75	237.32	235.51
	Times Interest Earned (times)	1,147.01	1,528.71	1,505.91	2,695.69	1,348.76
Operating performance Analysis	Average Accounts receivable turnover (times)	7.96	8.12	8.61	9.58	8.03
	Days sales outstanding	45.85	44.95	42.39	38.10	45.45
	Average Inventory turnover (times)	8.17	5.81	5.55	6.58	4.89
	Average Accounts payable turnover (times)	8.09	7.42	7.17	8.49	8.08
	Average Inventory turnover Days	44.67	62.82	65.76	55.47	74.64
	Property, plant and equipment turnover (times)	20.96	20.43	22.74	21.72	16.11
	Total assets turnover (times)	1.68	1.54	1.47	1.48	1.27
Profitability Analysis	Return on total assets (%)	17.08	15.03	15.88	16.48	17.47
	Return on Equity (%)	24.08	20.96	21.71	22.47	23.49
	Pre-tax income to paid-in capital (%)	208.15	200.98	231.10	280.72	340.64
	Net Profit ratio (%)	10.14	9.75	10.80	11.14	13.79
	Basic Earnings per share (NT$)	17.57	17.48	20.41	24.67	29.23
Cash flow	Cash flow ratio (%)	22.04	21.62	64.63	59.01	46.42
	Cash flow adequacy ratio (%)	131.64	108.37	112.99	113.88	91.45
	Cash flow reinvestment ratio (%)	(1.13)	(3.33)	11.98	10.95	4.35
Leverage	Operating leverage	1.04	1.05	1.05	1.05	1.05
	Financial leverage	1.00	1.00	1.00	1.00	1.00

1.Analysis of financial ratio differences for the previous two years:

(1) The Times Interest Earned times down is because of the increasing of Interest Expenses in 2017.

(2) The Average Inventory turnover down and Average Inventory turnover Days raising is because of the increasing of inventory in the end of 2017.

(3) The Property, plant and equipment turnover down because of the Factory 3 was completed in 2017.

(4) The Pre-tax income to paid-in capital groth is because of the increasing of operating profit in 2017.

(5) The Cash flow ratio, the Cash flow adequacy ratio and the Cash flow reinvestment ratio down is because of decreasing of the operating cash flow as inventory in the end of 2017 is increasing.

【Note】According to the Rule No. 1050036477 issued FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2013 to 2015 are based on the revised finance statements.

**Formulas to calculate the financial analyses are as follows:

1. Financial structure
   (1) Debt Ratio = Total Liabilities / Total Assets
   (2) Long-term Fund to Property, Plant and Equipment Ratio = (Shareholders' Equity + Noncurrent Liabilities) / Net Property, Plant and Equipment
2. Liquidity Analysis
   (1) Current ratio = Current Assets / Current Liabilities
   (2) Quick ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
   (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses
3. Operating performance Analysis
   (1) Average Accounts receivable turnover = Net Sales / Average Trade Receivables
   (2) Days sales outstanding = 365 / Average Collection Turnover
   (3) Average Inventory turnover = Cost of Sales / Average Inventory
   (4) Average Inventory turnover Days = 365 / Average Inventory Turnover
   (5) Average Accounts payable turnover = Cost of Sales / Average Trade Payables
   (6) Property, plant and equipment turnover = Net Sales / Average Net Property, Plant and Equipment
   (7) Total assets turnover = Net Sales / Average Total Assets
4. Profitability Analysis
   (1) Return on total assets = (Net Income + Interest Expenses * (1 - Effective Tax Rate)) / Average Total Assets
   (2) Return on Equity Attributable to Shareholders of the Parent = Net Income Attributable to Shareholders of the Parent / Average Equity Attributable to Shareholders of the Parent
   (3) Operating Income to Paid-in Capital Ratio= Operating Income / Paid-in Capital
   (4) Pre-tax income to paid-in capital Ratio = Income before Tax / Paid-in Capital
   (5) Net Profit ratio =Net Profit / Operating revenues
   (6) Basic Earnings per share = (Net Income Attributable to Shareholders of the Parent - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding
5. Cash Flow
   (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
   (2) Cash Flow Adequacy Ratio = Five-year Sum of Cash from Operations / Five-year Sum of Capital Expenditures, Inventory Additions, and Cash Dividend
   (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends)/ (Gross Property, Plant and Equipment + Long-term Investments + Other Noncurrent Assets + Working Capital)
6. Leverage
   (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
   (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

6.3 2017 Supervisors' Review Report

Supervisors' Report

The Board of Directors has prepared and submitted the Company's 2017 Financial Statements (including the consolidated financial statements),which have been audited and approved by independent auditors, Tai, Hsin-Wei and Fan, Yu-Wei, of Deloitte & Touche CPAs Firm. The Financial Statements, along with the Business Report and the surplus distribution proposal, have been reviewed by us, the supervisors of the Company. We have not found any inconsistencies with the Company Act and other relevant laws in our review of the aforementioned documents. Therefore, we, the supervisors, hereby issue this report in compliance with Article 219 of the Company Act.

To the 2018 Shareholders' meeting of Phison Electronics Corporation:

Phison Electronics Corporation

Supervisor：Wang Huei Ming

Supervisor：Chen Chiun Hsiou

Supervisor：Wang Huei Ming

Mar 16, 2018

6.4 The Consolidated Financial Statements for the Year of 2017 (including Auditors' Report, Balance Sheet, Statements of Comprehensive Income,Changes in Equity, Cash Flows, and Notes and additional Tables): please refer to page124 to page 198.

6.5 The Audited Nonconsolidated Financial Statement for the Year of 2017: please refer to page 199 to page 268.

6.6 The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2016 and as of the date of this Annual Report: None.

VII. Financial Status and Operating Results Review and Risk Matters

7.1 Financial Status Analysis

Consolidated Balance Sheet

In thousand in NT$

Item \ Year	2017	2016	Difference	
			Amount	%
Cash and cash equivalents	14,142,389	14,958,331	(815,942)	(5.45%)
Financial assets at fair value through profit or loss - current	1,271,217	1,227,729	43,488	3.54%
Notes and accounts receivable	5,731,455	4,800,659	930,796	19.39%
Inventories	7,192,346	5,222,336	1,970,010	37.72%
Other current assets	472,280	546,289	(74,009)	(13.55%)
Available-for-sale financial assets - non-current	434,763	372,051	62,712	16.86%
Financial assets measured at cost - non-current	817,627	712,890	104,737	14.69%
Investments accounted for by the equity method	1,709,711	1,256,620	453,091	36.06%
Property, plant and equipment	2,822,881	2,426,451	396,430	16.34%
Other non-current assets	531,935	452,283	79,652	17.61%
Total assets	**35,126,604**	**31,975,639**	**3,150,965**	**9.85%**
Short-term borrowings	0	580,500	(580,500)	(100.00%)
Notes and accounts payable	3,647,245	3,856,951	(209,706)	(5.44%)
Other current liabilities	5,316,163	4,466,609	849,554	19.02%
Non-current liabilities	104,881	73,354	31,527	42.98%
Total liabilities	**9,068,289**	**8,977,414**	**90,875**	**1.01%**
Capital stock	1,970,740	1,970,740	0	0.00%
Capital surplus	6,660,502	6,652,449	8,053	0.12%
Retained earnings	17,390,657	14,395,601	2,995,056	20.81%
Other equity	36,416	(25,965)	62,381	240.25%
Total equity attributable to owners of the company	**26,058,315**	**22,992,825**	**3,065,490**	**13.33%**
Non-controlling interests	0	5,400	(5,400)	(100.00%)
Total Equity	**26,058,315**	**22,998,225**	**3,060,090**	**13.31%**

Cause and impact of the significant differences (more than 20% and NT$ 10 millions) of assets, liabilities and equities in the last two year:

(1) The Inventories growth is because that the company increasing the stock level to react the shortage of Nand flash.

(2) The Investments accounted for by the equity method growth is because of the invested companies oprate profit in 2017.

(3) The Non-current liabilities growth is because of the increasing of Long-Term Deferred Revenue and Net defined benefit liabilities.
(4) The Retained earnings growth is because of the increasing of net profit.
(5) The Other equity growth is because of the exchange differences on translating foreign opeerations, and changes of the unrealized gain on available-for-sale financial assets.

7.2 Operating Results Analysis

7.2.1 The Comparison of Operating Result

Consolidated Statements of Comprehensive Income Statement

In thousand in NT$

Item	2017		2016		2017 Growth Rate
	Amount	%	Amount	%	%
Operating revenues	41,864,759	100.00%	43,782,512	100.00%	(4.38%)
Operating costs	30,365,137	72.53%	34,518,774	78.84%	(12.03%)
Gross profit	11,499,622	27.47%	9,263,738	21.16%	24.14%
Marketing expenses	531,728	1.27%	684,999	1.56%	(22.38%)
General and administrative	522,373	1.25%	517,908	1.18%	0.86%
Research and development	3,713,829	8.87%	3,218,183	7.36%	15.40%
Total operating expenses	4,767,930	11.39%	4,421,090	10.10%	7.85%
Operating income	6,731,692	16.08%	4,842,648	11.06%	39.01%
Non-operating income and expenses	(13,822)	(0.03%)	634,278	1.45%	(102.18%)
Profit before income tax	6,717,870	16.05%	5,476,926	12.51%	22.66%
Income tax expense	956,580	2.29%	675,083	1.54%	41.70%
Net profit for the year	5,761,290	13.76%	4,801,843	10.97%	19.98%
Other comprehensive income(loss) for the year, net of income tax	57,409	0.14%	82,863	0.19%	(30.72%)
Total comprehensive income for the year	5,818,699	13.90%	4,884,706	11.16%	19.12%
Net profit attributable to owners of parent company	5,760,972	13.76%	4,866,992	11.12%	18.37%
Total comprehensive income attributable to owners of parent company	5,816,473	13.89%	4,950,331	11.31%	17.50%
Earnings per share	29.23		24.67		18.48%

1. Cause and impact of the significant differences (more than 20% and NT$ 10 millions) in the last two year:

(1) The Gross profit growth is because of sales prics is raising as the main materials of Nand is shortage.

(2) The Marketing expenses down is because of the decreasing of Operating revenues.

(3) The Operating income growth is because of the increasing of The Gross profit.

(5) The Non-operating income and expenses in loss is because of the loss of foreign currency exchange and the loss of finance assets valuation.

(6) The Profit before income tax, Income tax expense and Net profit for the year growth is because fo the increasing of Gross profit.

(7) Other comprehensive income for the year down is because of the decreasing of the unrealized gain on available-for-sale financial assets.

2. Estimated sales volume of the year of 2018, the basics and the possible impact on the Company's financial and business in future and the plan in response:

According to the company's product launch schedule, business plan, market demand forecast, industry competitive situation and the major customer's business outlook assessment and other estimates, the company is estimated that in 2018 total shipments of flash memory controllers and related system applications are about 580 million units. The company continually enhances the quality of mature products to stabilize market share ; and new applications are introducing in leading to maintain the image of "technology and innovative products leading" and to strengthen the company's competitiveness with a positive effection to the company's performance.

7.2.2 The Operating Gross Profit Difference Analysis

In thousand in NT$

Item	Difference	Cause for the differences			
		Sales Price difference	Cost difference	Sales combination difference	Quantity difference
Operating gross profit	2,235,884	16,128,911	(10,810,977)	(1,482,462)	(1,599,588)
Reason	1.Market Price difference advantage: mainly due to the increase in market price of the products, which was effected by the shortage of material. 2.Cost difference disadvantage: mainly due to increasing market price of NAND flash force the the cost of good sales raising. 3.Sales combination difference disadvantage: mainly due to the increase in market price of NAND flash. 4.Quantity difference disadvantage: mainly due to the decrease in the shipments of the Nand flash application products				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Year of 2017

In thousand in NT$

Cash and Cash Equivalents, Beginning of Year (1)	Net Cash generate from Operating Activities (2)	Cash used in investing and financing activities (3)	Cash Balance (1)+(2)-(3)	Remedy for liquidity shortfall	
				Investment Plans	Financing Plans
14,958,331	3,872,242	4,688,184	14,142,389	None	None

Analysis of the clash flow difference of the year:

Net cash generate by Operating activities: mainly from the NT$67.2 billion of net profit before tax in 2017.

