Stock Code：8299

Phison Electronics Corporation

2018 ANNUAL REPORT

Notice to Readers

For the convenience of readers, the 2018 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 2018 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
Printedon May 24, 2019

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  Title: Project Manager

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- **Headquarters, Branches and Plant**

  Headquarter

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  Zhunan Branch and Plant

  Zhunan Branch Address:No.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.)

  Website: www.honsec.com.tw

  Tel: (02)2326-8818

- **Accounting Firm**

  Auditors: Dai Xin Wei and Fan Yu Wei

  Deloitte Touche Tohmatsu Limited

  Address: 20F., No. 100, Songren Rd., Xinyi Dist., Taipei City 110, Taiwan (R.O.C.)

  Website: www.deloitte.com.tw

  Tel: (02)2725-9988

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

Phison Electronics Corporation
2018 Annual Report
Contents

I. Letter to Shareholders

Dear Shareholders,

The year of 2018 is a year for Phison Electronics Corp. (the company) growing steadily and committing to innovation, and investment strategically and continuously. Due to the memory manufactors continues to expand production and the imbalance between supply and demand the flash memory prices was rapidly sliding. The net profit of the company was decline as a result, with the concerted efforts of all groups, the total consolidated revenue for 2018 was approximately NT$40.8 billion, the consolidated after-tax surplus earning was approximately NT$4.3 billion, and the after-tax EPS was NT$21.91.

In 2018, the company's SSD products and the related products of embedded memory, such as control chips and finished products accounted for 46% of the company's total revenue, marking a growth of 11 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.

The demand for high speed data storage applications such as Cloud Computing, Big Data, Artificial Intelligence and Gaming have pushed SSD penetration rates to a new pace never seen before. Phison has launched different NAND Flash controllers for different markets, including several PCIe Gen3x4 NVMe controllers and the World's 1st PCIe Gen4x4 NVMe SSD controller. For performance-oriented applications and the enterprise SSD market, Phison offers the 8-channel ultra-high speed, low latency PCIe Gen3x4 controller in mass production. For mobile storage, Phison is one of the few companies that carry both eMMC an UFS controllers, where power consumption and temperature are critical. The latest UFS 3.0 controller unveiled by Phison, with in-house technology such as StrongECCTM, advanced LDPC, CoProcessorTM and RAID, provides optimal power consumption and robust error correction capability while offering SSD-like performance. We also develop the PCIe NVMe BGA SSD as an alternative to high speed mobile storage. For memory cards, Phison has released the latest SD 6.0 and microSD controllers conforming to the SDA Application Performance Class 2 (A2), boosting the random performances while bumping up the capacity to 1TB. For the USB product line, it has evolved into several portable SSDs with unprecedented performance. For instance, the brand new iDUO Lightning and C-Thru USB 3.1 solutions can support end-users charging mobile devices during operation. All Phison product lines are supporting the latest 3D TLC NAND Flash from various manufacturers.

In fiscal year 2018, the following products have been successfully developed and launched, including:

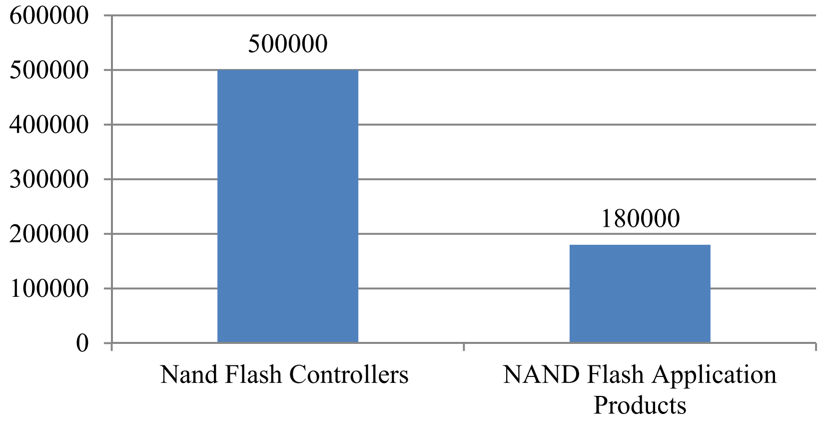
(1) Developed a lower power MIPI Gear 4 PHY as the host interface for the UFS Unipro flash memory controller chip.

(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.
(8) Developing the low-power RAID of advance error correction for mobile devices.
(9) Developing low-power yet high performance SSD controllers by supporting HMB feature leveraging host memory buffer.
(10) Developing SSD product solutions line up, in response to different requirements from various market segments, including embedded applications.
(11) Developing System-In-Package Nand flash modules.
(12) In compliance with industrial standards,including design and verification methodologies, developing functional modules for automotive applications.

In 2019, the Company plans to supplement and expand R&D personnel to 1,300 people approximately. The estimated shipment of major products in 2019 years is as follows:

In thousand pieces



The company's current product line for the new development or continuous upgrade in 2019 is as follows:

(1) High speed, high capacity USB 3.2 Flash Drive solutions.
(2) SD 7.0 (SD Express) controllers.
(3) UFS 3.1 controllers supporting 1.2GB/s NAND Flash.
(4) High performance PCIe NVMe controllers and solutions.
(5) 12nm PHYs.
(6) Enterprise and Datacenter SSD controllers.
(7) New LDPC ECC engines for emerging 3D QLC NAND Flash.
(8) System in Package SSD solutions.
(9) Automotive SSD solutions.

Looking ahead, by uphold the cores of the company culture, Phison Electronics is moving forward to comply with the changing global trends for continuously to expand the territory of the market and to stand the leadership in the market to achieve the goal of opearting the company stably.

Respectfully yours

Chairman of the Board: Pua Khein Seng

President: Aw Yong 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

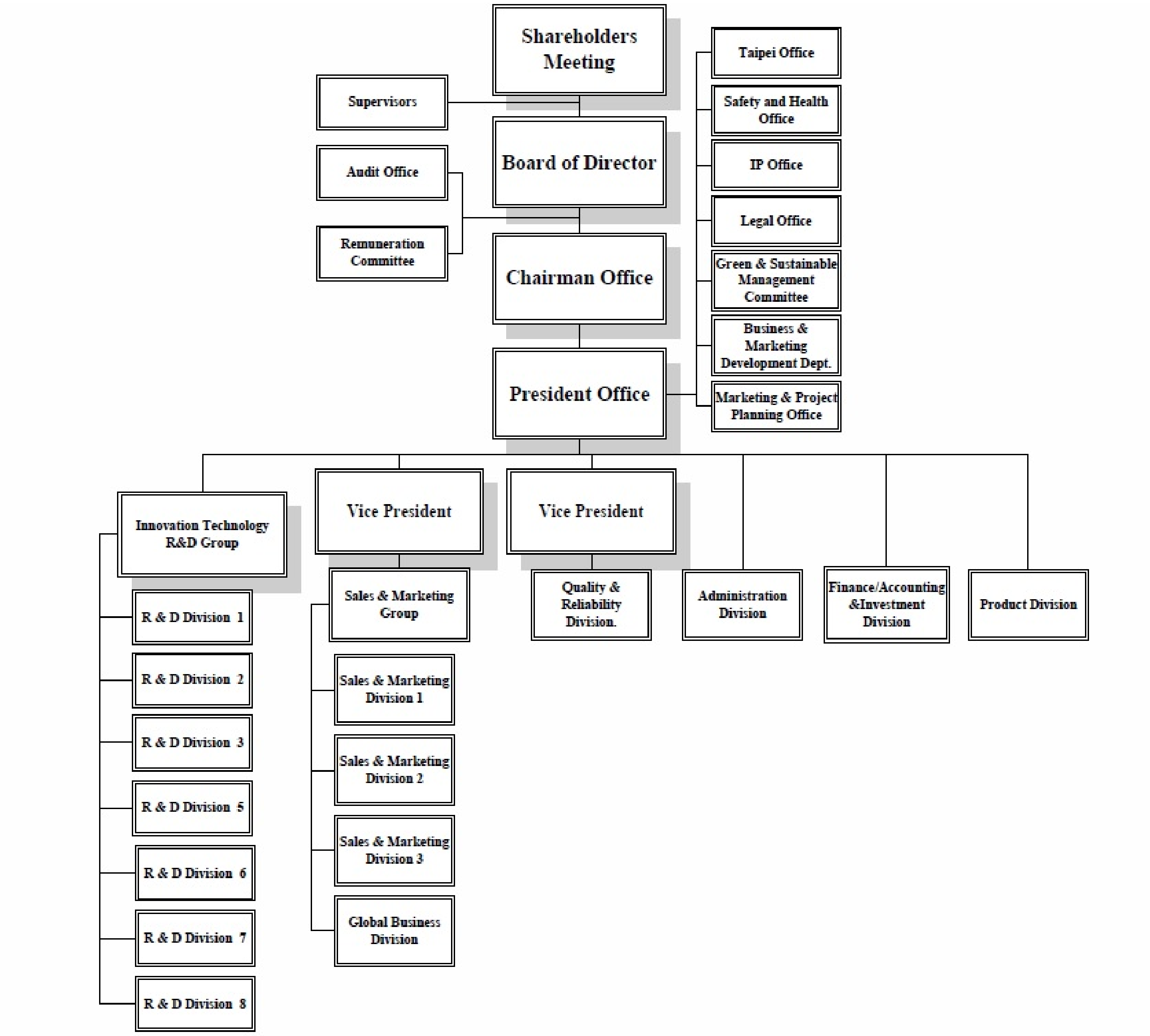
Year	Milestones
Feb, 2010	• Converting the employee stock option of NT$5,375,000 into the common stock. The paid-in capital was up to NT$1,472,647,860.
May, 2010	• Converting the employee stock option of NT$2,525,000 into the common stock. The paid-in capital was up to NT$1,475,172,860.
Jul, 2010	• Converting 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$2,815,000 into 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.
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 forthe 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.
Apr, 2018	• Launched World First 512GB microSD Card

Year	Milestones
Jun, 2018	• Announced Flagship PCIe Gen3x4 NVMe SSD Controller PS5012-E12, Targeting High-End NAND Storage Applications Such as Servers, Gaming, and Edge Computing
Aug, 2018	• Introduced UFS 3.0 Controller PS8317, Focusing on 5G Mobile Devices
Sep, 2018	• Released Latest 3D QLC NAND Storage Solutions, Announcing The TB Era is Coming
Jan, 2019	• World First PCIe Gen4x4 NVMe SSD Controller PS5106-E16 Revealed, Keeping Leading the Industry
Feb, 2019	• Successfully Upgrading Company Targets, Massively Focusing on AIoT, Automotive, Servers and High-End NAND Storage Application Markets

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 implementingand 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.
Marketing & Project Planning Office	In charge of theresearch , analysis, development strategy and marketing planning of the market, supervise and execute.
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 14/4/2019

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%	1,798,144	0.91%	MA in Electronic Control, National Chiao Tung University R&D Engineer, Feiya Technology Corp.	【Note 01】	N.A.	N.A.	N.A.
Director	Malaysia	Aw Yong 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 02】	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 03】	N.A.	N.A.	N.A.
Director	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 04】	N.A.	N.A.	N.A.
Director	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 05】	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 Company, Memory Division, Senior Fellow	【Note 06】	N.A.	N.A.	N.A.
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 Inc. President, Quanta Computer Inc.	【Note 07】	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 ChiaoTung University Director of EMBA in Taiwan, University of South Australia Review Committee Member of TWSE	【Note 08】	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	N.A	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
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 09】	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	N.A.	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.

【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,Emtops Electronics Corporation ;Directors Representative, Microtops Design Corporation, OSTEK Corporation ; Director, Phison Electronics Japan Corp., Power Flash (Samoa) Limited.

【Note 04】 Vice Technical President of Phison Electronics Corp., Director of Representative of PHISONTECH ELECTRONICS TAIWAN CORP..

【Note 05】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 06】 Toshiba Memory Corporation, Memory Division, Senior Fellow.

【Note 07】 Director, Janus Technologies, Inc, GIVE543 CO., LTD.,B Current Impact InvestmentCorp., Exyte AG, ; Independent Director, Casetek Holdings Limited, SIMPLO TCHNOLOGY CO.,LTD. ; Director Representative, Industrial Technology Investment Corporation.

【Note 08】 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, Original Biomedicals Co., Ltd.

【Note 09】 Director of Moores Rowland CPAs; Director of Taiwan Branch of Praxity Global Alliance of Independent Firms,Independent director,GIGABYTE TECHNOLOGY CO.,LTD.

Major shareholders of the institutional shareholders

As of 14/4/2019

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

Name of Institutional	Major Shareholders	Share Percentage
Toshiba Memory Holdings Corporation 【Note 1】	BCPE Pangea Cayman, L.P.	49.9%
	Toshiba Corporation	40.2%
	HOYA Corporation	9.9%

【Note 1】The above information is taken from the Toshiba Memory Holding Corporation website.

Professional qualifications and independence analysis of directors and supervisors

As of 14/4/2019

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 IndependentDirector
	An Instructor or Higher Positionin a Departmentof Commerce, Law, Finance, Accounting, orOther Academic Department Related to theBusiness Needs of the Company in a Public orPrivate Junior College, College or University	A Judge, Public Prosecutor, Attorney, CertifiedPublic Accountant, or Other Professional orTechnical Specialist Who has Passed a NationalExamination and been Awarded a Certificate ina Profession Necessary for the Business of theCompany	Have Work Experience in the Areas of Commerce,Law, Finance, or Accounting, or OtherwiseNecessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Pua Khein Seng			✓				✓	✓	✓	✓	✓	✓	✓	-
Aw Yong Chee Kong			✓				✓	✓	✓	✓	✓	✓	✓	-
Kuang Tzung Horng			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Hsu Chih Jen			✓			✓	✓	✓	✓	✓	✓	✓	✓	-
Toshiba Memory Corporation			✓	✓		✓	✓			✓	✓	✓		-
Toshiba Memory Corporation Representative: Hiroto Nakai			✓	✓	✓	✓	✓			✓	✓	✓		-
Wang, ChenWei			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Wang Shu Fen	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Wang Huei Ming		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Yang JiunnYeong			✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	-
Chen Chiun Hsiou			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-

【Note 1】Please tick the corresponding boxes that apply to thedirectors 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 ofoutstanding 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 thatprovides commercial, legal, financial, accounting services or consultationto 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 Article7 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.

3.2.2 Profile of Management Team

As of 14/4/2019

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%	1,798,144	0.91%	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	99,052	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	148,114	0.08%	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 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 ViceAssistantOfficer of Deloitte & Touch CPAs	【Note 09】	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 10】	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 11】	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 R&D Division 6	Taiwan	Chan Ching Wen	M	2019.01.25	11,000	0.01%	0	0.00%	0	0.00%	Doctor of Graduate Institute of Electrical and Computer Engineering, NCKU Project Manager ofCED Technology Inc	N.A.	N.A.	N.A.	N.A.
Director of R&D Division 8	Malaysia	Chin Chieh Chuan	M	2018.10.24	0	0.00%	0	0.00%	0	0.00%	Master of Graduate Institute of Electrical and Computer Engineering, NCTU	N.A.	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

【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 ofPower Flash (HK) Limited.

【Note 09】Director Representative of Lian Xu Dong Investment Corporation; Supervisor Representative of Phisontech Electronics Taiwan Corp. and Memoryexchange Corporation.

【Note10】Be appointed by EpoStar Electronics (BVI) Corporation as a Director Representative of EpoStar Electronics Corporation.

【Note 11】Supervisor of MicroTops Design Corporation; Director Representative of Emtops Electronics Corporation.

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

Remunerationof Directors (Independent Director Included)

Unit: NT$ thousands

Title	Name	Remuneration								Ratio ofTotal 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) toNet 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)		Severance Pay (F)【Note 4】		Employee Compensation (G)【Note 1】						
		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	The company		Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	
																Cash	Stock	Cash	Stock			
Chairman	Pua Khein Seng	300	300	0	0	28,000	28,000	0	0	0.66%	0.66%	66,187	66,187	342	342	39,300	0	39,300	0	3.11%	3.11%	N.A.
Director	Aw Yong Chee Kong																					
Director	Kuang Tzung Horng																					
Director	Hsu Chih Jen																					
Director	Toshiba Memory Corporation																					
Director	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 21 of 2019, this company will remunerate the employees (NT$ 550,000 thousand) and the directors/supervisors (NT$ 40,000 thousand). Up to this time, the employeelist 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 2018 is NT$4,318,119 thousand.

【Note 3】Up to this time, there is no employee stock option certificates, restricted employee stocks, and stocks of capital increase by cash in 2018.

【Note 4】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 (H)	The company	Companies in the consolidated financial statements(I)
Under NT$ 2,000,000	0	0	0	0
NT$2,000,001~NT$5,000,000	Pua Khein Seng, Aw Yong Chee Kong, Kuang Tzung Horng, Hsu Chih Jen, Wang Chen Wei, Wang Shu Fen, Toshiba Memory Corporation		Wang Chen Wei, Wang Shu Fe, Toshiba Memory Corporation	
NT$5,000,001~NT$10,000,000	0	0	0	0
NT$10,000,001~NT$15,000,000	0	0	Kuang Tzung Horng, Hsu Chih Jen	
NT$15,000,001~NT$30,000,000	0	0	0	0
NT$30,000,001~NT$50,000,000	0	0	0	0
NT$50,000,001~NT$100,000,000	0	0	Pua Khein Seng, Aw Yong Chee Kong	
Over NT$100,000,000	0	0	0	0
Total	7	7	7	7

Remuneration of Supervisors

Unit: NT$ thousands

Title	Name	Remuneration						Ratio of Total Remuneration(A+B+C) to Net Income (%)【Note 2】		Compensation Paid to Supervisors from an Invested Company Other than the Company's Subsidiary
		Base Compensation (A)		Bonus to Supervisors (B)【Note 1】		Allowances (C)				
		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	
Supervisor	Yang Jiunn Yeong	0	0	12,000	12,000	0	0	0.28%	0.28%	N.A.
Supervisor	Wang Huei Ming									
Supervisor	Chen Chiun Hsiou									

【Note 1】According to the resolutions made at the board of director meeting on Mar 21 of 2019, this company will remunerate the bonus to directors/supervisors total amount of NT$ 40,000 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 2018 is NT$4,318,119 thousand.

Table of Range of Remuneration

Range of Remuneration	Name of Supervisors	
	Total of (A+B+C)	
	The company	Companies in the consolidated financial statements (D)
Under NT$ 2,000,000	0	0
NT$2,000,001~NT$5,000,000	Yang JiunnYeong, Wang Huei Ming, Chen Chiun Hsiou	Yang JiunnYeong, Wang Huei Ming, Chen Chiun Hsiou
NT$5,000,001~NT$10,000,000	0	0
NT$10,000,001~NT$15,000,000	0	0
NT$15,000,001~NT$30,000,000	0	0
NT$30,000,001~NT$50,000,000	0	0
NT$50,000,001~NT$100,000,000	0	0
Over NT$100,000,000	0	0
Total	3	3

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	20,667	20,667	450	450	51,681	51,681	40,500	0	40,500	0	2.62%	2.62%	N.A
President	Aw Yong 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 21 of 2019, this company will remunerate the employees total amount of NT$ 55,000 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 2018 is NT$4,318,119 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 2018.

Table of Range of Remuneration

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

Remuneration of Management Team

As of 21/3/2019; 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	60,500	60,500	1.40%
	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				
	Director of Innovation Technology R&D Group-R&D Division 6	Chan Ching Wen				
	Director of Innovation Technology R&D Group-R&D Division 8	Chin Chieh Chuan				

【Note 1】According to the resolutions made at the board of directors meeting on Mar 21 of 2019, this company will remunerate the employees total amount of NT$ 55,000 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 2018 is NT$4,318,119 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
	2017		2018			
	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements		
Directors	2.58%	2.58%	3.11%	3.11%	0.53%	0.53%
Supervisors	0.31%	0.31%	0.28%	0.28%	(0.03%)	(0.03%)
President and Vice President	1.88%	1.88%	2.62%	2.62%	0.74%	0.74%

Note: The Profit after tax of 2017 and 2018 are NT$5,760,972 thousand and NT$4,318,119 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 2018 is NT$ 5,590,352,737 (profit means the pre-tax income before the employee remuneration and the Director/Supervisor remuneration are rewarded). The board of directors on Mar 21, 2019 decided that this company will remunerate the employees (NT$ 550,000,000 in total; 9.84% of the profit) and the directors/supervisors (NT$ 40,000,000 in total; 0.72% of the profit).The remuneration will be rewarded in cash and these decisions will be reported to the regular shareholders' meeting on June12 of 2019.
- The analysis andcomparison of remuneration for Directors, Supervisors, Presidents and Vice Presidents in the most recent two fiscal years is listed in this section.
  The percentage of total payment of remuneration of directors to individual financial reports in 2018 is growth compared with 2017. Mainly due to the Company increased the remuneration of directors because while the market pricing sharply slipped the directors still performed a well result by stable profitability and operation. The percentage of total payment of remuneration of supervisors to individual financial reports in 2018 is decreased compared with 2017 is because of the net profit of 2018 is less than 2017. The percentage of total payment to the compensation of key management to individual financial reports in 2018 is increased compared with 2017 is due to the Company increased the compensation of key management because the key management contributed a well result by stable profitability and operation in 2018.
  The percentage of total payment of remuneration of directors to individual financial reports in 2018 is growth compared with 2017. Mainly due to the Company increased the remuneration of directors because while the market pricing sharply slipped the directors still performed a well result by stable profitability and operation. The percentage of total payment of remuneration of supervisors to individual financial reports in 2018 is decreased compared with 2017 is because of the net profit of 2018 is less than 2017. The percentage of total payment to the compensation of key management to individual financial reports in 2018 is increased compared with 2017 is due to the Company increased the compensation of key management because the key management contributed a well result by stable profitability and operation in 2018.

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 submitted to board of directors for discussion and approval.

3.4 Implementation of Corporate Governance

Board of Directors

A total of 9 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	0	100.00%	N.A
Director	Aw Yong Chee Kong	5	3	55.56%	N.A
Director	Kuang Tzung Horng	8	0	88.89%	N.A
Director	Hsu Chih Jen	9	0	100.00%	N.A
Director	Representative: Hiroto Nakai; Toshiba Memory Corporation	2	7	22.22%	N.A
Independent Director	Wang Shu Fen	9	0	100.00%	N.A
Independent Director	Wang Chen Wei	6	3	66.67%	N.A
Supervisor	Yang Jiunn Yeong	5	0	55.56%	N.A
Supervisor	Wang Huei Ming	9	0	100.00%	N.A
Supervisor	Chen Chiun Hsiou	9	0	100.00%	N.A

The attendance of Independent director in 2018 were as follows:

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

2018	7th Meeting of The Eighth Term	8th Meeting of The Eighth Term	9th Meeting of The Eighth Term	10th Meeting of The Eighth Term	11th Meeting of The Eighth Term	12th Meeting of The Eighth Term	13th Meeting ofThe Eighth Term	14th Meeting ofThe Eighth Term	15th Meeting ofThe 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
2018.01.31	7th Meeting of The Eighth Term	The List of first issuing Employee Stock Option under the "FY2017 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.
2018.03.16	8th Meeting of The Eighth Term	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.
2018.05.11	10th Meeting of The Eighth Term	To approve the revisions of internal control systems to "Organization Articles of the Employee Welfare Committee" and "Implementation Rules of the Employee Welfare Committee"	Proposal was approved as proposed	The motion was approved.
2018.07.27	12th 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 2017 and the Performance Incentive Bonus and the Employee Compensation during 2017 for managerial officers	Proposal was approved as proposed	The motion was approved.
2018.11.13	15th Meeting of The Eighth Term	The proposal of "FY2018 Employee Stock Option Plan"	Proposal was approved as proposed	The motion was approved.
		The proposal of the "2019 Annual Audit Plan"	Proposal was approved as proposed	The motion was approved.
		Amendment to the "Authorizing Table"	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】
2018.01.31	The List of first issuing Employee Stock Option under the "FY2017 Employee Stock Option Plan" for managerial officers	Director of Kuang Tzung Horng 、Hsu Chih Jen	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 、Hsu Chih Jen	Interested party of the discuss motion	No
2018.07.27	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisors during 2017 and the Performance Incentive Bonus and the Employee Compensation during 2017 for managerial officers	Director of Pua Khein Seng、Aw Yong Chee Kong、Kuang Tzung Horng 、Hsu Chih Jen 、Toshiba Memory Corporation; 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 page 50- page 52 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 disclosedon 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 9 meetings of the Board of Directors were held in the 2018. The attendance of supervisors was as follows:

Title	Name	Actual Attendance	Percentage of Actual Attendance (%)	Remark
Supervisor	Yang Jiunn Yeong	5	55.56%	N.A
Supervisor	Wang Huei Ming	9	100.00%	N.A
Supervisor	Chen Chiun Hsiou	9	100.00%	N.A

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: The Company 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 statusas 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, resolutionsof the directors' meetings and the company's response to the supervisor's opinion should be specified: None.