Net cash used in Investing activities: mainly dut to the investment to the Factory 3.

Net cash used in Financing activities: primarily for cash dividends payment.

7.3.2 Remedy Action for Liquidity Shortfall: None.

7.3.3 Cash Flow Projection for the Next Year

In thousand in NT$

Estimated Cash and Cash Equivalents, Beginning of Year (1)	Estimated Net Cash generate from Operating Activities (2)	Estimated Cash used in investing and financing activities (3)	Estimated Cash Balance (1)+(2)-(3)	Remedy for liquidity shortfall	
				Investment Plans	Financing Plans
14,142,389	5,600,000	4,200,000	15,542,389	Not applicable	Not applicable

1. Analysis of the clash flow difference of the next year:

   Net cash generate by Operating activities: mainly based on predictions of the market demand and the operating status.

   Net cash used in Investing activities: mainly for purchase of PPEs, intangible assets and new investment plans.

   Net cash used in Financing activities: mainly consider for the capital increase plans, cash dividends to shareholders, and the remuneration to employees, directors and supervisors.
2. Remedy Action for Estimated Liquidity Shortfall: None

7.4 Recent Years Major Capital Expenditures and Impact on Financial and Business

7.4.1 Major Capital Expenditure Items and Source of Capital

In thousand in NT$

Projects	Project Contents	Total Capital	Capital Source	Estimated schedule	Actual use of Capital	
					2016	2017
Zhunan third phase factory	RC building with one underground floor and eight floors. The total floor area is about 30,000 square meters.	780,000	own funds	-	390,000	390,000

7.4.2 Impact on Finance and Business

Because the operation of the company is pretty good, most the of the capital expenditure in recent years is from its own operating capital. We have carefully reviewed the capital demand of the land and new plant plans and adequately planned the use of operating capital. In addition, the cash inflow from the operation is stable and sufficient. The land purchase and plant construction do not result in the capital shortage. Therefore, there is no disadvantageous impact on the finances and business of the company and its subsidiary companies.

7.4.3 Expected Benefits

The company expect to recruit more excellent personnel to meet our goals of profit and growth and promote our operating performance, which help us in sustainable operation and continuous growth.

7.5 Investment Policy in the Last Year, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for the Next Year

7.5.1 Investment policy in the last year

The investment policy of the company is to help the company to improve the technology of NAND Flash system integration. The major directions for the investment are strategic investment, diversified operating and expanding the business of the company, and increasing the investment profit to promote shareholders' interest.

7.5.2 Main causes for profits or losses

In 2017, the investment profit from investments accounted for by the equity method is NT$442,368 thousands, mainly due to the increase in net profit from one of the invested related parties.

7.5.3 Investment Plans for the Next Year

The investment plans of the next year focused on the strategic investment, which the company may establish operating branches in Mainland China and major domestic/overseas market based on the industry environment and the needs of Phison Group's development. Investment plans should be carefully reviewed then submitted to the board meeting for approval.

7.6 Risk Management and Analysis

7.6.1 Effects of Changes in Interest Rates, Foreign Exchange Rates and Inflation on Corporate Finance, and Future Measures

Interest rate: the assets and liabilities with floating interest rate held by the company may fluctuate cash flows of the assets and liabilities in future due to the changes of interest rate and result in risks. Yet the company anticipates that the change of interest rate will not significant impact on the cash flow of the company in future.

The interest paid of the company and its subsidiary companies in 2016 and 2017 are NT$2,053 thousand and NT$4,981 thousand respectively, accounting for 0.0047% and 0.0119% of the net operating revenue of the corresponding year. So, the change of interest rate has no significant impact on the overall operation of the company.

The company’s loan in the past is on credit loans and no long-term loans. By the end of 2017, don’t have the short-term loans. There is no plan for long-term loans in the next year, so the change of interest rate has no significant impact on the net results of the company. Yet the company will continually pay attention to the trend of interest rate movements and regularly assess the financial policies.

Foreign exchange rate: the Company and its subsidiaries are engaged in the sales and purchase transactions of foreign currency denominations, thus causing the merging company to generate a risk of exchange rate changes. The Company and its subsidiaries are engaged in foreign currency borrowing to hedge the exchange rate risk of some foreign currency net assets or net liabilities. The profit and loss arising from the exchange rate fluctuation is roughly offset against the gains and losses of the hedged items. Therefore, the market risk is not significant.

This company usually quotes the price of the sales by US dollars and quotes the price of purchases by US dollars and NT dollars. Although the risk of foreign exchange rate is partially offset, if the change is in big fluctuations, it can still exert impact on the revenue and profit of the company. In 2017, the foreign exchange gain is NT$404,573 thousand, which is the profit resulted from the change of foreign exchange rate. The finance department of the company pay attention to the trend at all times to hedge against the risk. In addition, the finance department keeps good relationship with banks to obtain information and suggestions about the trend of foreign exchange rate. Based on the information and suggestions, the finance department will take actions to reduce the risk of foreign exchange rate.

Inflation: as of the end of 2017, the inflation has no significant impact on the net profit or loss of the company and its subsidiaries.

7.6.2 Policies, Main Causes of Gain or Loss and Future Measures with Respect to High-risk, High-leveraged Investments, Lending or Endorsement Guarantees, and Derivatives Transactions

In 2017 and 2018 before the publication of the annual report, the company only makes short-term transaction in foreign currency to hedge against the risk of foreign exchange rate. Besides these transactions, the company did not make any investment with high leverage and high risk. The company has established the internal control regulations, such as "Procedures for acquisition or disposal of assets", "Procedures for Lending Funds to Other Parties", "Procedures for Endorsement and Guarantee" and "Procedures for Engaging in Derivatives Trading". Up to now, the company has never loaned money to others and never endorsed for others. The company limits its derivative product trades only to hedge trades. Therefore, these operations will not effect on the profit or loss of the company.

7.6.3 Future Research & Development Projects and Corresponding Budget

7.6.3.1Major R & D Projects in 2017:

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

with the application market.

7. Continuous development of SIP SSD.

8. Develop eMMC and SD cards that meet the vehicle specifications.

7.6.3.2R&D budget : the company has invested its R&D resources into the development of flash memory controllers and the system products with high-performance functions and, the results have been introduced to the market successfully. In the future, the company will continually invest into the R&D. The R&D expenses will be growing with the increase of operating revenue. As long as the development of new products is completed, the products will be massively produced immediately. The main success factors in the research & development are based on the capability and well knowledge on software and hardware technology of the R&D personnel. The company is confident that the company's R&D team will be complete all task with long-term accumulation of experience The estimated R & D expenditure for the year 2018 is approximately $ 3.6 billion.

7.6.4 Effects of and Response to Changes in Policies and Regulations Relating to Corporate Finance and Business

This company abides by the national policy and laws and pays close attention to the new policies and law amendments. Our internal systems and operations will be adjusted according to these changes to ensure the operation of this company. We will continue to pay attention to domestic /overseas changes on policies and law amendments, evaluate these changes accordingly at all times. Up to now, there is no impact on the finances of this company because of the changes on policies and law amendments.

7.6.5 Effects of and Response to Changes in Technology and the Industry Relating to Corporate Finance and Business

In recently years, small IT products are popular in the market and the demand for portable storage is growing rapidly, so more and more application products of built-in flash have been announced. There are many new transfer interfaces to meet the needs of customers. In addition, more and more products are equipped with SSD instead of traditional hard disks. Hence, the demand for small storage media, built-in flash model and SSD is steadily growing and these products are beneficial to the finance and business of this company. We will invest more R&D

resources into these products to respond to the new challenge from the new technology.

With the advance of internet and information technology, information is open to the whole world and work efficiency is greatly improved by many new tools. We have built an environment for automatic design to promote the effectiveness and efficiency of the product development. We have successfully introduced TIPTOP GP ERP System, AgentFlow system, EasyFlow GP, SmartFlow E-form system, Phison life plaza to effectively integrate the internal control functions, promote productivity and monitor the product quality.

7.6.6 The Impact of Changes in Corporate Image on Corporate Risk Management, and the Company’s Response Measures

The company has focused on the flash memory controllers and the relevant application systems to maintain the leadership in IC design technology, new concepts of application products, their production, flash memory peripheral applications and flash memory controller technology. Many products have been sold all over the world and receiving orders from the major OEM and ODM companies. The company creste the image of "youngest, fastest and strongest in the operation of this industry". Up to now, the company keeps good image and no significant change to endanger the company.

7.6.7 Expected Benefits from, Risks Relating to and Response to Merger and Acquisition Plans

In 2017 and up to the date of publishing the annual report, we have no plan of merger and acquisition.

7.6.8 Expected Benefits from, Risks Relating to and Response to Factory Expansion Plans

Please refer to page 105 of the annual report to find out the impact of major capital expenditures on our financial status.

7.6.9 Risks Relating to and Response to Excessive Concentration of Purchasing Sources and Excessive Customer Concentration

Excessive Concentration of Purchasing Sources: Phison Electronics Corporation is a company focusing on the flash memory controllers and flash memory application system products (i.e. flash drive, memory cards,eMMC, SSD, etc). The material of all these application system products is flash memory. The major suppliers of flash memory are Samsung in Korea, Toshiba in Japan, Hynix in Korea, Micron and Sandisk in US. The development of controllers and system products need to be implemented based on the specification of flash memory, so the collaboration between controller or system product manufacturers and the flash memory suppliers should be very close. Excessive concentration of purchasing sources is regular in this industry.

The company's major supplier is Toshiba TET, which is a subsidiary of subsidiary company of Toshiba Japan. Toshiba Japan invested in the company due to the capability of controller and system product design. Toshiba Japan invested and closely collaborated with the company to develop various products. The company applicate the new flash memory technologies of MLC (Multiple Cell Type), TLC (Triple-level Cell) and 3D Nand from Toshiba Japan to design the controllers with high performance and high compatibility. The company also purchases the relevant flash memory application products from the affiliates of Toshiba Japan for our system products. The high performance of the firmware in controllers by using Toshiba flash memory and we have successfully developed many flash memory application products, our partnership with Toshiba goes closer and smoothly. Those are the reason the company purchased flash memory from the affiliates of Toshiba Japan in the excessive concentration of purchasing sources.

<u>Excessive Customer Concentration:</u> there is no such situation in this company.

7.6.10 Effects of, Risks Relating to and Response to Large Share Transfers or Changes in Shareholdings by Directors, Supervisors, or Shareholders with Shareholdings of over 10%: None.