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 thoseshares?	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. However, in practice, the Company board of directors invites professionals with different backgrounds to serve, in order to make the board members more diversified, the directors of the Company have the necessary knowledge, skills and literacy to carry out their business, and each has their own special expertise in their respective fields. It has certain benefits for the company's development and operation. The Company's current board of directors are seven seats. 1.There are one female director and be independent director. The female accounted for 14.29% of all directors; the average age is 67 years old; the male member is 85.71%; the average age is 53.83 years old. The average age of all directors is 55.7 years old. 2. In addition to Taiwanese directors, there is a legal person and legal representative in Japan, with the company's leading position in the industry. 3.Directors Member：Composed of MA in Electronic Control, National Chiao Tung University, Master of Business Administration of Greenwich University, Department of Computer Science of Chung Yuan Christian University, Toshiba Memory Corp. and Bachelor of Earth Resources Engineering of Tohoku University. 4.Independent director members:：Composed of Ph.D. in Finance, University of Houstonand CEO, Quanta	(1). 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	
			Computer lnc.	
(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 season 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 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	(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	
			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 25 of 2019, the board of directors came to a conclusion that the independence and eligibility of CPAs are qualified.	(4). No major deviation.
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	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	
			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 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. 5.Affairs relating to investor relations： To ensure the shareholders' rights, this company has spokesman, deputy spokesman, shareholders	

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			service dept. and legal office to deal with the suggestions and conflicts. This company also establishesan 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: 1. For employees: 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. 2. For customers: Phone calls and emails are sent every day. Customer satisfaction surveys are conducted every year. Customer telephone lines are set up for communication. 3. For suppliers: There is an online platform for suppliers and evaluations are conducted every half year. 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:	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	
			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 kuoting_lu@phison.com d. Refer to Market Observation Post System for relevant information.	(2) No major deviation.
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	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	
			Association/Employee Assistance Service Center", after Sep 2018 was changed by "Newmind EAP Consultation Co., Ltd" 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 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 2018 were listed in page 50-page 52 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 Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			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 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. c. The Company established the "Information Security	

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			Committee" in July 2017 to take charge of information security management, planning, supervision and implementation, and set up "Information Security Management Policy", "QW220010 Information System Change Management Specification", "QW220011 Server Host Management Specifications", "QW220006 System Development and Maintenance Management Specifications", etc. The committee, has obtained the BSI British Standards Association ISO27001 international security certificate, will hold reviewing meeting annually to improve information security and applicability of evaluation, keeps strengthen colleagues and organization over information security protection and establishes joint defense mechanism with vendors or partners in future. E. Environment risk(Plant Affairs Department) a. To evaluate the effects of operations on the natural environment, security and employee health. b. By continuous hazardidentifications and risk evaluation, this company can control the risk at the tolerant level to protect environment from hazards. (7) Implementation of customer service: The company's website is provide contact information for customers and dedicated area for stakeholders to send complaints. (8) Buying liability insurances for directors and supervisors:	

Evaluation Item	Implementation Status			Deviations from "the Corporate Governance Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
			According to the Article 16.2 of the company, "This company should buy liability insurances 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 54 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
1.2	Dose the company on the day of the shareholders' meeting, the results of the shareholders' consent, opposition and waiver of each proposal will be entered into the designated Internet information reporting system?	The company has entered into the designated Internet information reporting system on the date of the 2018 annual shareholders' meeting (2018.06.08) on the date of approval, opposition and waiver of the shareholders of each proposal.	N.A.
2.11	Does the company explain in detail the reasons for discussion and resolution of the Compensation and Remuneration Committee, and the company's handling of member opinionson the company annual report?	The company has disclosed the reasons for the discussion and resolution of the Remuneration Committee and the company's handling of the opinions of the members in the 2018 annual report.	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?	The independent directors and accountant of the company has communicated in a meeting manner for the annual corporate financial reports and financial business status etc.	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	
2.22	Does the company evaluate the performance of the board of directors' on a regular basis (at least once per year) and disclose the result on the company website or annual report?			The 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." 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'.	The company will be improving on the criteria of the assessment indicators.
2.4	Dose the company establish information security risk management framework, set information security policies and specific management planson the company website or annual report?			The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation.The committee, has obtained the BSI British Standards Association ISO 27001 international security certificate, will hold reviewing meeting annually to improve information security and applicability of evaluation.	N.A.
3.5	Does the company upload the English annual financial report 7 days before the regular shareholders' meeting?			The company will upload the English annual financial report 7 daysbefore the 2019 regular shareholders' meeting.	The company will be improving on the criteria of the assessment indicators.
3.20	Does the company invited (self) to hold at least two road shows, and the first two interpretations of the road shows will be separated by more than three months?			The company has hold two time road shows on April 27 2018 and Septemper 4 2018, the two times road shows are separated by more than three months	N.A.
4.9	Does the company disclose the employee welfare, retirement system and the implementation on the website?			The company has disclosed the employee welfare, retirement system, and the implementation on the website from 2017.	N.A.

Composition, Responsibilities and Operations of the Remuneration Committee

Professional Qualifications and Independence Analysis of Remuneration Committee Members

As of 14/4/2019

Title 【Note2】	Criteria / Name	Meets One of the Following Professional Qualification Requirements, Together with at Least Five Years'Work Experience			Independence Criteria 【Note2】								Number of Other Public Companies in Which the Individual is Concurrently Serving as aRemuneration Committee Member	Remarks
		An instructor or higher positionin a departmentof 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, CertifiedPublic Accountant, or other professional or technical specialist who has approved a national examination and been awarded a certificate ina profession necessary for the business of theCompany	Haswork 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	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	2	【Note 3】
Independent Director	Wang ChengWei			✓	✓	✓	✓	✓	✓	✓	✓	✓	2	
Other Member	Chung Wen Chiu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	0	

【Note 1】 Please fill in the Title box as directors, independent directors or other member.

【Note 2】 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 ofoutstanding 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 consultationto 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.

【Note 3】 The Committee shall exercise the care of a good administrator to faithfully perform the following duties and present its recommendations to the board of directors for discussion.

However, recommendations regarding compensation for supervisors may be submitted to the board of directors for discussion only when the board of directors is expressly authorized to resolve on that matter by the articles of incorporation or by a resolution of the shareholders meeting：

1.Periodically reviewing this Charter and making recommendations for amendments.

2. Establishing and periodically reviewing the annual and long-term performance goals for the directors, supervisors, and managerial officers of this Corporation and the policies, systems, standards, and structure for their compensation.

3.Periodically assessing the degree to which performance goals for the directors, supervisors, and managerial officers of this Corporation have been achieved, and setting the types and amounts of their individual compensation.

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 6Remuneration Committee meetings were held in 2018. 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	6	0	100.00%	N.A.
Committee Member	Wang Cheng Wei	4	2	66.67%	N.A.
Committee Member	Chung Wen Chiu	6	0	100.00%	N.A.

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.

If any of the following date of the remuneration committee meetings, discussion proposal, resolution and the company handles the opinions of remuneration committee meetings' member

Date	Discussion Proposal	Resolution	The company handles the opinions of Remuneration Committee Meetings' member
2018.01.23 (2nd Meeting of The Third Term)	The List of first issuing Employee Stock Option under the "FY2017 Employee Stock Option Plan" for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	Amendment to the" Payroll Regulation"	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the	Members have no opinion

Date	Discussion Proposal	Resolution	The company handles the opinions of Remuneration Committee Meetings' member
		board of director's meeting.	
2018.03.08 (3rd Meeting of The Third Term)	The consideration of the remuneration of board of directors and the employee compensation for managerial directors during 2017	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	Review the modifiedproposal for the Compensation of Performance Incentive Bonusduring second half of 2017 for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	Review the amendment to the "Payroll Regulation" for Employees"	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
2018.05.11 (4th Meeting of The Third Term)	The performance evaluation for managerial officers as well as the proposal for the fixed annual salary adjustment for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	To approve the revisions to the partial articles of Regulations for「Employee Meal Management」	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
2018.06.07 (5th Meeting of The Third Term)	Review the Special Performance Evaluation for managerial officers as well as the proposal for the Compensation of Project Performance Incentive Bonusduring Q1 of 2018 for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
2018.07.27 (6th Meeting of The Third Term)	Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisorsduring 2017 and the Performance Incentive Bonus and the Employee Compensation during 2017 for managerial officers	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
	The meeting schedule of the Remuneration Committee for the year 2019	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion
2018.10.24 (7th Meeting of The Third Term)	Reviewing the new managerial officers, to be submitted by the company, for the remuneration pre-examination executed by the Remuneration Committee	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion

Date	Discussion Proposal	Resolution	The company handles the opinions of Remuneration Committee Meetings' member
	Review the Remuneration of the managerial officers to be newly appointed	After being requested by the chairman of the remuneration committee meeting, all members present passed this motion unanimously. Additionally, this motion shall be discussed by the board of director's meeting.	Members have no opinion

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 reporting to the board?	V		(3). This company has established the dedicated "Green and Sustainability Management Committee" to fulfill corporate social responsibility.	(3). No major deviation.
(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				

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). 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 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 affiliatesto lower the risks of occupational health and safety. This	(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	
			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 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 684,461 megajoules (1 kWh = 3.6 megajoules). This company strictly enforced all kinds of energy-saving measures and examined greenhouse gases on	(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	
			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 proceduresaccording 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, Employee opinion mailbox, irregularseminars, new employee survey, sex harassment mailbox and interdepartmental meetings to keep a good communication and a friendly relationship with its employees. In the behavioral guidance manual, the appeal channel and mechanism arewell documented.	(2). No major deviation.
(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	(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	
			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 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, Papsmear, gynecology ultrasonic examination, and breast	

Evaluation Item	Implementation Status			Deviations from "the Corporate Social Responsibility Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Explanation	
			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. From 2011, we also collaborate with Hsinchu Lifeline to provide counselling for their problems and pressure and after Sep 2018 was changed by Newmind EAP Consultation Co., Ltd. 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. E. As for the details of safe and healthy working environment, please refer to the corporation website www.phison.com/Corporate Sustainability Report/2017 Corporate Sustainability Report/Section 7.6 Workplace Health and Safety (P067).	
(4). Does the company setup a communication channel with employees on a regular	V		(4). This company holds employee forums on irregular basis to explain the operation to its	(4). 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	
basis, as well as reasonably inform employees of any significant changes in operations that may have an impact on them?			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/2017 Corporate Sustainability Report/Section 7.5 Employee Communications(P065).	
(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/2017 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 relevant regulations and international standards?	V		(7). This company labels all necessary information on the packages and user manuals of 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.	(7).No major deviation.
(8). Does the company evaluate the records of suppliers' impact on the environment	V		(8). This company takes the environment protection and social protection very seriously.	(8). 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 society before taking on business partnerships?			We will choose the suppliers based on the same standard and check their conformity on a regular basis.	
(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 2017 "Corporate Sustainability Report" was published based on the principle of The GRI-101 Content Index and The AA1000 AccountAbility Principles Standards. This report was posted on the website in June of 2018. Please refer to page 54 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.

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

(1) Environmental Protection

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, Authorizationand 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/2017 Corporate Sustainability Report/Section

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

8Environmental Responsibility (P070).

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

A. Charitable Donations: Total amount of 2018 Phison's cash donations to academic institutions and social welfare organizations was 15.19 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 chunan elementary school,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 23 charity sales in 2018.
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 years. 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 understand, accept and support them.

D. As for the charity events, please refer to the corporation website www.phison.com/Corporate Sustainability Report/2018 Corporate Sustainability Report/Section 9 Spreading Good will (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

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

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/2017 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" was completed based on the standard of GRI-101 and AA1000 and posted on the website in June of 2018.

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 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.	(1). No major deviation.
(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				

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) 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 corporate integrity?	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 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.	(2).No major deviation.
(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	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.

Evaluation Item	Implementation Status			Deviations from "the Ethical Corporate Management Best-Practice Principles for TWSE/TPEx Listed Companies" and Reasons
	Yes	No	Abstract Illustration	
integrity?				
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 confidential reporting on investigating accusation cases?	V		(2). In the communication protocol of this company, all personnel should keep the informant data confidential.	(2).No major deviation.
(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 "The Ethical Corporate Management Best Practice Principles". 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 Endorsement and Guarantee Procedures for Lending Funds to Other Parties 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 2018

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2018
			From	To				
Director	Pua Khein Seng	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Director	Aw Yong Chee Kong	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Director	Kuang Tzung Horng	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance	Analysis of 2018 Amendment to the Company Act of	3.0	

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2018
			From	To				
					Association	Taiwan		
Director	Hsu Chih Jen	2017/06/13	2018/04/13	2018/04/13	Taiwan Academy of Banking and Finance	Corporate Governance Forum-Family business heritage	3.0	12
			2018/09/19	2018/09/19	Taipei Exchange	Insider of General Stock Board Listed and Emerging Stocck Board Listed Companies'Insider's Equity propaganda	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Juridical Director and Representative	Hiroto Nakai	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Independent Director	Wang Shu Fen	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Independent Director ndent Director	Wang Chen Wei	2017/06/13	2018/03/05	2018/03/05	Taiwan Depository & Clearing Corporation	100% Electronic voting and Company value improvement	6.0	12
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate	Analysis of 2018 Amendment to the	3.0	

Title	Name	Date Elected	Study period		Sponsoring Organization	Course	Training hours	Training hours in 2018
			From	To				
					Governance Association	Company Act of Taiwan		
Supervisor	Yang Jiunn Yeong	2017/06/13	2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	6
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Supervisor	Wang Huei Ming	2017/06/13	2018/07/06	2018/07/06	CPA Association R.O.C. (Taiwan)	The resolve of latest tax laws and regulations released in the first half of 2018	7.0	19
			2018/08/08	2018/08/08	CPA Association R.O.C. (Taiwan)	The common defects of the evaluation reports of financial instruments	3.0	
			2018/08/08	2018/08/08	CPA Association R.O.C. (Taiwan)	The common defects of the working paper of evaluation reports	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	
Supervisor	Chen Chiun Hsiou	2017/06/13	2018/05/28	2018/05/28	Taiwan Corporate Governance Association	“Artificial intelligence is coming” and “Reverse Business Times”	3.0	9
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Corporate Governance and Legal Responsibilities of Directors, Officers and Supervisors	3.0	
			2018/11/13	2018/11/13	Taiwan Corporate Governance Association	Analysis of 2018 Amendment to the Company Act of Taiwan	3.0	

Advanced Trainings of Management Team on Governance in 2018

Title	Date of Training	Sponsoring Organization	Course	Training hours
Accounting Director	2018/11/22-2018/11/23	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hrs.
Deputy Accounting Director	2018/11/22-2018/11/23	Accounting Research and Development Foundation	Training Program of Principal Accounting Officers of Issuers, Securities Firms, and Securities Exchanges	12hrs
Prepare financial report related accounting personnel	2018/11/22-2018/11/23	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 2018

Title	Date of Training	Sponsoring Organization	Course	Training hours
Audit Director	2018/09/13	The Institute of Internal Auditors-Chinese Taiwan	The knowledge of labor law that auditors should have - from recruitment to separation.	6hrs.
Audit Director	2018/10/26	The Institute of Internal Auditors-Chinese Taiwan	Auditing practice and ethics discussion	6hrs.
Audit Director	2018/11/01	The Institute of Internal Auditors-Chinese Taiwan	How internal auditors interpret business performance and risks from IFRS financial statements.	6hrs.
Deputy Auditor	2018/05/14-2018/05/16	The Institute of Internal Auditors-Chinese Taiwan	Pre-employment training workshop for internal auditors	18hrs
Deputy Auditor	2018/10/01	The Institute of Internal Auditors-Chinese Taiwan	The knowledge of labor law that auditors should have - from recruitment to separation.	6hrs.
Deputy Auditor	2018/10/11	The Institute of Internal Auditors-Chinese Taiwan	Significant financial frauds (defalcation of company assets , insider trading, benefits transfer, manipulation of stock price, irregular transactions, etc.) and legal risks.	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	2017/01/12~2018/01/12
All directors and supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2018/01/12~2019/01/12
All directors and supervisors	Fubon Insurance Co., Ltd.	USD 20,000,000	2019/01/12~2020/01/12

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-101 and AA1000	Disclosed on the website in June of 2018.
2018	Conforming to the principles of GRI-101 and AA1000	It will be completed in June of 2019.

Internal Control Statement

PHISON ELECTRONICS CORPORATION
Internal Control System Statement

Date: March 21, 2019

The Company states the following with regard to its internal control system during fiscal year 2018, 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, 2018 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 21, 2019, where none of the seven attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

PHISON ELECTRONICS CORPORATION

Chairman: (signature)

President: (signature)

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="6">2018.06.08
(Regular shareholders' meeting)</td><td>Recognition Matters
（by board of directors）</td><td></td></tr>
<tr><td>Adoption of the 2017 Business Report and Financial Statements</td><td>The 2017 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 16, 2018 in the board of directors.
The information of the 2017 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>$41,773,532</td><td>$41,864,759</td></tr>
<tr><td>Gross Profit</td><td>11,449,095</td><td>11,499,622</td></tr>
<tr><td>Operating Income</td><td>6,723,101</td><td>6,731,692</td></tr>
<tr><td>Profit Before Income Tax</td><td>6,713,205</td><td>6,717,870</td></tr>
<tr><td>Net Profit For The Year</td><td>5,760,972</td><td>5,761,290</td></tr>
<tr><td>Total Comprehensive Income</td><td>5,816,473</td><td>5,818,699</td></tr>
<tr><td>EPS(Basic)</td><td>NT$ 29.23</td><td>NT$ 29.23</td></tr>
</table></td></tr>
<tr><td>Adoption of the Proposal for Distribution of 2017 Profits</td><td>The Ex-Dividend date of cash dividend is on Jul 4, 2018 and Cash dividend payment day is on Jul 26, 2018. (The proportion is NT$17 every share for shareholder cash dividends).</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 Mar 21, 2019 in the board of directors and will be reported to the 2019 shareholders' meeting.</td></tr>
</table>

Important Resolutions by Board Mattings

<table>
<tr><th>Date</th><th>Resolution</th><th>Implementation</th></tr>
<tr><td rowspan="2">2018.06.08
11th Meeting of the eighth term</td><td>（Proposed by the Remuneration Committee） Review the Special Performance Evaluation for managerial officers as well as the proposal for the Compensation of Project Performance Incentive Bonusduring Q1 of 2018 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>For the matters regarding FY2017 cash dividends distribution</td><td>The Ex-Dividend date of cash dividend is on Jul 4, 2018 and Cash dividend payment day is on Jul 26, 2018. (The proportion is NT$17 every share for shareholder cash dividends).</td></tr>
<tr><td rowspan="2">2018.07.27
12th Meeting of the eighth term</td><td>（Proposed by the Remuneration Committee）Review the Performance Evaluation for directors, supervisors and managerial officers as well as the proposal for the Compensation of directors, supervisorsduring 2017 and the Performance Incentive Bonus and the Employee Compensation during 2017 for managerial officers</td><td>This proposal by Remuneration Committee has been approved by board of directors and has been implemented.</td></tr>
<tr><td>（Proposed by the Remuneration Committee）The meeting schedule of the Remuneration Committee for the year 2019</td><td>This proposal by Remuneration Committee has been approved by board of directors and has been implemented.</td></tr>
<tr><td rowspan="3">2018.08.13
13th Meeting of the eighth term</td><td>Consolidated Financial Statements for the Six Months Ended June 31, 2018 and 2017</td><td>The consolidated financial statements of the 2nd quarter of 2018 have been approved on Aug 13, 2018 in the board of directors.
The information of the consolidated financial statements of the 2nd quarter of 2018 is as follows (in thousand in NT$):(2018/01/01-2018/06/30)
<table>
<tr><th>Statement / Category</th><th>Consolidated Statements of Comprehensive Income</th></tr>
<tr><td>Operating Revenue</td><td>19,628,699</td></tr>
<tr><td>Operating Income</td><td>2,311,231</td></tr>
<tr><td>Profit Before Income Tax</td><td>2,626,710</td></tr>
<tr><td>Net Profit For The Year</td><td>2,118,499</td></tr>
<tr><td>Total Comprehensive Income For The Year</td><td>2,057,174</td></tr>
<tr><td>EPS(Basic)</td><td>NT$10.75</td></tr>
</table></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="3">2018.10.24
14th Meeting of the eighth term</td><td>（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</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）Review the Remuneration of the managerial officers to be newly appointed</td><td>This proposal by Remuneration Committee has been approved by board of directors and has been implemented.</td></tr>
<tr><td>For the operations and business development needs, the Company</td><td>This resolution has been implemented.</td></tr>
</table>

<table>
<tr><th>Date</th><th>Resolution</th><th>Implementation</th></tr>
<tr><td rowspan="2"></td><td>invested not more than U.S. $6,300 thousands indirectly increase invested 100% subsidiary “Regis Investment (Samoa) Limited” in Samoa and re-investment the subsidiary “RealYou Investment Limited” in Hong Kong</td><td></td></tr>
<tr><td>For the operations and business development needs, the Company plan to invest not more than U.S. $6,300 thousands indirectly invested in a new set up HOSIN Global Electronics Co., LTD.(tentatively the company name) in Shenzhen, Guangdong Province, China</td><td>This resolution has been implemented.</td></tr>
<tr><td rowspan="7">2018.11.13
15th Meeting of the eighth term</td><td>Consolidated Financial Statements for the Nine Months Ended September 30, 2018 and 2017</td><td>It has been approved on Nov 13, 2018 in the board of directors. The information of the consolidated financial statements of the 3rd quarter of 2018 is as follows: (in thousand in NT$)(2018/01/01-2018/09/30)
<table>
<tr><th>Statement
Category</th><th>Consolidated Statements of Comprehensive Income</th></tr>
<tr><td>Operating Revenue</td><td>30,665,532</td></tr>
<tr><td>Operating Income</td><td>3,849,053</td></tr>
<tr><td>Profit Before Income Tax</td><td>4,105,625</td></tr>
<tr><td>Net Profit For The Year</td><td>3,521,577</td></tr>
<tr><td>Total Comprehensive Income For The Year</td><td>3,354,821</td></tr>
<tr><td>EPS(Basic)</td><td>NT$17.87</td></tr>
</table></td></tr>
<tr><td>The Company proposal to issue 2018 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 1070344165 letter on Nov. 28, 2018.</td></tr>
<tr><td>Phison plan to make additional equity investment in cash in 100%-owned subsidiary Global Flash Limited and transfer this fund to invest in Core Storage Electronic (Samoa) Limited and re-investment the subsidiary in China Hefei Core Storage Electronic Limited</td><td>This resolution has been implemented.</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 “2019 Annual Audit Plan”</td><td>This resolution has been implemented.</td></tr>
<tr><td>Amendment to the “Authorizing Table”</td><td>This resolution has been implemented.</td></tr>
<tr><td rowspan="2">2019.01.25
16th Meeting of the eighth term</td><td>（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</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）Review the Remuneration of the managerial officers to be newly appointed</td><td>This proposal by Remuneration Committee has been approved by board of directors and has been implemented.</td></tr>
</table>

Date	Resolution	Implementation
	（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.
	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.
	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.
2019.03.21 17th Meeting of the eighth term	The 2018 employee compensation payment and director remuneration	This resolution has been implemented and will be reported to 2019 shareholders' meeting.
	（Proposed by the Remuneration Committee）The consideration of the remuneration of board of directors and the employee compensation for managerial directors during 2018	This proposal by Remuneration Committee has been approved by board of directors and has been implemented.
	The business operation report and the financial statements of the Company for Year 2018	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for recognition.
	Adoption of the Proposal for Distribution of 2018 Profits	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for recognition.
	To discuss and approve the Company's 2019 business plan	This resolution has been implemented.
	Amendment to part of the Articles of Association of the Company	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for discussion.
	Amendment to part of the "Procedures for Acquisition or Disposal of Assets", "Procedures for Engaging in Derivatives Trading", "Procedures for Lending Funds to Other Parties", "Procedures for Endorsement and Guarantee".	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for discussion.
	Amendment to the "Authorizing Table"	This resolution has been implemented.
	To approve the Internal Control System Statement of Year 2018	This resolution has been implemented.
	To approve the revisions of internal control systems to "Implementation Rules of the Employee Welfare Committee"	This resolution has been implemented.
	The Company proposed to cancelled the private placement of new common shares	This resolution has been implemented and will be reported to 2019 shareholders' meeting.
	Proposal for the issuance plan of private placement for common shares	This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for discussion.
	To discuss and approve the agenda of the Company's 2019 Annual General Meeting of Shareholders	The company 2019 shareholders' meeting will be hold on Jun. 12, 2019.
	For the matter of changing the Company's appointed Certified Public	This resolution has been implemented.

<table>
<tr><th>Date</th><th>Resolution</th><th>Implementation</th></tr>
<tr><td rowspan="2"></td><td>Accountants</td><td></td></tr>
<tr><td>The Company plan invest “EMTOPS ELECTRONICS CORP.” cash injection increase plan</td><td>This resolution has been implemented.</td></tr>
<tr><td rowspan="8">2019.05.10
18th 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>Consolidated Financial Statements for the Three Months Ended March 31, 2019 and 2018</td><td>It has been approved on May 10, 2019 in the board of directors. The information of the consolidated financial statements of the first quarter of 2019 is as follows:
(in thousand in NT$)(2019/01/01-2019/03/31)
<table>
<tr><th>Statement / Category</th><th>Consolidated Statements of Comprehensive Income</th></tr>
<tr><td>Operating Revenue</td><td>9,343,016</td></tr>
<tr><td>Operating Income</td><td>1,067,547</td></tr>
<tr><td>Profit Before Income Tax</td><td>1,040,918</td></tr>
<tr><td>Net Profit For The Year</td><td>881,823</td></tr>
<tr><td>Total Comprehensive Income For The Year</td><td>974,692</td></tr>
<tr><td>EPS(Basic)</td><td>NT$4.47</td></tr>
</table></td></tr>
<tr><td>To approve the establishment of “Standard Operating Procedures for handling requirements of Directors”</td><td>This resolution has been implemented.</td></tr>
<tr><td>The company designated the authorized person to make guarantee agreement when making a guarantee for an overseas company</td><td>This resolution has been implemented.</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>Amendment to the “Property, plant and equipment cycle” and the “Management of Property, Plant and Equipment”</td><td>This resolution has been implemented.</td></tr>
<tr><td>To approve the revisions to “Procedures for Acquisition or Disposal of Assets”</td><td>This resolution has been implemented and will be submitted to the 2019 shareholders' meeting for discussion.</td></tr>
</table>

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 Tohmatsu Limited	Dai Xin Wei	Fan Yu Wei	2018/1/1~2018/12/31	N.A.