7.6.11 Effects of, Risks Relating to and Response to the Changes in Management Rights: None.

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

7.6.13 Other Major Risks: None.

7.7 Other Major Events: None.

VIII.Special Disclosure

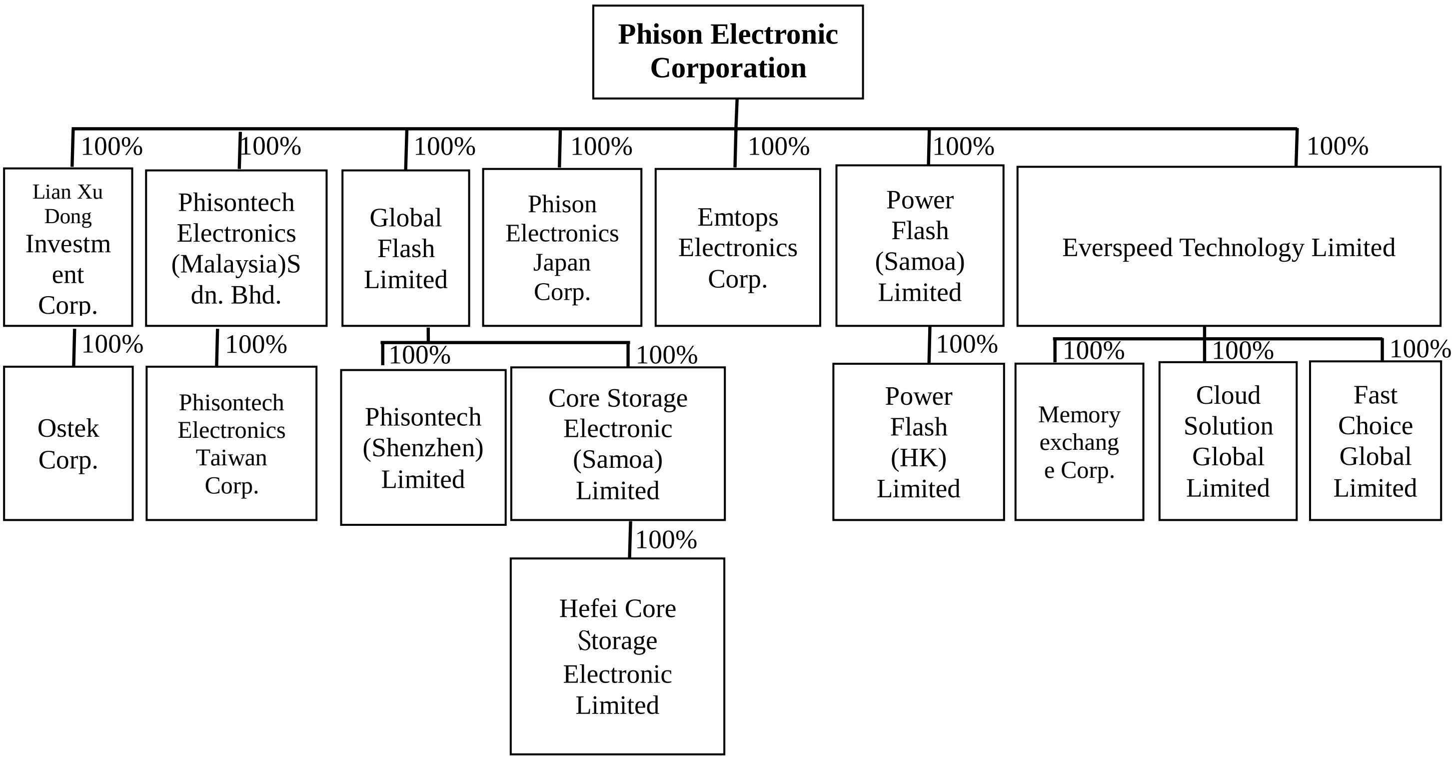
8.1 Summary of Affiliated Companies

8.1.1Consolidated Business Report

8.1.1.1 Profile of Affiliates

Organization Chart of Affiliates

Date: Dec 31, 2017



This company has no other affiliate under the inference by Article 369.3 of Company Act.

8.1.1.2 The name, incorporation date, address, paid-in capital, and main business items of each affiliate

As of 31/12/2017; in thousand

Company Name	Date of Incorporation	Registration Address	Capital			Major Business or Product	Remark
			Original Currency		NT Dollar		
Lian Xu Dong Investment Corp.	Aug 2005	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	650,000	650,000	Investment	subsidiary
Phisontech Electronics (Malaysia) Sdn. Bhd.	Apr 2012	First Floor, Acctax Corporate Centre, No 2 Jalan Bawasah, 10050 Georgetown, Pulau Pinang, Malaysia	MYR	10,000	93,990	Design, production and sale of flash memory controllers and peripheral system applications	subsidiary
Global Flash Limited	Jun 2012	Offshore Chambers, P.O. Box 217, Apia, Samoa	USD	21,000	665,823	Investment and trade	subsidiary
Phison Electronics Japan Corp.	Feb 2011	26th Floor, World Trade Center Building, 2-4-1, Hamamatsu-cho, Minato-ku, Tokyo 105-6126, Japan	JPY	90,000	28,982	Sales and service office	subsidiary
Emtops Electronics Corp.	Mar 2011	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	95,000	95,000	Sale of flash memory controllers and peripheral system applications products	subsidiary
Power Flash (Samoa) Limited	Jul 2015	Portcullis TrustNet Chambers, P.O. Box 1225,Apia,Samoa	USD	3,200	105,440	Investment and trade	subsidiary
Everspeed Technology Limited	May 2002	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	-	-	-	Trade of electronic components	subsidiary
Ostek Corp. 【Note 1】	Aug 2005	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	9,000	9,000	Manufacture and trade of electronic components	Sub-subsidiary
Phisontech Electronics Taiwan Corp.【Note 2】	May 2013	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	NTD	10,000	10,000	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	Sub-subsidiary
Phisontech (Shenzhen) Limited 【Note 3】	Dec 2012	Rm. 2508-2509, West block, Great China International Exchange Square, No. 1, Fubua Rd., Futian streets, Futian District. Shenzhen City , China	USD	1,790	53,096	Design, R&D, import and export of storage devices and electronics	Sub-subsidiary
Core Storage Electronic (Samoa) Limited【Note 3】	Apr 2015	TMF Chambers, P.O.Box 3269, Apia, Samoa	USD	18,050	576,229	Investment and trade	Sub-subsidiary

Company Name	Date of Incorporation	Registration Address	Capital			Major Business or Product	Remark
			Original Currency		NT Dollar		
Hefei Core Storage Electronic Limited【Note 4】	Jul 2015	Hefei High-tech Zone Innovation Industrial Park F1 Floor Room 1409,China	USD	18,000	576,780	Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services	Sub-subsidiary
Power Flash (HK) Limited【Note 5】	Aug 2015	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	3,000	98,754	Sale of electronic products	Sub-subsidiary
Memoryexchange Corp.【Note 6】	May 2006	2F, No.1, Qunyi Rd., Zhunan Township, Miaoli County 350, Taiwan (R.O.C.)	NTD	409,500	409,500	Design and sale of flash memory related products	Sub-subsidiary
Fast Choice Global Limited【Note 6】	May 2013	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	USD	50	1,482	Trade of electronic components	Sub-subsidiary
Cloud Solution Global Limited【Note 6】	Oct 2012	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands	USD	5,950	186,963	Trade of electronic components	Sub-subsidiary

【Note 1】This company is our subsidiary of subsidiary company via Lian Xu Dong Investment Corp.

【Note 2】This company is our subsidiary of subsidiary company via Phisontech Electronics (Malaysia) Sdn. Bhd.

【Note 3】This company is our subsidiary of subsidiary company via Global Flash Limited.

【Note 4】This company is our subsidiary of subsidiary company via Core Storage Electronic (Samoa) Limited.

【Note 5】This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.

【Note 6】This company is our subsidiary of subsidiary company via Everspeed Technology Limited.

8.1.1.3 Affiliate under the inference by Article 369.3 of Company Act.: none.

8.1.1.4 Business types of the affiliates. If there is relationship between two of the affiliates, it should be illustrated.

Business types of this company and the affiliates:

- Design, production and sale of flash memory controllers and peripheral system applications.
- Investment.
- Investment and trade.
- Design, R&D, import and export of storage devices and electronics.
- Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service.
- Manufacture and trade of electronic components
- Design, R&D, production and sale of integrated circuits, systems and electronics hardware and software and rendering of related services.

Mission division of the affiliates with relationship

Company	Mission division of the affiliates with relationship
Phisontech Electronics (Malaysia) Sdn. Bhd.	R&D center in Malaysia; focus on the sale and technology integration of the flash memory application products in Malaysia.
Phison Electronics Japan Corp.	Customer development and service in Japan.
Emtops Electronics Corp.	Sales of flash memory peripheral application products.
Ostek Corp.	Testing of the flash memory components.
Phisontech Electronics Taiwan Corp.	Design integration service and Silicon IP agent for Phison Electronics Corporation and Phisontech Electronics (Malaysia) Sdn. Bhd.
Phisontech (Shenzhen) Limited	Customer development and service in China.
Hefei Core Storage Electronic Limited	R&D center in China; focus on the development, sale and relevant technology service of the flash memory application products in China.
Power Flash (HK) Limited	Sales of flash memory peripheral application products.

8.1.1.5 Profile of Director, Supervisor and President in the Affiliates and Their Shareholding.

As of 31/12/2017; in share in %

Company Name	Title	Name of Representative	Shareholding	
			Shares	%
Lian Xu Dong Investment Corp.	Director and supervisor	Phison Electronics Corporation	65,000,000	100.00%
	Legal representative chairman	Pua Khein Seng	0	0.00%
	Legal representative director	AwYong Chee Kong	0	0.00%
	Legal representative director	Chiu Shu Hua	0	0.00%
	Legal representative supervisor	Liu Hsiu Chin	0	0.00%
Phisontech Electronics (Malaysia) Sdn. Bhd.	Parent company	Phison Electronics Corporation	10,000,000	100.00%
	Director	Pua Khein Seng	0	0.00%
	Director	AwYong Chee Kong	0	0.00%
	Director	Pua Khein Keong	0	0.00%
Global Flash Limited	Parent company	Phison Electronics Corporation	21,000,000	100.00%
	Director	Pua Khein Seng	0	0.00%
	Director	AwYong Chee Kong	0	0.00%
Phison Electronics Japan Corp.	Parent company	Phison Electronics Corporation	900	100.00%
	Director	Kuang Tzong Hong	0	0.00%
	Director	Tanaka Motoji	0	0.00%
Emtops Electronics Corp.	Director and supervisor	Phison Electronics Corporation	9,500,000	100.00%
	Legal representative chairman	Kuang Tzong Hong	0	0.00%
	Legal representative director	Fu Chia I	0	0.00%
	Legal representative director	Ma Chung Hsun	0	0.00%
	Legal representative supervisor	Yu Zhi Chyang	0	0.00%

Company Name	Title	Name of Representative	Shareholding	
			Shares	%
Power Flash (Samoa) Limited	Parent company	Phison Electronics Corporation	3,200,000	100.00%
	Legal representative director	Phison Electronics Corporation	3,200,000	100.00%
	Director	Kuang Tzong Hong	0	0.00%
Everspeed Technology Limited	Parent company	Phison Electronics Corporation	1,000,000	100.00%
	Legal representative director	Phison Electronics Corporation	1,000,000	100.00%
Ostek Corp. 【Note 1】	Director and supervisor	Lian Xu Dong Investment Corp.	900,000	100.00%
	Legal representative chairman	Pua Khein Seng	0	0.00%
	Legal representative director	Kuang Tzong Hong	0	0.00%
	Legal representative director	Gan Wee Kuan	0	0.00%
	Legal representative supervisor	Peng Hsiao Chun	0	0.00%
Phisontech Electronics Taiwan Corp. 【Note 2】	Director and supervisor	Phisontech Electronics (Malaysia) Sdn.Bhd.	1,000,000	100.00%
	Legal representative chairman	Pua Khein Seng	0	0.00%
	Legal representative director	AwYong Chee Kong	0	0.00%
	Legal representative director	Hsu Chih Jen	0	0.00%
	Legal representative supervisor	Chiu Shu Hua	0	0.00%
Phisontech (Shenzhen) Limited 【Note 3】	Parent company	Global Flash Limited	USD 1,790,000	100.00%
	Executive director	Tsai Shu Hui	0	0.00%
	Supervisor	Wu Chung Lin	0	0.00%
Core Storage Electronic	Parent company	Global Flash Limited	18,050,000	100.00%
	Director	Pua Khein Seng	0	0.00%