In thousand in NT$

Fee Range	Fee Items	Audit Fee	Non-audit Fee	Total
1	Under NT$ 2,000		1,701	1,701
2	NT$2,000 (included) ～NT$4,000			
3	NT$4,000 (included) ～NT$6,000			
4	NT$6,000 (included) ～NT$8,000	7,100		7,100
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:
The Company's payment to Deloitte in 2018: NT$7,100 thousands is Audit Fee and NT$1,701 thousands of Non-audit Fee which including NT$300 thousands of Transfer Pricing (TP) Local File, NT$900 thousand of TP Country-by-Country Report, NT$200 thousands of the private placement of new common shares with specific subscribers for listing on OTC market and NT$301 thousands of other services.

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	2018		As of Apr 14 2019	
		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	Aw Yong Chee Kong	0	(1,700,000)	0	0
Director／Vice President	Kuang Tzung Horng	0	0	0	0
Vice Technical President	Hsu Chih Jen	0	0	0	0
Director／Major shareholders	Toshiba Memory Corp.	0	0	0	0
Director Toshiba Memory Corp.	Hiroto Nakai	0	0	0	0

Title	Name	2018		As of Apr 14 2019	
		Holding Increase (Decrease)	Pledged Holding Increase (Decrease)	Holding Increase (Decrease)	Pledged Holding Increase (Decrease)
Representative					
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	0	0	0	0
Director of Product Division 、 Director of Innovation Technology R&D Group-R&D Division 3	Gan Wee Kuan	0	0	(5,000)	0
Director of Sales & Marketing Group-Sales & Marketing Division 1	Tsai Shu Hui	0	0	(60,000)	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 Division 1	Cheng Kuo Yi	0	0	0	0
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 Innovation Technology R&D Group-R&D Division 6	Chan Ching Wen 【Note 1】	0	0	0	0
Director of Innovation Technology R&D Group-R&D Division 8	Chin Chieh Chuan 【Note 2】	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】Chan Ching Wen appointed on Jan 25, 2019.
【Note 2】Chin Chieh Chuan appointed on Oct 24, 2018.

Shares Trading with Related Parties: None.

3.9 Relationship among the Top Ten Shareholders

As of 14/4/2019

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	11,249,000	5.71%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Employee Prvdnt-EPF MSCI North Asia by HSBC	7,762,000	3.94%	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%	1,798,144	0.91%	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.
Norges Bank	3,359,504	1.70%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
Aw Yong 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.
ROBECO CAPITAL GROWTH FUNDS	2,759,000	1.40%	Not Applicable	Not Applicable	Not Applicable	Not Applicable	N.A.	N.A.	N.A.
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	2,592,510	1.32%	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 3/31/2019 In shares and %

Name of the Investment Company	Name of be Invested Company	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	38,000,000	100.00	0	0.00	38,000,000	100.00
This company	Lian Xu Dong Investment Corporation	65,000,000	100.00	0	0.00	65,000,000	100.00
This company	Microtops Design Corporation	2,263,800	49.00	2,356,200	51.00	4,620,000	100.00
This company	Phison Electronics Japan Corp.	2,000	100.00	0	0.00	2,000	100.00
This company	Global Flash Limited	27,500,000	100.00	0	0.00	27,500,000	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	13,000,000	100.00	0	0.00	13,000,000	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	24,550,000	100.00	0	0.00	24,550,000	100.00
Global Flash Limited	Phisontech (Shenzhen) Limited	【Note 1】	100.00	0	0.00	【Note 1】	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	【Note 2】	96.91	0	0.00	【Note 2】	96.91
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	12,950,000	100.00	0	0.00	12,950,000	100.00
RealYou Investment Limited	Hefei Ruhan Electronics Technology Limited	【Note 3】	100.00	0	0.00	【Note 3】	100.00
Hefei Core Storage Electronic Limited	Hefei Yichao Electronics Technology Limited	【Note 4】	100.00	0	0.00	【Note 4】	100.00

Name of the Investment Company	Name of be Invested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by this Company		Consolidated Investment	
		Shares	%	Shares	%	Shares	%
Hefei Yichao Electronics Technology Limited	Hefei Xinpeng Technology Co., Ltd.	【Note 5】	36.36	0	0.00	【Note 5】	36.36
RealYou Investment Limited	HOSIN Global Electronics Co., Ltd.	【Note 6】	40.00	0	0.00	【Note 6】	40.00

【Note 1】Investment of USD 1,790,000 / NT$53,096,000.
【Note 2】Investment of USD 24,500,000 / NT$777,318,000.
【Note 3】Investment of USD 5,972,000 / NT$182,825,000.
【Note 4】Investment of CNY 40,500,000 / NT$185,369,000.
【Note 5】Investment of CNY 40,000,000 / NT$178,920,000.
【Note 6】Investment of USD 5,973,000 / NT$183,640,000.
【Note 7】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 andcapital 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 4/14/2019; 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	197,073,993 shares are listed in TPEx shares

4.1.2 Status of Shareholders

As of 4/14/2019; 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	3	28	188	18,145	632	18,996
Shareholding (shares)	3,569,417	3,043,168	8,410,932	49,125,597	132,924,879	197,073,993
Percentage	1.81%	1.54%	4.27%	24.93%	67.45%	100.00%

4.1.3 Shareholding Distribution Status

As of 4/14/2019; In shares

Class of Shareholding (Unit: Share)	Number of Shareholders	Shareholding (Shares)	Percentage(%)
1 to 999	8,887	786,986	0.40
1,000 to 5,000	8,204	14,749,332	7.48
5,001 to 10,000	815	6,248,947	3.17
10,001 to 15,000	294	3,744,029	1.90
15,001 to 20,000	178	3,204,133	1.63
20,001 to 30,000	146	3,692,109	1.87
30,001 to 50,000	144	5,675,167	2.88
50,001 to 100,000	117	8,031,728	4.08
100,001 to 200,000	83	11,681,558	5.93
200,001 to 400,000	51	14,524,121	7.37
400,001 to 600,000	24	11,576,064	5.87
600,001 to 800,000	7	4,833,471	2.45
800,001 to1,000,000	10	8,945,317	4.54
Over 1,000,001	36	99,381,031	50.43
Total	18,996	197,073,993	100.00

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

4.1.4 List of Major Shareholders

As of 4/14/2019; In shares

Shareholder's Name \ Shareholding (shares)	Shareholding (shares)	%
Toshiba Memory Corp.	19,821,112	10.06%
Trusted Investment Account of Kingston Technology Inc. by CTBC Bank	11,249,000	5.71%
Employee Prvdnt-EPF MSCI North Asia by HSBC	7,762,000	3.94%
Pua Khein Seng	4,557,972	2.31%
Yang Jiunn Yeong	4,549,114	2.31%
Norges Bank	3,359,504	1.70%
Aw Yong Chee Kong	3,355,745	1.70%
Ng Hon Wai	3,316,760	1.68%
ROBECO CAPITAL GROWTH FUNDS	2,759,000	1.40%
JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds	2,592,510	1.32%

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

In NT$

Item \ Year			2017	2018	Current Year Before Mar 31, 2019
Market Price per Share	Highest	Before Revision	450.00	324.00	307.00
		After Revision	450.00	324.00	
	Lowest	Before Revision	245.50	187.00	222.00
		After Revision	245.50	187.00	
	Average【Note 1】	Before Revision	336.95	264.25	268.94
		After Revision	336.95	264.25	
Net Worth per Share	Before Distribution		132.23	136.56	141.51
	After Distribution		115.23	—	—
Earnings per Share	Weighted Average Shares (thousand shares)		199,840	199,941	199,328
	Earnings Per Share	Diluted	29.23	21.91	4.47
		Adjusted Diluted	—	—	—
Dividends per Share	Cash Dividends		17.00	13.00【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】		11.53	12.06	—
	Price/Dividends Ratio【Note 4】		19.82	20.33	—
	Cash Dividend Yield Rate(%)【Note 5】		5.05	4.92	—

【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 by 2019 shareholders' meeting.

4.1.6 Dividends Policy and Implementation

4.1.6.1 Dividends Policy on the Articles of Association of the corporation:

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 earningsbased 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 2018 has been approved by the board of directors on Mar 21, 2019 and will submit this surplus distribution to 2019 shareholders meeting. The board of directors plans to cash distribute NT$ 2,561,961,909 (NT$ 13 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 21, 2019 is 197,073,993 shares. Upon the shareholders' meeting approves this proposal, the chairman is authorized to determine the base date of distributing dividends and other affairs. If the number of shares varies, the chairman 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% ofit 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 2018.

4.1.8.2.1 Basis of the 2018 Cash Remuneration for Employees, Directors and Supervisors.

The profit of this company in 2018 is NT$ 5,590,352,737 (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$ 550,000,000 in total; 9.84% of the profit) and the directors/supervisors (NT$ 40,000,000 in total; 0.72% of the profit). The remuneration will be rewarded in cash.

4.1.8.2.2 Basis of the 2018 Stock Remuneration for Employees: there is no stock remuneration in 2018.

4.1.8.2.3 Difference is Adjusted by Accounting Principles: there is no difference in the 2018 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$ 550,000,000 and the directors/supervisors remuneration NT$ 40,000,000 on Mar 21, 2019. There is no difference between the 2018 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 2018

4.1.8.4 In Case of Difference for the 2018 Employee, Directors and Supervisors Remuneration, Disclose the Amount, Cause and Treatment:

The difference of the 2017 remuneration for employees, directors and supervisors (distributed in 2018) is as follows:

In NT$

Distribution	Amount Approved by shareholders' meeting	Estimated Amount	Difference	Cause and Treatment
Employee Remuneration	670,000,000	670,000,000	0	N.A.
Directors and Supervisors Remuneration	60,000,000	60,000,000	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 24/5/2019

Type of Stock Option	1st employee stock option in 2017	1st employee stock option in 2018
Approval date	Dec 5, 2017	Nov 28, 2018
Issue date		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	This employee stock option was not issued. According to the related regulations, it is expired, so cannot be issued after Dec 4, 2018.	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 was no restricted shares issued before the annual report is published and in 2018.

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 2018 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: not applicable.

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.

- The design、manufacture and sell of the controllers and modules of SSD.
- The controllers and modules of embedded Flash used on protable application likes smart phone and tablet,included eMMC、UFS.
- The design、manufacture and sell of the controllers and modules of USB.
- The design、manufacture and sell of the controllers and modules of memory card(SD/CF).

In thousand in NT$

Item	2018	
	Amount	Percentage (%)
Flash memory module product	26,227,838	64.30
Integrated circuit	6,563,170	16.09
Controller	7,824,256	19.18
Others	172,841	0.43
Total	40,788,105	100.00

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

5.1.1.2 Current Major Product (Service)

- The controllers and modules of SSD.
- The embedded controller used on protable application ,included eMMC、UFS.
- The controllers and modules of USB.
- The memory card controllers and memory card: SD card、microSD card etc.

5.1.1.3 New Major Product (Service) under Development

- High speed, high capacity USB 3.2 Flash Drive solutions.
- SD 7.0 (SD Express) controllers.
- UFS 3.1 controllers supporting 1.2GB/s NAND Flash.
- High performance PCIe NVMe controllers and solutions.
- 12nm PHYs.
- Enterprise and Datacenter SSD controllers.
- New LDPC ECC engines for emerging 3D QLC NAND Flash.
- System in Package SSD solutions.
- Automotive SSD solutions.

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 storage device for large data storage and its cost per bit is the cheapest of all nonvolatile storage devices, so it can universally be used in portable products to store data, such as USB、memory card and related application, such as smart phone、laptop/desktop computer and server etc.. NAND flash solution is tranfering from 2D MLC to 3D TLC. The 3D TLC NAND is advance on the cheap cost, but it relys on a stronger controller to help its operational effiency and ensure data reliability. With the supporting of new controllers, 3D TLC NAND have used in embedded memorys and SSDs.

With the prosperity of online commerce and services, the demand of data storage market is increasing and it requires a faster and more reliable solution of data streaming, so that SSD and eMMC can be widly used in computer and smart phone in the recent years, and enter to the large data processing servers and cloud applications. In addition, the capacity in single production of memory card and USB is rapidly increasing while the audio and video information technology improved capacity of the single file and the requirements for reading speed and stability have also increased. In summary, there are multiple of miches and advantages in long-term for the the NAND Flash industry development.

As the NAND Flash process technology and applications are evolving rapidly,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 been dedicating to the research and development of NAND Flash controllers and its related applications for nearly 20 years. Phison has accumulated solid managing technologies and knowledges of NAND Flash. Phison has abtained about 2,000 patents related to NAND Flash technologies and has created a unique operation model. In the line with the concept and culture of "sharing, integrity, efficiency, innovation", all employees of the company will working together to make continuous progress to keep the Phison Electronics in leadership of 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.

<u>Controller for USB 3.0 mobile Drives and Products</u>

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.

<u>Controller Chips and Products for SD Cards</u>

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

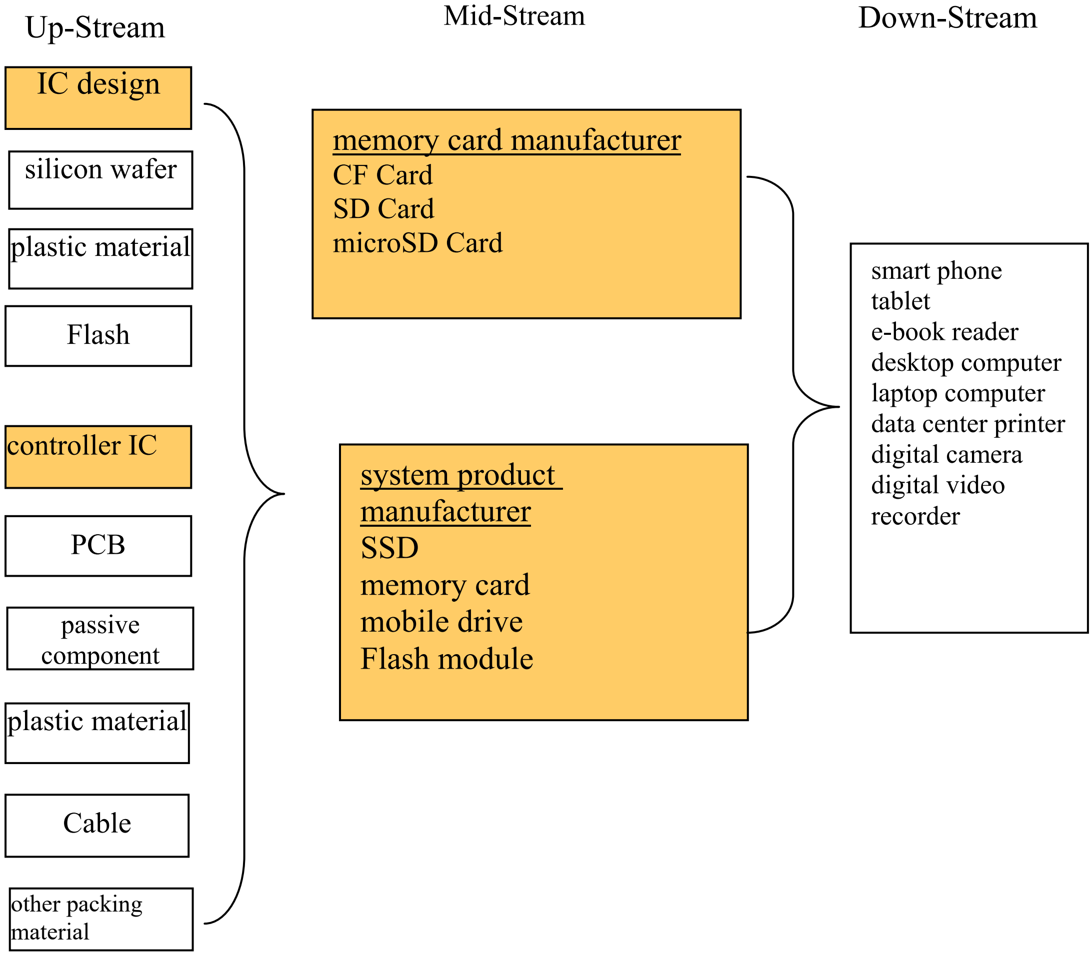
With the improvement of smart phone functions, the processors of them are more advanced, more APPs are installed and the resolution of cameras is getting higher. All of these improvements need higher performance and higher storage capacity. Because the limitation of eMMC transferring interface, the data 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 supportsmulti-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 towardlarger 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. 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 competiveness

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 competiveness 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	2018	Mar 31, 2019
R&D Expenditure	3,495,417	864,646
Net Operating Revenue	40,788,105	9,343,016
R&D Expenditure to Net Operating Revenue	8.57%	9.25%

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
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.

Year	Results of R&D
	(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.
2018	(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. (8) Developing the low-power RAID of advance error correction for mobile devices. (9) Developing low-power yet high performance SSD controllers by supporting HMB feature leveraging host memory buffer. (10) Developing SSD product solutions line up, in response to different requirements from various market segments, including embedded applications. (11) Developing System-In-Package Nand flash modules. (12) In compliance with industrial standards,including design and verification methodologies, developing functional modules for automotive applications.

- 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, 2019, there are 301 patent applications all over the world and 1,539 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 R&D 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 the TIPTOP GP ERP System, AgentFlow 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	2017	2018
	Operating Revenue	Operating Revenue
Asia	23,853,418	24,336,197
America	13,514,981	12,646,332
Europe	4,126,140	3,609,347
Australia	368,827	195,271
Others	1,393	958
Total	41,864,759	40,788,105

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 2018, the sales amount of SSD controllers and products accounted for 46% of the total income, 11% 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.

The demand for high speed data storage applications such as Cloud Computing, Big Data, Artificial Intelligence and Gaming have pushed SSD penetration rates to a new pace never seen before. Phison has launched different NAND Flash controllers for different markets, including several PCIe Gen3x4 NVMe controllers and the World's 1st PCIe Gen4x4 NVMe SSD controller. For performance-oriented applications and the enterprise SSD market, Phison offers the 8-channel ultra-high speed, low latency PCIe Gen3x4 controller in mass production. For mobile storage, Phison is one of the few companies that carry both eMMC an UFS controllers, where power consumption and temperature are critical. The latest UFS 3.0 controller unveiled by Phison, with in-house technology such as StrongECCTM, advanced LDPC, CoProcessorTM and RAID, provides optimal power consumption and robust error correction capability while offering SSD-like performance. We also develop the PCIe NVMe BGA SSD as an alternative to high speed mobile storage. For memory cards, Phison has released the latest SD 6.0 and microSD controllers conforming to the SDA Application Performance Class 2 (A2), boosting the random performances while bumping up the capacity to 1TB. For the USB product line, it has evolved into several portable SSDs with unprecedented performance. For instance, the brand new iDUO Lightning and C-Thru USB 3.1 solutions can support end-users charging mobile devices during operation. All Phison product lines are supporting the latest 3D TLC NAND Flash from various manufacturers.

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 the furture, 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 providethe 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 Flashsuppliers, 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 companymade 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:

- ComprehensiveFragmentation 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.

- Develpment 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 applicationsof 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 firmwarefor 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.

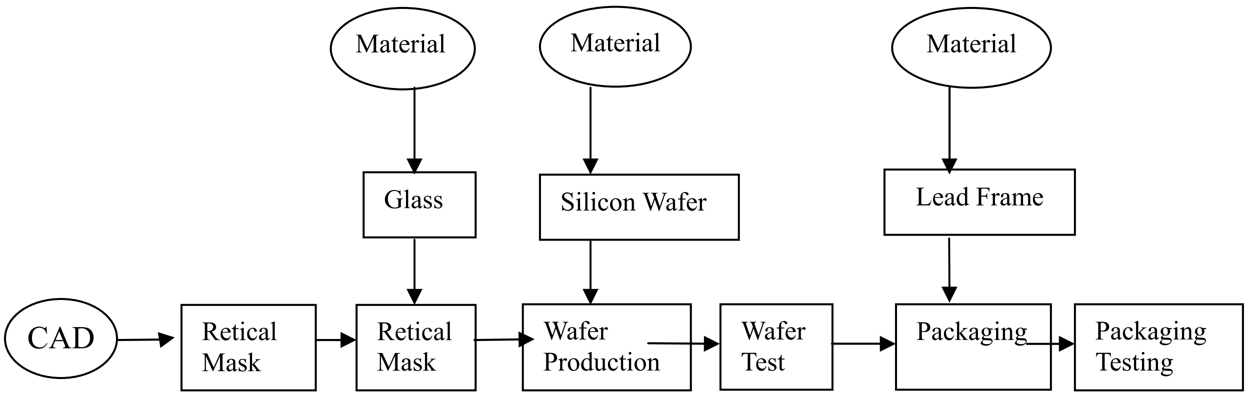
5.2.2 Main Use and Manufacturing Process of Major Products

5.2.2.1Main Use of Major Products

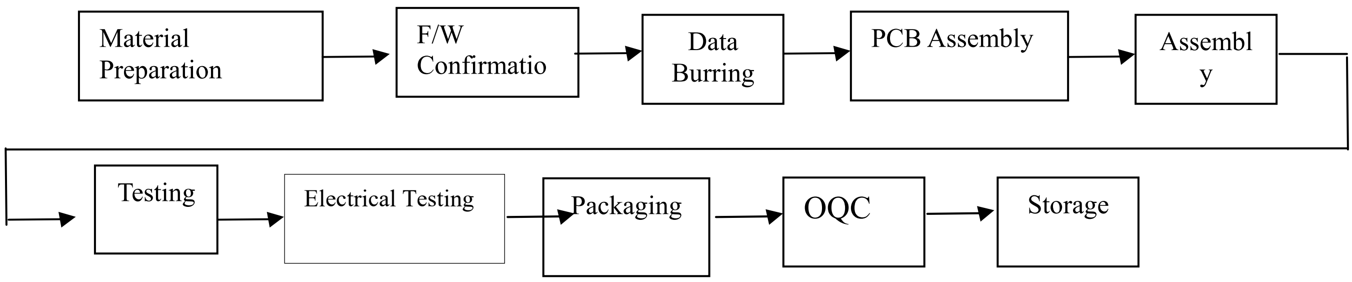
Product Category	Use
Flash memory system products	These are the storage devices with flash memory (mobile drive, flash memory card, SSD and built-in memory). Because USB interface, cameras, cell phones and laptop computers become more and more popular, these products are convenient for fast data access.
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 Memory, Micron, SanDisk	Normal
PCB	Taiwan Printed Circuit Board Techvest Co, Ltd., Cheng Mao Electronic 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$

	2017				2018				2019 (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	12,335,671	42.85	Subsidiary of a corporate member of the Corporation's board of directors	B	13,871,205	50.72	Subsidiary of a corporate member of the Corporation's board of directors	B	4,962,860	56.96	Subsidiary of a corporate member of the Corporation's board of director
	B	3,210,897	11.15	Subsidiary of a corporate member of the Corporation's board of directors	C	4,468,490	16.34	Subsidiary of a corporate member of the Corporation's board of directors	-	-	-	-
	Others	13,238,757	46.00		Others	9,009,854	32.94		Others	3,750,736	43.04	
	Net Purchase	28,785,325	100.00		Net Purchase	27,349,549	100.00		Net Purchase	8,713,596	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 2017, the percentages of supply from A company is 42.85%. In 2017 and 2018, the percentages of supply from B company are 11.15% and 50.72% respectively. In 2018, the percentages of aupply from C company is 16.34%. The percentages of supply from other TMC group is 12.91% in 2017. The total purchase from TMC Group in 2017 and 2018 is around 66.91% and 67.06% respectively. There is no significant change in purchase from TMC group, so no analysis for the year of 2018. In The first quarter of 2019, the percentage of purchase from B company is 56.96%. The total purchase from TMC group is 61.23%.

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$

	2017				2018				2019 (BeforeMar 31)			
Item	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer	Name	Amount	Percentage (%)	Relation with Issuer
1	A	9,217,685	22.02	N.A.	A	8,928,975	21.89	N.A.	A	1,415,173	15.15	N.A.
2	Others	32,647,074	77.98	N.A.	Others	31,859,130	78.11	N.A.	Others	7,927,843	84.85	N.A.
	Net Sales	41,864,759	100.00		Net Sales	40,788,105	100.00		Net Sales	9,343,016	100.00	

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

Cause of Change:

In 2017 and 2018, the percentages of sales to A company are 22.02% and 21.89% respectively. There is no significant change in sales to A company, so no analysis for the year 2018. In 2019 first quarter, the percentages of sales to A company down to 15.15% as the NAND flash prices fall.