Company Name	Title	Name of Representative	Shareholding	
			Shares	%
(Samoa) Limited 【Note 3】	Director	AwYong Chee Kong	0	0.00%
Hefei Core Storage Electronic Limited 【Note4】	Parent company	Core Storage Electronic (Samoa) Limited	USD18,000,000	100.00%
	Executive director	Wang Chih Ling	0	0.00%
	Supervisor	Lin Wai	0	0.00%
Power Flash (HK) Limited 【Note 5】	Parent company	Power Flash (Samoa) Limited	3,000,000	100.00%
	Director	Tsai Shu Hui	0	0.00%
	Director	Tsay Huei Chen	0	0.00%
Memoryexchange Corp. 【Note 6】	Director and supervisor	Everspeed Technology Limited	40,950,000	100.00%
	Legal representative chairman	Pua Khein Seng	0	0.00%
	Legal representative director	Yu Zhi Chyang	0	0.00%
	Legal representative director	Tsai Chen Hao	0	0.00%
	Legal representative supervisor	Chiu Shu Hua	0	0.00%
Fast Choice Global Limited 【Note 6】	Parent company	Everspeed Technology Limited	50,000	100.00%
	Legal representative director	Phison Electronics Corporation	0	0.00%
Cloud Solution Global Limited 【Note 6】	Parent company	Everspeed Technology Limited	5,950,440	100.00%
	Legal representative director	Phison Electronics Corporation	0	0.00%

【Note 1】This company is our subsidiary of subsidiary company via Lian Xu Dong Investment Corp.
【Note 2】This company is our subsidiary of subsidiary company via Phisontech Electronics (Malaysia) Sdn. Bhd..
【Note 3】This company is our subsidiary of subsidiary company via Global Flash Limited.
【Note 4】This company is our subsidiary of subsidiary company via Core Storage Electronic (Samoa) Limited.
【Note 5】This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.
【Note 6】This company is our subsidiary of subsidiary company via Everspeed Technology Limited.

8.1.1.6 Operation Summary of the Affiliates

As of 31/12/2017; in thousand in NT$

Name of Subsidiary	Capital	Assets	Liabilities	Net Worth	Net Revenue	Income(loss) from Operation	Net Income(Loss)	EPS (NT$/ after tax)
Lian Xu Dong Investment Corp.	650,000	614,255	151	614,104	6,167	(7,658)	(8,914)	(0.14)
Phisontech Electronics (Malaysia) Sdn. Bhd.	93,990	63,775	1,068	62,707	14,400	(3,099)	5,686	0.57
Global Flash Limited	665,823	626,167	0	626,167	0	(51)	15,890	–
Phison Electronics Japan Corp.	28,982	4,523	554	3,969	8,102	(5,528)	(5,577)	–
Emtops Electronics Corp.	95,000	70,392	284	70,108	19,880	(884)	(3,843)	(0.40)
Power Flash (Samoa) Limited	105,440	97,848	0	97,848	0	(36)	518	–
Everspeed Technology Limited	-	139,985	0	139,985	0	(319)	(15,318)	–
Ostek Corp. 【Note1】	9,000	61,621	8,075	53,546	29,021	(6,035)	(8,482)	(9.42)
Phisontech Electronics Taiwan Corp.【Note 2】	10,000	40,605	1,850	38,755	26,739	9,355	6,948	6.95
Phisontech (Shenzhen) Limited【Note3】	53,096	26,436	2,631	23,805	17,524	(5,703)	(7,242)	–
Core Storage Electronic(Samoa) Limited 【Note 3】	576,229	563,172	0	563,172	0	(35)	22,336	–
Hefei Core Storage Electronic Limited【Note 4】	576,780	642,591	80,487	562,104	666,132	20,171	22,460	–
Power Flash (HK) Limited 【Note 5】	98,754	92,526	579	91,947	268,978	998	1,035	–
Memoryexchange Corp. 【Note 6】	409,500	472,268	464,904	7,364	0	(464)	(6,154)	(0.15)
Fast Choice Global Limited 【Note 6】	1,482	2,637	0	2,637	0	(42)	(40)	–
Cloud Solution Global Limited【Note 6】	186,963	11,277	0	11,277	0	(77)	(8,745)	–

【Note 1】This company is our subsidiary of subsidiary company via Lian Xu Dong Investment Corp.
【Note 2】This company is our subsidiary of subsidiary company via Phisontech Electronics (Malaysia) Sdn. Bhd..
【Note 3】This company is our subsidiary of subsidiary company via Global Flash Limited,
【Note 4】This company is our subsidiary of subsidiary company via Core Storage Electronic (Samoa) Limited.
【Note 5】This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.
【Note 6】This company is our subsidiary of subsidiary company via Everspeed Technology Limited.

8.1.2Consolidated financial statement of affiliates: for 2017 (Jan 1, 2017 through to Dec 31, 2017), companies that are required to be included in the consolidated financial statements of affiliates in accordance with “Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises” are identical with those that must be included in the consolidated financial statements of parent and subsidiary under International Accounting Standard No. 10. Since matters that must be disclosed by consolidated financial statements of affiliates have been disclosed by consolidated financial statements of parent and subsidiary, no consolidated financial statements of affiliates are separately prepared.

8.1.3Report of affiliates: In the absence of any presumed subordinate, no such report is prepared.

8.2 Private Placement of securities during the most recent fiscal year or during the current fiscal year up to the date of publication of the annual report

As of 24/5/2017

<table>
<tr><th>Item</th><th colspan="5">(2014) (Second time) Private Placement Securities
Feb 6, 2015</th></tr>
<tr><td>Securities under private placement</td><td colspan="5">Common stock</td></tr>
<tr><td>Date of resolution and approved quantity</td><td colspan="5">Date of approval by shareholders' meeting: Jun 17, 2014
Date of approval by board of directors: Feb 6, 2015
Approved quantity: 11,900,000 shares</td></tr>
<tr><td>Basis and rationale for price setting</td><td colspan="5">The price of this private placement is determined by the principle established in the shareholders' meeting on Jun 17, 2014. The price of NT$180 is 80% of the average NT$225 of the closing price 3 days before the pricing day.</td></tr>
<tr><td>Selection method of specified parties</td><td colspan="5">The specified parties should meet the requirements in the Article 43.6 of Securities and Exchange Act and the TaiTasiCheng No. 0910003455 Order of Financial Supervisory Commission and be limited to strategic investors.</td></tr>
<tr><td>Reasons for private placement</td><td colspan="5">Considering the timeliness and feasibility of the capital market, issuance cost and private placement, as well as the limitation of no trade within 3 year to enforce the long-term partnership, we have to use private placement to issue new shares by cash.</td></tr>
<tr><td>Information on contributing parties</td><td colspan="5">Feb 12, 2015</td></tr>
<tr><td rowspan="3">Information on contributing parties</td><td>Target</td><td>Eligibility</td><td>Quantity Purchased</td><td>Relationship with the Company</td><td>Participation in Company Operations</td></tr>
<tr><td>Kingston Technology Corporation</td><td>Conformity to Article 4.3.1.2 of Securities and Exchange Act</td><td>10,400,000 shares</td><td>N.A.</td><td>N.A.</td></tr>
<tr><td>Advantech Investment Co., Ltd.</td><td>Conformity to Article 4.3.1.2 of Securities and Exchange Act</td><td>1,500,000 shares</td><td>N.A.</td><td>N.A.</td></tr>
<tr><td>Actual purchase (or conversion) price</td><td colspan="5">NT$180 per share.</td></tr>
<tr><td>Difference between the actual purchase (or conversion) price and the reference price</td><td colspan="5">The price of this private placement is determined by the principle established in the shareholders' meeting on Jun 17, 2014. The price of NT$180 is 80% of the average NT$225 of the closing price 3 days before the pricing day.</td></tr>
<tr><td>Impact of private placement on shareholders' equity (ex. causing an increase in accumulated losses)</td><td colspan="5">Promoting competitiveness, improving operation efficiency and benefiting shareholders' interest.</td></tr>
<tr><td>Use of funds from private placement and progress of proposed plans</td><td colspan="5">This private placement is to supplement our operation capital. It has been completed in the third quarter of 2014.</td></tr>
<tr><td>Effectiveness of private placement</td><td colspan="5">Contributing parties place orders to this company.</td></tr>
</table>

As of 24/5/2018

Item	Date of approval by board of directors: Mar 20, 2017 Approved quantity: less than 20,000,000 shares					Date of approval by board of directors: Mar 16, 2018 Approved quantity: less than 20,000,000 shares				
Securities under private placement	Common stock					Common stock				
Date of resolution and approved quantity	【Note 1】					【Note 2】				
Basis and rationale for price setting	【Note 1】					【Note 2】				
Selection method of specified parties	The specified parties should meet the requirements in the Article 43.6 of Securities and Exchange Act and the TaiTasiCheng No. 0910003455 Order of Financial Supervisory Commission and be limited to strategic investors.					The specified parties should meet the requirements in the Article 43.6 of Securities and Exchange Act and the TaiTasiCheng No. 0910003455 Order of Financial Supervisory Commission and be limited to strategic investors.				
Reasons for private placement	Considering the timeliness and feasibility of the capital market, issuance cost and private placement, as well as the limitation of no trade within 3 year to enforce the long-term partnership, we have to use private placement to issue new shares by cash.					Considering the timeliness and feasibility of the capital market, issuance cost and private placement, as well as the limitation of no trade within 3 year to enforce the long-term partnership, we have to use private placement to issue new shares by cash.				
Date of payment and completion	Not applicable					Not applicable				
Information on contributing parties	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations	Target	Eligibility	Quantity Purchased	Relationship with the Company	Participation in Company Operations
Actual purchase (or conversion) price	Not applicable					Not applicable				
Difference between the actual purchase (or conversion) price and the reference price	Not applicable					Not applicable				
Impact of private placement on shareholders' equity (ex. causing an increase in accumulated losses)	No serious impact					No serious impact				
Use of funds from private placement and progress of proposed plans	Not applicable					Not applicable				
Effectiveness of private placement	Not applicable					Not applicable				

【Note 1】The board of directors has decided that this private placement is be cancelled on Apr. 19,2018. This decision will be reported to the 2018 shareholders' meeting.

【Note 2】This private placement has been approved by the board of directors on Mar 16, 2018 and will be reported to the 2018 shareholders' meeting for approval.

8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years: None.

8.4 Other Necessary Statements: None.

IX. Material matters specified by Article 36.3.2 of the Securities and Exchange Act that has a material impact on interests of shareholders or price of securities over the latest year and as of the date the annual report: None.

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

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

Very truly yours,

PHISON ELECTRONICS CORP.

By

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KHEIN SENG PUA
Chairman

March 16, 2018

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Sales Revenue Recognition

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

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

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

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

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

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

Impairment on Inventories

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

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

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

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

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

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

Matter of Emphasis

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

Other Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2018

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

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(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.

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

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the FSC

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

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

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

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

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

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

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

New, Revised or Amended Standards and Interpretations ("New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments" and related amendment	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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

1) IFRS 9 "Financial Instruments" and related amendment

Classification, measurement and impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

The Group elects not to restate prior periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 16 "Leases"

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

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

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

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

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

Classification of Current and Non-current Assets and Liabilities

Current assets include:

a. Assets held primarily for the purpose of trading;

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

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

Current liabilities include:

a. Liabilities held primarily for the purpose of trading;

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

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

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

Basis of Consolidation

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

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

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

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

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

Foreign Currencies

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

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

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

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

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

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

Inventories

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

Investment in Associates

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

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

Intangible Assets

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

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

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

Financial Instruments

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

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

Financial assets

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

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

a. Financial assets at fair value through profit or loss

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

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

b. Available-for-sale financial assets

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

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

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

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

c. Loans and receivables

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

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

d. Impairment of financial assets

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

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

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

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

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

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

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

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

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

e. Derecognition of financial assets

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

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

Provisions

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

Revenue Recognition

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

a. Sale of goods

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

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;

- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- The amount of revenue can be measured reliably;

- It is probable that the economic benefits associated with the transaction will flow to the Group; and

- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

b. Rendering service income

Service income is recognized when services are provided.

c. Royalties

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

d. Dividend and interest income

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

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

Leasing

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

a. The Group as lessor

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

b. The Group as lessee

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Termination benefits

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

Share-based Payment Arrangements - Employee Share Options

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

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

Taxation

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

a. Current tax

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

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

b. Deferred tax

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

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

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

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

c. Current and deferred tax for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Estimated impairment of trade receivables

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

b. Inventory write-downs

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

c. Provision for sales returns and allowances

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

6. CASH AND CASH EQUIVALENTS

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

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

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

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

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

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

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

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

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

Accounts Receivable - Trade

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

The aging of receivables was as follows:

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

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

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

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	$ 83,522	$ 50,176	$ 133,698
Add: Impairment losses recognized on receivables	11,910	111,642	123,552
Less: Amounts written off during the year as uncollectable	(95,432)	-	(95,432)
Foreign exchange translation losses	-	(138)	(138)
Balance at December 31, 2016	-	161,680	161,680
Add: Impairment losses recognized on receivables	-	22,958	22,958
Foreign exchange translation losses	-	755	755
Balance at December 31, 2017	$ -	$ 185,393	$ 185,393

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

The factored accounts receivable were as follows:

(In Thousands)

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

Note: Recorded under other receivables

The limit above was used on a revolving basis.

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

10. INVENTORIES

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

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

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

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

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

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

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

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

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

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

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

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

13. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The consolidated financial statement prepared in the main as follows:

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

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

b. Subsidiaries excluded from the consolidated financial statements: None.

c. During the preparation of the consolidated financial statements, the substantial transactions between the consolidated entities were entirely written off.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

a. Material associate

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

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

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

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

Kingston Solutions Inc.

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

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

b. Aggregate information of associates that are not individually material

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

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

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

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

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

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

15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

16. INTANGIBLE ASSETS

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

(Continued)

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

(Concluded)

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

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

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

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

17. SHORT-TERM BORROWINGS

Short-term Borrowings

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

18. OTHER PAYABLES

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

19. PROVISIONS - CURRENT

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

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

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

20. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

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

b. Defined benefit plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21. EQUITY

a. Share capital

Common shares

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

On November 10, 2016, an employee share option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in the FSC's issued document No. 1050049740 and will take effect starting from December 6, 2016. In accordance with Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2016, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities. The employee share options were not issued because a very high cost of issuance would be incurred. The employee share options cannot be issued after December 5, 2017.

On November 13, 2017, an employee share option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in the FSC's issued document No. 1060047052 and will take effect starting from December 5, 2017. In accordance with Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2017, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities.

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

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

b. Capital surplus

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

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

c. Retained earnings and dividend policy

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

The policy on appropriation of earnings and dividend distribution in the amended Articles, where the Corporation made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 10% of the remaining profit, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Corporation's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to Note 23(e) "Employees' compensation and remuneration of directors and supervisors".

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

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

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

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

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on June 13, 2017 and June 15, 2016, respectively, were as follows:

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

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

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

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

d. Other equity items

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

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

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

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

e. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 5,400	$ 221,533
Acquisition of non-controlling interest in subsidiaries of Phisontech Electronics (Malaysia) Sdn. Bhd. (Note 26)	(7,626)	-
Non-controlling interest reduction from Everspeed Technology Limited (Note 26)	-	(147,375)
Non-proportional investment in Epostar Electronics (BVI) Corporation (Note 25)	-	(7,710)
Others	-	4,577
Attributable to non-controlling interests:		
Share of profit (loss) for the year	318	(65,149)
Exchange difference arising on translation of foreign entities	1,908	(476)
Balance at December 31	$ -	$ 5,400

f. Treasury shares

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

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

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

22. INCOME TAXES

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

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

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

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

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

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

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

b. Income tax recognized in other comprehensive income

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

c. Current tax assets and liabilities

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

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

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

For the year ended December 31, 2016

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

e. Integrated income tax information

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

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

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

f. Income tax assessments

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

23. NET PROFIT AND OTHER COMPREHENSIVE INCOME

The following items were included in the net profit for 2017 and 2016:

a. Other gains and losses

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

b. Other income

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

c. Depreciation and amortization

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

d. Employee benefits expense

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

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

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

Accrual rate

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

Amount

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

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

There is no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the financial statements for the years ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2018 and 2017 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

f. Gains or losses on foreign currency exchange

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

24. EARNINGS PER SHARE

Unit: NT$ Per Share

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

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

Net Profit for the Year

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

Shares

(In Thousands of Shares)

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

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

25. DISPOSAL OF SUBSIDIARIES

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

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

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

b. Gain on disposal of subsidiary

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

c. Net cash outflow on disposal of subsidiary

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

26. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

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

As recorded in the minutes of meetings of the Corporation's board of directors on August 11, 2016 and as stipulated in the declaration of Mr. Khein Seng Pua, the Chairman of the Corporation, the operation management of Everspeed Technology Group (including Everspeed Technology Limited, Memoryexchange Corporation (controlled since October 2010), Cloud Solution Global Limited (established on October 25, 2012), and Fast Choice Global Limited (established on May 23, 2013)) and Twinson Electronic Corporation (100% acquired by the Corporation on December 25, 2014 and renamed as Ostek Corporation) are under substantial control by the Chairman and should be considered as the related parties of the Corporation. In addition, according to Rule No. 1050036477 issued by the FSC, the Corporation treated the aforementioned companies as controlled entities and included these entities in the consolidated financial statements.

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

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

27. CAPITAL MANAGEMENT

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

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

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

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

28. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

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

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

1) Fair value hierarchy

December 31, 2017

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

December 31, 2016

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

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

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

For the year ended December 31, 2017

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

For the year ended December 31, 2016

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

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

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

b) The fair values of unlisted debt securities - ROC

December 31, 2017

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

December 31, 2016

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

Categories of Financial Instruments

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

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

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

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

Financial Risk Management Objectives and Policies

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

a. Market risk

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

1) Foreign currency risk

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

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

<u>Sensitivity analysis</u>

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

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

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

2) Interest rate risk

The Group was exposed to interest rate risk because entities in the Group borrowed funds at both fixed and floating interest rates.

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

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

Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Group's pre-tax profit for the years ended December 31, 2017 and 2016 would increase by $964 thousand and $1,113 thousand, respectively.

3) Other price risk

The Group was exposed to equity price risks through its investments in international and domestic quoted stocks and beneficial certificates.

Sensitivity analysis

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

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

b. Credit risk

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

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

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

c. Liquidity risk

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

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

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

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

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

Information on Transfers of Financial Assets

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

29. TRANSACTIONS WITH RELATED-PARTIES

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

a. Related-party and its relationship

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

(Continued)

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

(Concluded)

b. Operating revenue

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

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

c. Operating costs

1) Purchase of goods

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

2) Processing costs

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

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

d. Receivables from related parties

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

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

e. Payables to related parties

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

The outstanding trade payables from related parties are unsecured.

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

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

f. Compensation of key management personnel

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

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

30. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

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

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

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

b. The Group as lessor

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

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

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

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

31. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

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

32. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

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

Significant Commitments

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

33. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

In Thousands of New Taiwan Dollars and Foreign Currencies

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

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

For the years ended December 31, 2017 and 2016, (realized and unrealized) net foreign exchange gains were $404,573thousand and $106,951 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Group entities.

34. OTHER SIGNIFICANT EVENT

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

35. ADDITIONAL DISCLOSURES

a. Information about significant transactions and b. investees:

1) Financing provided to others. (None)

2) Endorsement/guarantee provided. (None)

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

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

5) Acquisition of individual real estate at costs of at least NT$300 million or 20% of the paid-in capital. (Table 2)

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

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

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 4)

9) Trading in derivative instruments. (None)

10) Other: Intercompany relationships and significant intercompany transactions. (Table 5)

11) Information of investees. (Table 6)

c. Information on investments in mainland China:

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

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

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

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

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

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

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

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

36. SEGMENT INFORMATION

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

a. Segment revenue and results

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

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

Segment revenue reported above was generated from external customers. There were no intersegment sales for the years of 2017 and 2016.

Segment profit represented the profit before tax earned by each segment without the share of gains or loss of associates, rental income, interest income, gains or losses on disposal of property, plant and equipment, gains or losses on sales of investments, exchange gains or losses, valuation gains or losses on financial instruments, financial costs and income tax expense.

b. Segment assets and liabilities

The Group does not report segment assets and liabilities or other segment information to the chief operating decision maker. Therefore, no information is disclosed here.

c. Revenue from major products and services

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

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

d. Geographical information

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

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

Revenue was categorized depending on clients' locations.

e. Information about major customers

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

TABLE 1

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

(Continued)

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

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

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

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

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

(Continued)

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

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

Note 7: The Company is not limited by shares.

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

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

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

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

(Concluded)

TABLE 2

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Toshiba Electronic Components Taiwan Corporation	Sub-subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	$ 12,335,671	43	Net 30 days after monthly closing	None	None	$ (17)	-	-
	Toshiba America Electronic Components, Inc.	Subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	2,795,015	10	Net 30 days after receipt date	None	None	-	-	-
	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	293,119	1	Net 30 days after monthly closing	None	None	(24,959)	(1)	-
	Toshiba Memory America, Inc.	Subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	921,246	3	Net 30 days after receipt date	None	None	(324,096)	(9)	-
	Toshiba Memory Taiwan Corporation	Sub-subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	3,210,897	11	Net 30 days after monthly closing	None	None	(2,105,363)	(58)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,043,145	3	Net 15 days after monthly closing	None	None	(85,934)	(2)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	344,456	1	Net 45 days after monthly closing	None	None	(20,169)	(1)	-
	Toshiba Corporation ("Toshiba-JP-SS")	Parent company of the Corporation's legal entity board of directors	Sale	(485,013)	(1)	Net 60 days after monthly closing	None	None	-	-	-
	Toshiba International Procurement Hong Kong Ltd. ("Toshiba-TIPH")	Subsidiary of parent company of the Corporation's legal entity board of directors	Sale	(314,516)	(1)	Net 60 days after monthly closing	None	None	144,108	2	-
	Toshiba Memory Corporation	The Corporation's legal entity board of directors	Sale	(876,187)	(2)	Net 60 days after monthly closing	None	None	79,556	1	-
	Dawning Leading Technology Inc.	The Corporation is its director	Sale	(172,914)	-	Net 30 days after monthly closing	None	None	93,889	2	-
	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	(518,402)	(1)	Net 30 days after monthly closing	None	None	17,135	-	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiary	Sale	(272,041)	(41)	Net 30 days after monthly closing	None	None	-	-	-

TABLE 4

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Action Taken		
Phison Electronics Corp.	Toshiba International Procurement Hong Kong Ltd.	Subsidiary of parent company of the Corporation’s legal entity board of directors	$ 144,108	3.6	$ -	-	$ 143,111	$ -

Note: As of March 1, 2018.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

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

TABLE 6

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2017	December 31, 2016	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phison Electronics Corp.	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	$ 106,050	$ 106,050	10,605,000	32.91	$ 1,623,790	$ 1,441,523	$ 474,405	Equity-method investee
	Emtops Electronics Corporation	Taiwan	Sale of flash memory controllers and peripheral system applications	95,000	95,000	9,500,000	100.00	70,108	(3,843)	(3,843)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	400,000	65,000,000	100.00	614,104	(8,914)	(8,914)	Subsidiary
	Flexmedia Electronics Corporation	Taiwan	R&D, sales and production of high-tech multimedia design	8,077	8,077	482,142	21.43	-	(10,900)	(1,063)	Equity-method investee
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	21,563	(5,405)	(2,648)	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	28,982	28,982	900	100.00	3,969	(5,577)	(5,577)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	665,823	635,696	21,000,000	100.00	626,167	15,890	15,890	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	91,422	81,771	10,000,000	100.00	62,707	5,686	5,368	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	47,741	(98,817)	(42,745)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	97,848	518	518	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	139,985	(15,318)	(15,318)	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	53,546	(8,482)	-	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	16,617	43,260	-	Equity-method investee
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Taiwan	Design of ASIC and R&D, manufacture, and sale of ASIC for IP and technical support service	10,000	10,000	1,000,000	100.00	38,755	6,948	-	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	563,172	22,336	-	Sub-subsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2017	December 31, 2016	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	$ 98,754	$ 98,754	3,000,000	100.00	$ 91,947	$ 1,035	$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Design and sale of flash memory related products	391,986	391,986	40,950,000	100.00	7,364	(6,154)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,637	(40)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	11,277	(8,745)	-	Sub-subsidiary
Cloud Solution Global Limited	Asadhya Enterprises Private Limited	India	Trade of electronic products	611	611	122,255	49.00	-	(14)	-	Equity-method investee

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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

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

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

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

TABLE 8

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

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

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

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 comprises the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2017 and 2016, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis for Opinion

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

Key Audit Matters

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

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

<u>Sales Revenue Recognition</u>

The operating revenue, in New Taiwan dollars ("NT$"), of the Corporation amounted to NT$41,773,532 thousand. Sales failing to fulfill criteria for revenue recognition may result in a significant impact on the financial statements. Therefore, the recognition on sales revenue has been identified as a key audit matter.