5.2.5 Production in the last two years

In thousand pieces/in thousand in NT$

Year / Production Amount / Major Product	2017			2018		
	Capacity	Quantity	Amount	Capacity	Quantity	Amount
Flash memory module product	—	90,757	20,187,760	—	112,910	21,077,449
Integrated circuit	—	91,216	6,427,969	—	102,758	6,192,795
Controllers	—	365,868	3,661,689	—	427,693	3,986,270
Others	—		56,362	—		106,614
Total		547,841	30,333,780		643,361	31,363,128

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		2017		2018	
		Quantity	Amount	Quantity	Amount
Flash memory module product	Domestic【Note 1】	18,870	6,060,169	34,183	7,102,933
	Overseas	72,583	21,751,533	79,191	19,124,905
Integrated circuit	Domestic【Note 1】	29,035	786,027	22,907	614,624
	Overseas	129,575	6,305,423	178,216	5,948,546
Controllers	Domestic【Note 1】	30,594	621,396	37,324	636,307
	Overseas	334,950	6,166,166	389,585	7,187,949
Others 【Note 2】	Domestic【Note 1】	Not applicable	57,697	Not applicable	67,081
	Overseas	Not applicable	116,348	Not applicable	105,760
Total	Domestic【Note 1】	78,499	7,525,289	94,414	8,420,945
	Overseas	537,108	34,339,470	646,992	32,367,160

【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 30/4/2019

Year		2017	2018	2019 (Before Apr 30)
Number of Employees	Department Head	58	66	68
	Production Employee	46	51	47
	Regular Personnel	1,395	1,595	1,692
	Total	1,499	1,712	1,807
Average Age		33.78	34.04	33.75
Average Years of Service		5.6	4.88	4.82
Education	Ph.D.	0.80	0.99	1.06
	Masters	54.77	56.31	57.13
	Bachelor's Degree	40.49	39.26	38.98
	Senior High School	3.67	3.15	2.62
	Below Senior High School	0.27	0.29	0.21

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

5.4 Environmental Protection Expenditure

Our major products are flash memory controllers, flash memory module product, 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.(Taiwan)
- 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 forfamily 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 2018, the total expenditure of educational trainings is NT$ 2,399,803. There are 7 categories of trainings, which are listed as follows:

Category	Times	Persons	Hours	Total Cost
Professional Skills	244	1,785	1,792	412,325
Quality	51	960	300	206,650
Auxiliary Skills	15	385	50	413,683
Health and Security	28	141	230	71,600
Management	5	247	30	412,576
Self-inspiration	48	4,437	43	324,669
Language	14	165	300	558,300
Total	405	8,120	2,745	2,399,803

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 ofunits 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 2016, 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 2018, 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:

Type	Contracting Party	Term of Contract	Summary	Restriction
License Contract	Synopsys International limited	2003/7/16-indefinite	Software use license and maintenance agreement	Comply withregulations of license scope and confidentiality obligation etc.
Technology License Contract	SD-3C LLC	2004/9/2	Technology license of SD card specification	Pay License fee and annual fee
Technology License Contract	4C Entity LLC	2003/03/07	Technology license of 4C CPRM/CPPM	Pay License fee and annual fee
License Contract	Faraday Technology Corp	2007/08/11	Multiple licenses for use of UMC process databases	Regulations of database use and confidentiality responsibility
License Contract	Netac Technology Co Ltd.	From 2007/12/20 until both parties' patent rights expire	Mutual cross-license	License fee
Contributors Agreement	Intel Corporation	From Year 2008 without expiration date	Cooperate to formulating the USB3.0 final specification	Regulations of IPR ownership and confidentiality responsibility
License Contract	ARM limited	From 2009/08/10 until termination upon written notice	Physical IP license agreement	Pay License fee and maintenance fee
License Contract	Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC)	2010/01/22-indefinite	License for use of database	Regulations of database usage and confidentiality responsibility
License Contract	Universal Serial Bus Implementers Forum, Inc. (USB-IF)	2010/05/24- eternal license	USB-IF trademark license	Regulations of USB-IF member responsibility and confidentiality obligation
License Contract	Andes Technology Corp.	2012/3/2	multiple IP license agreements	Pay License fee and maintenance fee
MIPI membership Agreement	MIPI Alliance Inc.	2012/04/18-indefinite	Membership and related license agreements	Regulations of MIPI member responsibility and confidentiality obligation
USB 3.0 Adopters Agreement	Intel Corp.	2012/08/09-indefinite	Adopt USB 3.0 specification	Regulations of USB3.0 specification usage and confidentiality responsibility
License Contract	Serial ATA International Organization (SATA-IO)	2019/05/31-eternally valid	Certification mark license	License fee
License Contract	Cadence Design Systems (Ire) Ltd	Effective from 2013/1/1	Acquire processor generator/cores technology license for use	Pay License fee and related expenditure
Participation Agreement	NVM EXPRESS, INC	Effective from 2014/4/2-indefinite	Phison participates NVMe membership as contributor	Comply with NVMe membership regulations
License Contract	PLDA Inc.	2015/2/10-indefinite	PLDA IP license agreement	Pay License fee, maintenance fee and related expenditure
License Contract	Avery Design Systems, Inc.	2015/3/2-2018/3/1	Software license in connection with MVMe and PCIe	License fee
License Contract	Intel Corporation	2017/7/13-indefinite	Acquire Thunderbold technology and trademark use licenses	Comply withregulations of license scope and confidentiality obligation etc.
License Contract	Universal Flash Storage Association, Inc.	2018/1/18-indefinite	Acquire UFSA logo use license	Comply with UFSA logo use regulations

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					2019 before Mar 31 【Note 2】
		2014	2015	2016	2017	2018	
Current assets		20,721,552	24,823,621	26,755,344	28,809,687	30,605,807	33,208,112
Property, Plant and Equipment		1,634,020	1,637,395	2,426,451	2,822,881	2,990,231	2,997,916
Intangible assets		126,804	198,623	222,297	218,130	152,550	143,963
Other assets		1,215,415	1,759,148	2,571,547	3,275,906	2,689,952	2,781,576
Total assets		23,697,791	28,418,787	31,975,639	35,126,604	36,438,540	39,131,567
Current liabilities	Before distribution	6,867,447	7,799,912	8,904,060	8,963,408	9,419,631	11,097,930
	After distribution	9,078,036	10,168,400	11,663,096	12,313,666	【Note 1】	【Note 1】
Non-current liabilities		52,803	69,013	73,354	104,881	107,039	119,825
Total liabilities	Before distribution	6,920,250	7,868,925	8,977,414	9,068,289	9,526,670	11,217,755
	After distribution	9,130,839	10,237,413	11,736,450	12,418,547	【Note 1】	【Note 1】
Total Equity attributable to owners of the corporation		16,517,480	20,328,329	22,992,825	26,058,315	26,911,870	27,888,183
Share capital		1,854,740	1,973,740	1,970,740	1,970,740	1,970,740	1,970,740
Capital surplus		4,487,500	6,514,569	6,652,449	6,660,502	6,674,650	6,676,271
Retained earnings	Before distribution	10,180,296	11,951,378	14,395,601	17,390,657	18,647,407	19,529,230
	After distribution	7,969,707	9,582,890	11,636,565	14,040,399	【Note 1】	【Note 1】
Other equity		(5,056)	(111,358)	(25,965)	36,416	(380,927)	(288,058)
Treasury stock		0	0	0	0	0	0
Non-controlling interest		260,061	221,533	5,400	0	0	25,629
Total equity	Before distribution	16,777,541	20,549,862	22,998,225	26,058,315	26,911,870	27,913,812
	After distribution	14,566,952	18,181,374	20,239,189	22,708,057	【Note 1】	【Note 1】

【Note 1】 The surplus distribution proposal of 2018 has not been approved by the shareholders'' meeting.

【Note 2】 The financial data of 2019 first quarter is reviewed by the Auditors.

【Note 3】 According to the Rule No. 1050036477 issued by FSC, the Corporation has restated its consolidated financial statements from 2009 to 2015. The financial data from 2014 to 2015 are base on the restated consolidated financial statements.

Condensed Balance Sheets –Nonconsolidated,Taiwan-IFRSs adopted

In thousand in NT$

Item		Financial Summary for The Last Five Years 2014	2015	2016	2017	2018	2019 before Mar 31
Current assets		19,604,860	23,059,353	25,128,170	27,076,135	28,840,540	Not applicable 【Note 2】
Property, Plant and Equipment		1,628,996	1,629,662	2,392,803	2,793,102	2,961,130	
Intangible assets		103,164	174,308	217,763	212,108	149,381	
Other assets		1,407,579	2,792,935	3,687,775	4,496,367	3,997,535	
Total assets		22,744,599	27,656,258	31,426,511	34,577,712	35,948,586	
Current liabilities	Before distribution	6,174,651	7,260,460	8,360,393	8,433,967	8,943,486	
	After distribution	8,385,240	9,628,948	11,119,429	11,784,225	【Note 1】	
Non-current liabilities		52,468	67,469	73,293	85,430	93,230	
Total liabilities	Before distribution	6,227,119	7,327,929	8,433,686	8,519,397	9,036,716	
	After distribution	8,437,708	9,696,417	11,192,722	11,869,655	【Note 1】	
Total Equity attributable to shareholders of the parent		16,517,480	20,328,329	22,992,825	26,058,315	26,911,870	
Share capital		1,854,740	1,973,740	1,970,740	1,970,740	1,970,740	
Capital surplus		4,487,500	6,514,569	6,652,449	6,660,502	6,674,650	
Retained earnings	Before distribution	10,180,296	11,951,378	14,395,601	17,390,657	18,647,407	
	After distribution	7,969,707	9,582,890	11,636,565	14,040,399	【Note 1】	
Other equity interest		(5,056)	(111,358)	(25,965)	36,416	(380,927)	
Treasury stock		0	0	0	0	0	
Non-controlling interest		0	0	0	0	0	
Total equity	Before distribution	16,517,480	20,328,329	22,992,825	26,058,315	26,911,870	
	After distribution	14,306,891	17,959,841	20,233,789	22,708,057	【Note 1】	

【Note 1】The surplus distribution proposal of 2018 has not been approved by the shareholders' meeting.
【Note 2】There is no individual financial statements for the first quarter of 2019, so it is not applicable.
【Note 3】According to the Rule No. 1050036477 issued by FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2014 to 2015 are based on the revised finance statements.

Condensed Consolidated Statementsof Comprehensive Income –Taiwan-IFRSs adopted

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

Item \ Year	Financial Summary for The Last Five Years					2019 before Mar 31 【Note 1】
	2014	2015	2016	2017	2018	
Operating revenue	32,819,532	37,409,177	43,782,512	41,864,759	40,788,105	9,343,016
Gross profit	5,369,234	7,627,464	9,263,738	11,499,622	9,131,954	2,094,693
Operating income	2,790,032	4,226,904	4,842,648	6,731,692	4,709,784	1,067,547
Non-operating income and expenses	532,397	246,360	634,278	(13,822)	295,397	(26,629)
Profit before income tax	3,322,429	4,473,264	5,476,926	6,717,870	5,005,181	1,040,918
Net profit of the continuing operations	2,781,074	3,896,693	4,801,843	5,761,290	4,318,119	881,823
Loss of the discontinuing operation	0	0	0	0	0	0
Net profit for the year	2,781,074	3,896,693	4,801,843	5,761,290	4,318,119	881,823
Other comprehensive Income(Loss) for the Year, Net of Income tax	(3,174)	(131,438)	82,863	57,409	(171,742)	92,869
Total Comprehensive Income for the Year	2,777,900	3,765,255	4,884,706	5,818,699	4,146,377	974,692
Net profit attributed to the owners of parent company	3,201,149	4,000,009	4,866,992	5,760,972	4,318,119	881,823
Net profit attributed to non-controlling interests	(420,075)	(103,316)	(65,149)	318	0	0
Total comprehensive income attributed to owners of the parent company	3,202,083	3,875,369	4,950,331	5,816,473	4,146,377	974,692
Total comprehensive income attributed to non-controlling interests	(424,183)	(110,114)	(65,625)	2,226	0	0
Earnings per share (EPS)	17.48	20.41	24.67	29.23	21.91	4.47

【Note 1】The financial data of 2019 first quarter is reviewed by the Auditors.

【Note 2】According to the Rule No. 1050036477 issued FSC, the Corporation has restated itsconsolidated financial statements from 2009 to 2015. The financial data from 2014 to 2015 are base on the restated consolidated finance statements.

Condensed Statementsof Comprehensive Income –Nonconsolidated,Taiwan-IFRSs adopted

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

Item \ Year	Financial Summary for The Last Five Years					2019 before Mar 31
	2014	2015	2016	2017	2018	
Operating revenue	32,842,545	37,048,926	43,678,547	41,773,532	40,804,130	Not Applicable 【Note 1】
Gross profit	5,545,586	7,525,281	9,207,321	11,449,095	9,151,272	
Operating income	3,174,235	4,299,367	4,916,446	6,723,101	4,736,351	
Non-operating income and expenses	553,372	262,008	615,752	(9,896)	264,002	
Profit before income tax	3,727,607	4,561,375	5,532,198	6,713,205	5,000,353	
Net profit of the continuing operations	3,201,149	4,000,009	4,866,992	5,760,972	4,318,119	
Loss of the discontinuing operation	0	0	0	0	0	
Net profit for the year	3,201,149	4,000,009	4,866,992	5,760,972	4,318,119	
Other comprehensive Income (Loss) for the Year, Net of Income tax	934	(124,640)	83,339	55,501	(171,742)	
Total Comprehensive Income for the Year	3,202,083	3,875,369	4,950,331	5,816,473	4,146,377	
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)	17.48	20.41	24.67	29.23	21.91	

【Note 1】There is no individual financial statements for the first quarter of 2019, so it is not applicable.

【Note 2】According to the Rule No. 1050036477 issued by FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2014 to 2015 are based on the revised financial statements.