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

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

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

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

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

Impairment on Inventories

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

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

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

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

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

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

Matter of Emphasis

As stated in Note 33 to the accompanying financial statements, the Corporation has been under statutory investigation since August 5, 2016 for an alleged violation of the Securities and Exchange Act, and the investigation was conducted by the Taiwan Hsinchu District Prosecutorial Office and concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutorial Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code, the prosecutor charged the chairman of the Corporation, Mr. Khein Seng Pua, and others culminating in either deferred prosecution or dropping the claim for further prosecution. The Taiwan Hsinchu District Prosecutorial Office ex officio sent the ruling to the Taiwan High Prosecutors Office for reconsideration. As of November 18, 2017, in regard to the partial revocation and partial dismissal charge by the Taiwan High Court Prosecutorial Office against the chairman of the Corporation, Mr. Khein Seng Pua, and others, the case is under re-investigation. As such, our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 16, 2018

Notice to Readers

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

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

PHISON ELECTRONICS CORP.

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

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

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

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

PHISON ELECTRONICS CORP.

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

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

(Continued)

PHISON ELECTRONICS CORP.

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

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

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

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

PHISON ELECTRONICS CORP.

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

			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, 2016	$ 1,973,740	$ 6,514,569	$ 1,956,106	$ 5,056	$ 9,990,216	$ (26,608)	$ (84,750)	$ -	$ 20,328,329
Appropriation of the 2015 earnings									
Legal reserve	-	-	400,001	-	(400,001)	-	-	-	-
Special reserve	-	-	-	106,302	(106,302)	-	-	-	-
Cash dividends - NT$12 per share	-	-	-	-	(2,368,488)	-	-	-	(2,368,488)
Actual disposal or acquisition of interests in subsidiaries	-	147,375	-	-	-	-	-	-	147,375
Treasury shares	-	-	-	-	-	-	-	(64,722)	(64,722)
Cancelation of treasury shares	(3,000)	(9,495)	-	-	(52,227)	-	-	64,722	-
Net profit for the year ended December 31, 2016	-	-	-	-	4,866,992	-	-	-	4,866,992
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(2,054)	(40,208)	125,601	-	83,339
BALANCE AT DECEMBER 31, 2016	1,970,740	6,652,449	2,356,107	111,358	11,928,136	(66,816)	40,851	-	22,992,825
Appropriation of the 2016 earnings									
Legal reserve	-	-	486,699	-	(486,699)	-	-	-	-
Reversal from special reserve	-	-	-	(85,393)	85,393	-	-	-	-
Cash dividends - NT$14 per share	-	-	-	-	(2,759,036)	-	-	-	(2,759,036)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	10,739	-	-	-	-	-	-	10,739
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)
Net profit for the year ended December 31, 2017	-	-	-	-	5,760,972	-	-	-	5,760,972
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(6,880)	(331)	62,712	-	55,501
BALANCE AT DECEMBER 31, 2017	$ 1,970,740	$ 6,660,502	$ 2,842,806	$ 25,965	$ 14,521,886	$ (67,147)	$ 103,563	$ -	$ 26,058,315

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

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

PHISON ELECTRONICS CORP.

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

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

(Continued)

PHISON ELECTRONICS CORP.

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

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

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

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

PHISON ELECTRONICS CORP.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(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 16, 2018.

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

a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the FSC

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

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

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

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the 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.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 28 for related disclosures.

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

New, Revised or Amended Standards and Interpretations	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
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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

1) IFRS 9 "Financial Instruments" and related amendments

Classification, measurement and impairment of financial assets

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

For the 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 Corporation analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets as follow:

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

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

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

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

For purchased or originated credit-impaired financial assets, the 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.

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

The Corporation elects not to restate prior periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

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

	Carrying Amount as of December 31, 2017	**Adjustments Arising from Initial Application**	**Adjusted carrying amount as of January 1, 2018**
Impact on assets, liabilities and equity			
Current assets			
Financial assets measured at amortized cost	$ -	$ 20,549	$ 20,549
Debt investment with no active market	20,549	(20,549)	-
Non-current assets			
Financial assets at fair value through other comprehensive income	-	556,875	556,875
Financial assets at fair value through profit or loss	-	434,763	434,763
Financial assets measured at cost	447,416	(447,416)	-
Available-for-sale financial assets	434,763	(434,763)	-
Investments accounted for by the equity method	3,307,982	(66,171)	3,241,811
Total effect on assets	$ 4,210,710	$ 43,288	$ 4,253,998
Equity			
Retained earnings	$ 14,521,886	$ 543,867	$ 15,065,753
Other equity	36,416	(500,579)	(464,163)
Total effect on equity	$ 14,558,302	$ 43,288	$ 14,601,590

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 16 "Leases"

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

Under IFRS 16, if the 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.

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 parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulations").

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 and share of other comprehensive income of subsidiaries and associates, 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 Corporation 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.

For the purpose of presenting financial statements, the functional currencies of the Corporation are translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income

Inventories

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

Investments in subsidiaries

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

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. Royalties

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

d. Dividend and interest income

Dividend income from investments is recognized when a shareholder’s right to receive payment has been established provided that it is probable that the economic benefits will flow to the 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	
	2017	**2016**
Cash on hand	$ 60	$ 60
Checking accounts and demand deposits	8,440,071	10,442,287
Cash equivalents		
Time deposits with original maturities of less than 3 months	4,314,445	3,109,841
	$ 12,754,576	$ 13,552,188

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

	December 31	
	2017	**2016**
Financial assets held for trading		
Beneficiary certificates - open-end funds	$ 1,050,239	$ 1,046,325
Domestic quoted shares	67,095	80,585
Convertible bonds	53,722	-
	$ 1,171,056	$ 1,126,910

8. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT

	December 31	
	2017	2016
Certificates of deposit	$ 20,549	$ 20,503
Time deposits with original maturity of more than 3 months	-	1,290
	$ 20,549	$ 21,793

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 information relating to debt investments with no active market pledged as security.

9. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2017	2016
Notes receivable		
Operating	$ 4	$ -
Accounts receivable - trade		
Operating		
Third parties	$ 5,492,888	$ 4,562,538
Related parties	336,042	363,065
	5,828,930	4,925,603
Less: Allowance for doubtful accounts	185,393	160,871
Notes and accounts receivable, net	$ 5,643,537	$ 4,764,732
Other receivables		
Income tax refund receivable	$ 116,593	$ 164,023
Factored accounts receivable	147,526	201,744
Others	2,356	1,953
Other receivables	$ 266,475	$ 367,720

Accounts Receivable - Trade

For the trade receivables balances that were past due at the end of the reporting period, the Corporation had not recognize 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	
	2017	2016
Not past due	$ 5,369,396	$ 4,369,862
1-60 days	406,230	515,224
61-90 days	429	320
91-120 days	38,566	39,492
More than 120 days	14,309	705
	$ 5,828,930	$ 4,925,603

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

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

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

	Individually Assessed for Impairment	Collectively Assessed for Impairment	Total
Balance at January 1, 2016	$ 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
Balance at January 1, 2017	$ -	$ 160,871	$ 160,871
Add: Impairment losses recognized on receivables	-	24,522	24,522
Balance at December 31, 2017	$ -	$ 185,393	$ 185,393

The Corporation individually recognized impairment losses on trade receivables amounting to $0 thousand as of both December 31, 2017 and 2016. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The 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, 2017					
HSBC Bank	US$ 41,383	US$ 35,711	$ -	-	US$ 12,800
For the year ended December 31, 2016					
HSBC Bank	US$ 93,776	US$ 85,525	-	-	US$ 16,500

Note: Recorded under other receivables.

The limit above was used on a revolving basis.

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

10. INVENTORIES

	December 31 2017	December 31 2016
Raw materials	$ 3,939,844	$ 3,298,671
Work-in-process	1,293,814	925,313
Semifinished products	1,880,843	909,395
Finished goods	71,502	87,526
	$ 7,186,003	$ 5,220,905

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2017 and 2016 was $30,324,437 thousand and $34,471,226 thousand, respectively. The cost of goods sold for the years ended December 31, 2017 and 2016 included inventory write-downs of $19,396 thousand and $8,598 thousand, respectively.

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

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

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

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

12. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	December 31	
	2017	2016
Domestic unlisted common shares	$ 296,380	$ 357,979
Overseas unlisted common shares	91,036	143,208
Domestic private equity fund	60,000	-
	$ 447,416	$ 501,187
Classified according to categories		
Available-for-sale	$ 447,416	$ 501,187

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

The Corporation disposed of certain financial assets measured at cost with carrying amount of $6,770 thousand during year 2017.

The Corporation recognized impairment losses of $147,890 thousand and $65,880 thousand during 2017 and 2016, respectively, on domestic and overseas unlisted common shares.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31	
	2017	2016
Investments in subsidiaries	$ 1,614,888	$ 1,340,049
Investments in associates	$ 1,693,094	$ 1,254,421

a. Investments in subsidiaries

	December 31	
	2017	2016
Unlisted shares		
Global Flash Limited	$ 626,167	$ 585,179
Lian Xu Dong Investment Corporation	614,104	373,018
Emtops Electronics Corp.	70,108	73,952
Phisontech Electronics (Malaysia) Sdn. Bhd.	62,707	36,142
Power Flash (Samoa) Limited	97,848	104,961
Everspeed Technology Limited	139,985	156,992
Phison Electronics Japan Corp.	3,969	9,805
	$ 1,614,888	$ 1,340,049

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

Name of Subsidiaries	December 31 2017	December 31 2016
Global Flash Limited	100%	100%
Lian Xu Dong Investment Corporation	100%	100%
Emtops Electronics Corp.	100%	100%
Phisontech Electronics (Malaysia) Sdn. Bhd. (Note 25)	100%	87%
Power Flash (Samoa) Limited	100%	100%
Everspeed Technology Limited	100%	100%
Phison Electronics Japan Corp.	100%	100%

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, 2017 and 2016 was based on the subsidiaries' financial statements audited for the same years.

b. Investments in associates

	December 31 2017	December 31 2016
Unlisted shares		
Material associates		
Kingston Solutions Inc.	$ 1,623,790	$ 1,149,415
Associates that are not individually material		
Epostar Electronics (BVI) Corporation	47,741	79,732
Microtops Design Corporation ("Microtops")	21,563	24,211
Flexmedia Electronics Corporation	-	1,063
	$ 1,693,094	$ 1,254,421

1) Material associates

Name of Associates	December 31 2017	December 31 2016
Kingston Solutions Inc.	32.91%	32.91%

Refer to Table 5 "Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

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

Kingston Solutions Inc.

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

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

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2017	2016
The Corporation's share of:		
Net loss for the year	$ (46,456)	$ (6,935)
Other comprehensive income	14	-
Total comprehensive loss for the year	$ (46,442)	$ (6,935)

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

All the associates are accounted for using the equity method.

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

	For the Year Ended December 31	
	2017	2016
Unrecognized share of losses of associates for the year	$ 1,273	$ -
Accumulated unrecognized share of losses of associates	$ 1,273	$ -

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

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
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)
Reclassification	-	-	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
Reclassification	-	-	-	-	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
Cost								
Balance, January 1, 2017	$ 813,738	$ 28,775	$ 1,142,341	$ 327,038	$ 31,949	$ 14,314	$ 390,000	$ 2,748,155
Additions	-	-	82,635	97,015	13,743	12,652	351,000	557,045
Disposals	-	-	-	(45,713)	(5,498)	-	-	(51,211)
Reclassification	-	-	741,000	(291)	-	-	(741,000)	(291)
Balance, December 31, 2017	$ 813,738	$ 28,775	$ 1,965,976	$ 378,049	$ 40,194	$ 26,966	$ -	$ 3,253,698
Accumulated depreciation								
Balance, January 1, 2017	$ -	$ 17,242	$ 187,260	$ 131,626	$ 14,126	$ 5,098	$ -	$ 355,352
Disposals	-	-	-	(45,713)	(5,498)	-	-	(51,211)
Depreciation	-	3,684	45,813	90,196	11,528	5,234	-	156,455
Balance, December 31, 2017	$ -	$ 20,926	$ 233,073	$ 176,109	$ 20,156	$ 10,332	$ -	$ 460,596
Balance, December 31, 2017, net	$ 813,738	$ 7,849	$ 1,732,903	$ 201,940	$ 20,038	$ 16,634	$ -	$ 2,793,102

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 years
Office equipment	3 years
Other equipment	3-5 years

15. INTANGIBLE ASSETS

	December 31	
	2017	2016
Computer software	$ 147,490	$ 126,879
Technology license fees	64,618	90,884
	$ 212,108	$ 217,763

	Computer Software	Technology License Fees	Total
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)
Reclassification	(1,757)	-	(1,757)
Balance, December 31, 2016	$ 126,879	$ 90,884	$ 217,763
Balance at January 1, 2017	$ 126,879	$ 90,884	$ 217,763
Additions	123,172	34,826	157,998
Amortization	(102,561)	(61,092)	(163,653)
Balance, December 31, 2017	$ 147,490	$ 64,618	$ 212,108

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

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

16. SHORT-TERM BORROWINGS

Short-term Borrowings

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

17. OTHER PAYABLES

	December 31	
	2017	2016
Salaries and bonuses payable	$ 2,576,430	$ 2,033,587
Others	670,024	629,225
	$ 3,246,454	$ 2,662,812

18. PROVISIONS - CURRENT

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

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

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

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, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20. EQUITY

a. Share capital

Common shares

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

On November 10, 2016, an employee share option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in the FSC's issued document No. 1050049740 and will take effect starting from December 6, 2016. In accordance with Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2016, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities. The employee share options were not issued because a very high cost of issuance would be incurred. The employee share options cannot be issued after December 5, 2017.

On November 13, 2017, an employee share option plan was approved by the Corporation's board of directors, and the Financial Supervisory Commission (FSC) also approved this plan as shown in the FSC's issued document No. 1060047052 and will take effect starting from December 5, 2017. In accordance with Article 56, No. 2 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers and the regulations of the issuance of employee share options in 2017, shares can be issued as a whole or in parts depending on the actual needs within the year starting from the date the issuer received the notification of approval from the competent authorities.

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

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

b. Capital surplus

	December 31	
	2017	2016
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*		
Issuance of ordinary shares	$ 6,237,434	$ 6,237,434
The difference between consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	151,444

(Continued)

	December 31	
	2017	2016
May only be used to offset a deficit		
Expired share options	$ 227	$ 227
May not be used for any purpose		
Share of changes in capital surplus of associates or joint ventures	274,083	263,344
	$ 6,660,502	$ 6,652,449

(Concluded)

* 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(e) "Employees' compensation and remuneration of directors and supervisors".

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

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

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

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

The appropriations of earnings for 2016 and 2015 approved in the shareholders' meetings on June 13, 2017 and June 15, 2016, respectively, were as follows:

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

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

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

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

d. 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 were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	$ 971,302	$ 717,348
Income tax on unappropriated earnings	170,460	112,522
In respect of the prior periods	(104,686)	(100,419)
	1,037,076	729,451
Deferred tax		
In respect of the current period	(84,843)	(64,245)
Income tax expense recognized in profit or loss	$ 952,233	$ 665,206

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

	For the Year Ended December 31	
	2017	2016
Profit before tax from continuing operations	$ 6,713,205	$ 5,532,198
Income tax expense calculated at the statutory rate	$ 1,141,245	$ 940,474
Tax-exempt income	(254,786)	(287,371)
Income tax on unappropriated earnings	170,460	112,522
Adjustments for prior years' tax	(104,686)	(100,419)
Income tax expense recognized in profit or loss	$ 952,233	$ 665,206

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

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets recognized as at December 31, 2017 are expected to be adjusted and would increase by $53,794 thousand in 2018.

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

b. Income tax recognized in other comprehensive income

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

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax liabilities		
Income tax payable	$ 1,090,947	$ 729,492

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Doubtful accounts	$ 18,975	$ 2,633	$ -	$ 21,608
Inventory write-downs	49,270	3,297	-	52,567
Provisions	58,493	(8,839)	-	49,654
Defined benefit obligation	12,363	662	1,408	14,433
Unrealized exchange losses	17,767	59,445	-	77,212
Impairment loss on financial assets	23,899	20,576	-	44,475
Exchange differences on translating foreign operations	13,685	-	61	13,746
Corporation's share of losses of subsidiaries and associates	22,108	7,117	-	29,225
Property, plant and equipment	1,963	(48)	-	1,915
	$ 218,523	$ 84,843	$ 1,469	$ 304,835

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

e. Integrated income tax information

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

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

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

f. Income tax returns through 2015 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 2017 and 2016:

a. Other gains and losses

	For the Year Ended December 31	
	2017	2016
Foreign exchange (losses) gains, net	$ (357,532)	$ 101,175
Loss on financial assets held for trading	(5,529)	(15,236)
Impairment loss recognized on financial assets	(147,890)	(65,880)
Gains on deconsolidation of subsidiaries	-	45,649
Gains on disposal of financial assets held for trading	-	18,215
Gains on disposal of property, plant and equipment	-	41
Others	158	(4)
	$ (510,793)	$ 83,960

b. Other income

	For the Year Ended December 31	
	2017	2016
Interest income		
Bank deposits	$ 38,504	$ 32,490
Rental income	3,605	3,559
Dividend income	29,947	38,867
Others	17,749	40,004
	$ 89,805	$ 114,920

c. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Property, plant and equipment	$ 156,455	$ 118,860
Intangible assets	163,653	121,189
	$ 320,108	$ 240,049
An analysis of depreciation by function		
Operating costs	$ 37,325	$ 23,436
Operating expenses	119,130	95,424
	$ 156,455	$ 118,860
An analysis of amortization by function		
General and administrative expenses	$ 8,359	$ 7,173
Research and development expenses	155,294	114,016
	$ 163,653	$ 121,189

d. Employee benefits expense

	For the Year Ended December 31	
	2017	**2016**
Short-term employee benefits	$ 3,424,548	$ 2,936,452
Post-employment benefits		
Defined contribution plan	67,832	59,003
Defined benefit plan	5,765	5,240
	73,597	64,243
Other employee benefits		
Employee welfare	53,249	56,354
Food stipend	35,170	31,404
	88,419	87,758
	$ 3,586,564	$ 3,088,453
Employee benefits		
Recognized in operating costs	$ 166,677	$ 152,750
Recognized in operating expenses	3,419,887	2,935,703
	$ 3,586,564	$ 3,088,453

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

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

Accrual rate

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

Amount

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

If there is a change in the amounts after the annual 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 years ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2018 and 2017 is available on the Market Observation Post System website of the Taiwan Stock Exchange.

f. Foreign exchange (losses) gains, net

	For the Year Ended December 31	
	2017	2016
Foreign exchange gains	$ 404,352	$ 690,564
Foreign exchange losses	(761,884)	(589,389)
Net (loss) gain	$ (357,532)	$ 101,175

23. EARNINGS PER SHARE

(In New Taiwan Dollars)

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

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

Net Profit for the Year

	For the Year Ended December 31	
	2017	2016
Earnings used in the computation of basic earnings per share	$ 5,760,972	$ 4,866,992
Earnings used in the computation of diluted earnings per share	$ 5,760,972	$ 4,866,992

Shares

(In Thousands of Shares)

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

If the 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 newly issued common shares for cash of Epostar Electronics (BVI) Corporation at a percentage different from its prior ownership percentage. As a result, the Corporation’s ownership percentage decreased from 60% to 44%. The Corporation’s less than 50% voting rights had no power to govern the financial and operating policies of Epostar Electronics (BVI) Corporation. Therefore the Corporation has lost control over Epostar Electronics (BVI) Corporation on August 25, 2016. Refer to Note 25 of the Corporation’s consolidated financial statements for the year ended December 31, 2017 for more information.

25. ACQUISITION OF SUBSIDIARIES WITH CONTROL UNAFFECTED

In order to integrate the equity of Phisontech Electronics (Malaysia) Sdn. Bhd. for future operational planning, the Corporation’s board of directors held a meeting on May 11, 2017 and, in that meeting, resolved to acquire 13% minority shares at NT$7.4235 per share on June 20, 2017. The acquisition of these minority shares increased the Corporation’s shareholding to 100%. Refer to Note 26 of the Corporation’s consolidated financial statements for the year ended December 31, 2017 for more information.

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

The Corporation does not have equity interest in Everspeed Technology Group. Therefore, for the long-term development and enhancement of the integrity of the operating structure, the Corporation board of directors held a meeting on September 21, 2016 and decided to acquire from the shareholders of Everspeed Technology Limited, the parent company of Everspeed Technology Group, 100% equity interest of Everspeed Technology Group for NT$1 from the shareholders of the parent of Everspeed Technology Group, Everspeed Technology Limited on September 30, 2016, 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 (borrowings offset by cash and cash equivalents) and equity (comprising share capital, capital surplus, retained earnings, and other equities).

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

Key management personnel of the Corporation review the capital structure on an annual basis. As part of this review, the key management personnel consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the key management personnel, in order to balance the overall capital structure, the 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, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic quoted shares	$ 67,095	$ -	$ -	$ 67,095
Beneficiary certificates - open-end funds	1,050,239	-	-	1,050,239
Convertible bonds	-	-	53,722	53,722
	$ 1,117,334	$ -	$ 53,722	$ 1,171,056
Available-for-sale financial assets				
Unlisted debt securities - ROC	$ -	$ -	$ 434,763	$ 434,763

December 31, 2016

	Level 1	Level 2	Level 3	Total
Financial assets at 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

There were no transfers between Levels 1 and 2 for the years ended December 31, 2017 and 2016.

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

For the year ended December 31, 2017

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

For the year ended December 31, 2016

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

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

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

b) The fair values of unlisted debt securities - ROC

December 31, 2017

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

December 31, 2016

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

Categories of Financial Instruments

	December 31	
	2017	**2016**
Financial assets		
Fair value through profit or loss (FVTPL)		
Held for trading	$ 1,171,056	$ 1,126,910
Loans and receivables (Note 1)	18,685,141	18,706,433
Available-for-sale financial assets (Note 2)	882,179	873,238
Financial liabilities		
Financial liabilities at amortized cost (Note 3)	3,646,739	4,438,593

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

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

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

Financial Risk Management Objectives and Policies

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

a. Market risk

The 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.

The carrying amounts of the Corporation's foreign currency denominated monetary assets and monetary liabilities (including those eliminated on consolidation) and of the derivatives exposed to foreign currency risk at the end of the reporting period are set out in Note 32.

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

	Impact of USD	
	For the Year Ended December 31	
	2017	**2016**
Profit or loss	$ 332,100	$ 333,029

2) Interest rate risk

The Corporation was exposed to interest rate risk because the Corporation 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	
	2017	**2016**
Fair value interest rate risk		
Financial assets	$ 4,334,994	$ 3,131,634
Cash flow interest rate risk		
Financial assets	8,440,053	10,442,287
Financial liabilities	-	580,500

Sensitivity analysis

If interest rates had been 1 basis point higher and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2017 and 2016 would have increased by approximately $844 thousand and $986 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 exposure to equity price risks at the end of the reporting period.

If equity prices had been 1% higher/lower, pre-tax profit for the years ended December 31, 2017 and 2016 would have increased/decreased by $11,711 thousand and $11,269 thousand, respectively. The pre-tax other comprehensive income for the years ended December 31, 2017 and 2016 would increase/decrease by $4,348 thousand and $3,721 thousand, respectively, as a result of the changes in fair value of held-for-sale investments.

b. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in a financial loss to the 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. The Corporation only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Corporation uses other publicly available financial information and its own trading records to rate its major customers. 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 amongst approved counterparties. Ongoing credit evaluations are performed on the financial condition of trade receivables.

The targets of the aforementioned evaluation are financial assets that could potentially be influenced by the 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, 2017 and 2016, the Corporation had available unutilized overdraft and short-term bank loan facilities of approximately $6,785,500 thousand and $2,892,500 thousand, respectively.

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

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, 2017				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
Non-derivative financial liabilities					
Non-interest bearing	$ 2,628,330	$ 2,397,428	$ 2,958,382	$ -	$ -

	December 31, 2016				
	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More Than 5 Years
Non-derivative financial liabilities					
Non-interest bearing	$ 2,211,826	$ 2,478,563	$ 2,560,008	$ -	$ -
Variable interest rate instruments	354,750	225,750	-	-	-
	$ 2,566,576	$ 2,704,313	$ 2,560,008	$ -	$ -

Information of Financial Asset Transfers

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

28. RELATED-PARTY TRANSACTIONS

Besides information disclosed elsewhere in the other notes, details of transactions between the Corporation and other related parties are disclosed below.

a. Related-party and its relationship

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

(Continued)

Related Party	Relationship
PMS Technology Corporation	Associates
Microtops Design Corporation	Associates
Epostar Electronics Corporation	Associates
Lian Xu Dong Investment Corporation	Subsidiaries
Phisontech Electronics (Malaysia) Sdn. Bhd.	Subsidiaries
Emtops Electronics Corp.	Subsidiaries
Ostek Corporation	Subsidiaries
Phisontech Electronics Taiwan Corp.	Subsidiaries
Hefei Core Storage Electronic Limited	Subsidiaries
Memoryexchange Corporation	Subsidiaries

(Concluded)

b. Operating revenue

	For the Year Ended December 31	
	2017	2016
Related-party categories		
Subsidiaries	$ 533,925	$ 496,916
Associates	22,380	33,279
Other related parties (Note 1)	1,855,850	2,070,973
	$ 2,412,155	$ 2,601,168

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

c. Operating costs

1) Purchases

	For the Year Ended December 31	
	2017	2016
Related-party categories		
Subsidiaries	$ 35,993	$ 901
Associates	293,119	318,003
Other related parties		
Toshiba Memory Taiwan Corporation	3,210,897	-
Toshiba Electronic Components Taiwan Corporation	12,335,671	18,853,531
Others (Note 1)	3,716,265	2,678,440
	$ 19,591,945	$ 21,850,875

2) Processing costs

	For the Year Ended December 31	
	2017	2016
Related-party categories		
Subsidiaries	$ 23,405	$ 22,094
Associates	1,330	13
Other related parties (Note 2)	1,387,601	3,039,291
	$ 1,412,336	$ 3,061,398

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

d. Receivables from related parties

	December 31	
	2017	2016
Related-party categories		
Subsidiaries	$ 17,891	$ 4,815
Associates	465	1,039
Other related parties (Note 1)	317,686	357,211
	$ 336,042	$ 363,065

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

e. Payables to related parties

	December 31	
	2017	2016
Related-party categories		
Subsidiaries	$ 5,188	$ 4,330
Associates	24,959	79,059
Other related parties		
Toshiba Electronic Components Taiwan Corporation	17	1,697,597
Toshiba Memory Taiwan Corporation	2,105,363	-
Others (Note 1)	430,199	342,735
	$ 2,565,726	$ 2,123,721

The outstanding trade payables from related parties are unsecured.

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

Note 2: The Corporation is the director of the related party.

f. Compensation of key management personnel

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	$ 280,848	$ 255,506
Post-employment benefits	1,436	1,310
Other employee benefits	4,869	5,561
	$ 287,153	$ 262,377

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 September 30, 2022.

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

	December 31	
	2017	2016
Not later than 1 year	$ 9,124	$ 4,049
Later than 1 year and not later than 5 years	25,076	70
	$ 34,200	$ 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, 2018.

For the years ended December 31, 2017 and 2016, the Corporation individually recognized a guarantee on trade receivables of $465 thousand and $510 thousand, respectively.

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

	December 31	
	2017	2016
Not later than 1 year	$ 3,163	$ 3,563

30. ASSETS PLEDGED

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

	December 31	
	2017	2016
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	$ 20,549	$ 20,503

31. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The Corporation's significant commitments and contingencies as of December 31, 2017 and 2016 were as follows:

Significant Commitments

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

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, 2017		
	Foreign Currencies	**Exchange Rates**	**New Taiwan Dollars**
Financial assets			
Monetary			
USD	$ 281,943	29.7600	$ 8,390,630
CNY	23,370	4.5650	106,684
Financial liabilities			
Monetary			
USD	95,955	29.7600	2,855,622

	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
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

33. OTHER SIGNIFICANT EVENT

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

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. (Table 2)

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

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

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital. (Table 4)

9) Trading in derivative instruments. (None)

10) Information of investees. (Table 5)

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 6)

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 7)

   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.

PHISON ELECTRONICS CORP.

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

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

(Continued)

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

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

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

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

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

(Continued)

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

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

Note 7: The Company is not limited by shares.

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

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

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

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

(Concluded)

TABLE 2

PHISON ELECTRONICS CORP.

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT$300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

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

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

TABLE 3

PHISON ELECTRONICS CORP.

TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% of Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Phison Electronics Corp.	Toshiba Electronic Components Taiwan Corporation	Sub-subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	$ 12,335,671	43	Net 30 days after monthly closing	None	None	$ (17)	-	-
	Toshiba America Electronic Components, Inc.	Subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	2,795,015	10	Net 30 days after receipt date	None	None	-	-	-
	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	293,119	1	Net 30 days after monthly closing	None	None	(24,959)	(1)	-
	Toshiba Memory America, Inc.	Subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	921,246	3	Net 30 days after receipt date	None	None	(324,096)	(9)	-
	Toshiba Memory Taiwan Corporation	Sub-subsidiary of parent company of the Corporation's legal entity board of directors	Purchase	3,210,897	11	Net 30 days after monthly closing	None	None	(2,105,363)	(58)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,043,145	3	Net 15 days after monthly closing	None	None	(85,934)	(2)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	344,456	1	Net 45 days after monthly closing	None	None	(20,169)	(1)	-
	Toshiba Corporation ("Toshiba-JP-SS")	Parent company of the Corporation's legal entity board of directors	Sale	(485,013)	(1)	Net 60 days after monthly closing	None	None	-	-	-
	Toshiba International Procurement Hong Kong Ltd. ("Toshiba-TIPH")	Subsidiary of parent company of the Corporation's legal entity board of directors	Sale	(314,516)	(1)	Net 60 days after monthly closing	None	None	144,108	2	-
	Toshiba Memory Corporation	The Corporation's legal entity board of directors	Sale	(876,187)	(2)	Net 60 days after monthly closing	None	None	79,556	1	-
	Dawning Leading Technology Inc.	The Corporation is its director	Sale	(172,914)	-	Net 30 days after monthly closing	None	None	93,889	2	-
	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	(518,402)	(1)	Net 30 days after monthly closing	None	None	17,135	-	-
Hefei Core Storage Electronic Limited	Power Flash (HK) Limited	Fellow subsidiary	Sale	(272,041)	(41)	Net 30 days after monthly closing	None	None	-	-	-

TABLE 4

PHISON ELECTRONICS CORP.

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period (Note)	Allowance for Impairment Loss
					Amount	Action Taken		
Phison Electronics Corp.	Toshiba International Procurement Hong Kong Ltd.	Subsidiary of parent company of the Corporation's legal entity board of directors	$ 144,108	3.6	$ -	-	$ 143,111	$ -

Note: As of March 1, 2018.

TABLE 5

PHISON ELECTRONICS CORP.

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

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2017	December 31, 2016	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Phison Electronics Corp.	Kingston Solutions Inc.	Taiwan	Embedded flash product and market development	$ 106,050	$ 106,050	10,605,000	32.91	$ 1,623,790	$ 1,441,523	$ 474,405	Equity-method investee
	Emtops Electronics Corporation	Taiwan	Sale of flash memory controllers and peripheral system applications	95,000	95,000	9,500,000	100.00	70,108	(3,843)	(3,843)	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	400,000	65,000,000	100.00	614,104	(8,914)	(8,914)	Subsidiary
	Flexmedia Electronics Corporation	Taiwan	R & D, sales and production of high-tech multimedia design	8,077	8,077	482,142	21.43	-	(10,900)	(1,063)	Equity-method investee
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	21,563	(5,405)	(2,648)	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	28,982	28,982	900	100.00	3,969	(5,577)	(5,577)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	665,823	635,696	21,000,000	100.00	626,167	15,890	15,890	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	91,422	81,771	10,000,000	100.00	62,707	5,686	5,368	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	47,741	(98,817)	(42,745)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	97,848	518	518	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	139,985	(15,318)	(15,318)	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	53,546	(8,482)	-	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	16,617	43,260	-	Equity-method investee
Phisontech Electronics (Malaysia) Sdn. Bhd.	Phisontech Electronics Taiwan Corp.	Taiwan	Design of ASIC and R & D, manufacture, and sale of ASIC for IP and technical support service	10,000	10,000	1,000,000	100.00	38,755	6,948	-	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	563,172	22,336	-	Sub-subsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2017			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2017	December 31, 2016	Number of Shares	Percentage of Ownership (%)	Carrying Amount			
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Trade of electronic products	$ 98,754	$ 98,754	3,000,000	100.00	$ 91,947	$ 1,035	$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Design and sale of flash memory related products	391,986	391,986	40,950,000	100.00	7,364	(6,154)	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,637	(40)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	11,277	(8,745)	-	Sub-subsidiary
Cloud Solution Global Limited	Asadhya Enterprises Private Limited	India	Trade of electronic products	611	611	122,255	49.00	-	(14)	-	Equity-method investee

(Concluded)

TABLE 6

PHISON ELECTRONICS CORP.

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

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

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

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

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

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

TABLE 7

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, 2017
(In Thousands of New Taiwan Dollars)

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

Phison Electronics Corp.

Chairman：KS Pua