6.1.2 Auditors' Opinions from 2014 to 2018

Year	Accounting Firm	CPA	Audit Opinion
2014	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion Subsequent to Revision
2015	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion Subsequent to Revision
2016	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion
2017	Deloitte Touche Tohmatsu Limited	Dai Xin Wei, Fan Yu-Wei	Unqualified Opinion
2018	Deloitte Touche Tohmatsu Limited	Dai Xin 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					2019 (as of Mar 31)
		2014	2015	2016	2017	2018	
Financial structure	Debt ratio(%)	29.20	27.69	28.08	25.82	26.14	28.67
	Long-term fund to property, plant and equipment rotio(%)	1,026.76	1,255.03	947.81	923.11	899.99	930.25
Liquidity Analysis	Current ratio (%)	301.74	318.26	300.48	321.41	324.92	299.23
	Quick ratio (%)	220.77	250.14	241.07	240.85	243.81	203.39
	Times Interest Earned (times)	1,362.65	1,476.84	2,668.77	1,349.70	988.22	4,051.26
Operating performance Analysis	Average Accounts receivable turnover (times)	8.59	8.81	9.48	7.95	7.43	7.66
	Days sales outstanding	42.49	41.43	38.50	45.91	49.12	47.65
	Average Inventory turnover (times)	4.90	5.52	6.59	4.89	4.29	3.20
	Average Accounts payable turnover (times)	6.20	7.16	8.51	8.09	7.49	5.14
	Average Inventory turnover Days	74.48	66.12	55.38	74.64	85.08	114.06
	Property, plant and equipment turnover (times)	20.33	22.87	21.55	15.95	14.03	12.48
	Total assets turnover (times)	1.42	1.44	1.45	1.25	1.14	0.99
Profitability Analysis	Return on total assets (%)	12.06	14.96	15.91	17.18	12.08	9.34
	Return on Equity (%)	17.66	20.88	22.05	23.49	16.30	12.87
	Pre-tax income to paid-in capital ratio(%)	179.13	226.64	277.91	340.88	253.97	211.27
	Net Profit ratio (%)	8.47	10.42	10.97	13.76	10.59	9.44
	Basic Earnings per share (NT$)	17.48	20.41	24.67	29.23	21.91	4.47
Cash flow	Cash flow ratio (%)	17.27	55.68	55.62	43.20	55.34	1.90
	Cash flow adequacy ratio (%)	112.83	114.25	116.20	92.61	114.62	102.51
	Cash flow reinvestment ratio (%)	(4.15)	10.18	11.02	4.18	6.73	0.74
Leverage	Operating leverage	1.06	1.05	1.05	1.05	1.09	1.11
	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 decreasing of Profit before Income Tax in 2018.

(2) The Return on total assets and Return on Equity down is because of the decreasing of Net Profit in 2018.

(3) The Pre-tax income to paid-in capital down is because of the the decreasing of Net Profit in 2018.

(4) The Cash flow ratio, the Cash flow adequacy ratio and the Cash flow reinvestment ratio growth is because of the increasing of the Net cash generated from operating activities which is due to the Accounts Payable increasing in the end of 2018.

【Note】According to the Rule No. 1050036477 issued by FSC, the Corporation has restated its financial statements from 2009 to 2015. The financial data from 2014 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				
		2014	2015	2016	2017	2018
Financial structure	Debt Ratio(%)	27.38	26.50	26.84	24.64	25.14
	Long-term fund to property, plant and equipment ratio(%)	1,013.97	1,247.40	960.92	932.95	908.84
Liquidity Analysis	Current ratio (%)	317.51	317.60	300.56	321.04	322.48
	Quick ratio (%)	230.26	244.75	237.32	235.51	238.01
	Times Interest Earned (times)	1,528.71	1,505.91	2,695.69	1,348.76	987.26
Operating performance Analysis	Average Accounts receivable turnover (times)	8.12	8.61	9.58	8.03	7.50
	Days sales outstanding	44.95	42.39	38.10	45.45	48.66
	Average Inventory turnover (times)	5.81	5.55	6.58	4.89	4.31
	Average Accounts payable turnover (times)	7.42	7.17	8.49	8.08	7.50
	Average Inventory turnover Days	62.82	65.76	55.47	74.64	84.68
	Property, plant and equipment turnover (times)	20.43	22.74	21.72	16.11	14.18
	Total assets turnover (times)	1.54	1.47	1.48	1.27	1.16
Profitability Analysis	Return on total assets (%)	15.03	15.88	16.48	17.47	12.26
	Return on Equity (%)	20.96	21.71	22.47	23.49	16.30
	Pre-tax income to paid-in capital (%)	200.98	231.10	280.72	340.64	253.73
	Net Profit ratio (%)	9.75	10.80	11.14	13.79	10.58
	Basic Earnings per share (NT$)	17.48	20.41	24.67	29.23	21.91
Cash flow	Cash flow ratio (%)	21.62	64.63	59.01	46.42	58.27
	Cash flow adequacy ratio (%)	108.37	112.99	113.88	91.45	109.76
	Cash flow reinvestment ratio (%)	(3.33)	11.98	10.95	4.35	6.74
Leverage	Operating leverage	1.05	1.05	1.05	1.05	1.09
	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 decreasing of Profit before Income Tax in 2018.

(2) Average Accounts payable turnover down is because of the increasing of Accounts Payable in the end of 2018.

(3) The Return on total assets and Return on Equity attributable to owners of parent company down is because of the decreasing of Net Profit in 2018.

(4) The Pre-tax income to paid-in capital down is because of the the decreasing of Net Profit in 2018.

(5) The Cash flow ratio, the Cash flow adequacy ratio and the Cash flow reinvestment ratio growth is because of the increasing of the Net cash generated from operating activities which is due to the Accounts Payable increasing in the end of 2018.

【Note】According to the Rule No. 1050036477 issued by FSC, the Corporation has revised its financial statements from 2009 to 2015. The financial data from 2014 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 2018 Supervisors' Review Report

Supervisors' Review Report

The board of directors prepared the Company's 2018 Business Report and Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution, etc.Mr. Dai Xinwei and Mr. Fan Youwei, the independent auditors from the CPA firm of Deloitte &Touche audited the Financial Statements and have issued an audit report. Above Business Reports, Financial Statements (including Consolidated Financial Statements) and Surplus Earning Distribution were audited by Supervisor and found no discrepancy, as reported in accordance with the Article 219 of the Company Act, please check.

To

2019 Annual General Meeting of Shareholders

Phison Electronics Corporation

Supervisor：Yang Jiunn Yeong

Supervisor：Chen Chiun Hsiou

Supervisor：Wang Huei Ming

Mar 21, 2019

6.4 The Consolidated Financial Statements for the Year of 2018 (including Auditors' Report, Balance Sheet, Statements of Comprehensive Income,Changes in Equity, Cash Flows, and Notes and additional Tables): please refer to page 124 to page 203.

6.5 The Audited Nonconsolidated Financial Statement for the Year of 2018: please refer to page 204 to page 279.

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 2018 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	2018.12.31	2017.12.31	Difference	
			Amount	%
Cash and cash equivalents	14,176,396	14,142,389	34,007	0.24%
Financial assets at fair value through profit or loss – current-current	3,077,540	1,271,217	1,806,323	142.09%
Notes and accounts receivable	5,243,958	5,731,455	(487,497)	(8.51%)
Inventories	7,576,721	7,192,346	384,375	5.34%
Other current assets	531,192	472,280	58,912	12.47%
Financial assets at fair value through profit or loss (FVTPL)-non-current (Applicable after adopting IFRS 9)	427,789	0	427,789	-
Financial assets at fair value through other comprehensive income (FVTOCI)-non-current (Applicable after adopting IFRS 9)	450,397	0	450,397	-
Available-for-sale financial assets-non-current	0	434,763	(434,763)	-
Financial assets measured at cost-non-current	0	817,627	(817,627)	-
Investments accounted for using the equity method	1,494,049	1,709,711	(215,662)	(12.61%)
Property, plant and equipment	2,990,231	2,822,881	167,350	5.93%
Other non-current assets	470,267	531,935	(61,668)	(11.59%)
Total assets	**36,438,540**	**35,126,604**	**1,311,936**	**3.73%**
Short-term debt	0	0	0	0.00%
Notes and accounts payable	4,805,547	3,647,245	1,158,302	31.76%
Other current liabilities	4,614,084	5,316,163	(702,079)	(13.21%)
Non-current liabilities	107,039	104,881	2,158	2.06%
Total liabilities	**9,526,670**	**9,068,289**	**458,381**	**5.05%**
Share capital	1,970,740	1,970,740	0	0.00%
Capital surplus	6,674,650	6,660,502	14,148	0.21%
Retained earnings	18,647,407	17,390,657	1,256,750	7.23%
Other equity	(380,927)	36,416	(417,343)	(1,146.04%)
Total equity attributable to owners of the Corporation	26,911,870	26,058,315	853,555	3.28%
Non-controlling interests	0	0	0	0.00%
Total Equity	**26,911,870**	**26,058,315**	**853,555**	**3.28%**

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 Financial assets at fair value through profit or loss – current growth is because the investments of MMFs.
(2) The Notes and accounts payable growth is mainly because the delayed payment due to bank closed on holiday in the end of the period.
(3) The Other equity changes is because the loss of Unrealized Gain(Loss) on Financial Assets at Fair Value Through Other Comprehensive Income due to adopting IFRS 9 from the beginning of 2018.

7.2 Operating Results Analysis

7.2.1 The Comparison of Operating Result

Consolidated Statements of Comprehensive Income Statement

In thousand in NT$

Item	2018		2017		2018 Growth Rate
	Amount	%	Amount	%	%
Operating revenues	40,788,105	100.00%	41,864,759	100.00%	(2.57%)
Operating costs	31,656,151	77.61%	30,365,137	72.53%	4.25%
Gross profit	9,131,954	22.39%	11,499,622	27.47%	(20.59%)
Marketing expenses	513,837	1.26%	531,728	1.27%	(3.36%)
General and administrative	441,225	1.08%	522,373	1.25%	(15.53%)
Research and development	3,495,417	8.57%	3,713,829	8.87%	(5.88%)
Reversal of expected credit losses	(28,309)	(0.07%)	-	-	-
Total operating expenses	4,422,170	10.84%	4,767,930	11.39%	(7.25%)
Operating income	4,709,784	11.55%	6,731,692	16.08%	(30.04%)
Non-operating income and expenses	295,397	0.72%	(13,822)	(0.03%)	2,237.15%
Profit before income tax	5,005,181	12.27%	6,717,870	16.05%	(25.49%)
Income tax expense	687,062	1.68%	956,580	2.29%	(28.18%)
Net profit for the year	4,318,119	10.59%	5,761,290	13.76%	(25.05%)
Other comprehensive income(loss) for the year, net of income tax	(171,742)	(0.42%)	57,409	0.14%	(399.16%)
Total comprehensive income for the year	4,146,377	10.17%	5,818,699	13.90%	(28.74%)
Net profit attributable to owners of parent company	4,318,119	10.59%	5,760,972	13.76%	(25.05%)
Total comprehensive income attributable to owners of parent company	4,146,377	10.17%	5,816,473	13.89%	(28.71%)
Earnings per share (NT$)	21.91		29.23		(25.04%)

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

(1) The Gross profit down is because of sales prics is slipping as the main materials of Nand supply and demand imbalance.

(2) The Operating income down is because of the decreasing of The Gross profit.

(3) The Non-operating income and expenses in gain is because of the gain of foreign currency exchange and the subsidiaries get grant subsidy income.

(4) The Profit before income tax, Income tax expense and Net profit for the year down is because of the decreasing of Gross profit.

(5) Other comprehensive income for the year down is because of the adjusting of Unrealized Gain(Loss) on Financial Assets at Fair Value Through Other Comprehensive Income.

(6) Total comprehensive income for the year, Net profit attributable to owners of parent company, Total comprehensive income attributable to owners of parent company and Earnings per share down is because of the decreasing of Gross profit.

2.Estimated sales volume of the year of 2019, 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 2019 total shipments of flash memory controllers and related system applications are about 680 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	(2,367,668)	(11,563,977)	5,954,045	892,297	2,349,967
Reason	1.Market Price difference disadvantage: mainly due to the decrease in market price of the products, which was effected by the supply and demand imbalance of material. 2.Cost difference advantage: mainly due to decreasing market price of NAND flash force the the cost of good sales going down. 3.Sales combination difference advantage: mainly due to the adjusting of products portfolio to increase the shipment of high margin products in the priod. 4.Quantity difference advantage: mainly due to the increase in the total shipments.				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for the Year of 2018

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
14,142,389	5,213,184	5,179,177	14,176,396	Not applicable	Not applicable

Analysis of the clash flow difference of the year:

Net cash generated from Operating activities: mainly from the NT$50 billion of net profit before tax in 2018.

Net cash used in Investing activities: mainly used in the purchase of financial assets at fair value through profit or loss.

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
14,176,396	1,600,000	4,200,000	11,576,396	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 demend 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 cash dividends to shareholders.

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:None.

7.4.2 Impact on Finance and Business:None.

7.4.3 Expected Benefits:None.

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 2018, the investment loss from investments accounted for by the equity method is NT$174,654 thousands, mainly due to the decrease in net loss 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

1. 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 2017 and 2018 are NT$4,981 thousand and NT$5,070 thousand respectively,accounting for 0.0119% and 0.0124% 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 2018, 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.

2. 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 2018, the foreign exchange gain is NT$185,916 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.

3. Inflation: as of the end of 2018, 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 2018 and 2019 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 itsderivative 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

7.6.3.1 Major R & D Projects in 2019:

1. High speed, high capacity USB 3.2 Flash Drive solutions.
2. SD 7.0 (SD Express) controllers.
3. UFS 3.1 controllers supporting 1.2GB/s NAND Flash.
4. High performance PCIe NVMe controllers and solutions.
5. 12nm PHYs.
6. Enterprise and Datacenter SSD controllers.
7. New LDPC ECC engines for emerging 3D QLC NAND Flash.
8. System in Package SSD solutions.
9. Automotive SSD solutions.

7.6.3.2 R&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 2019 is approximately $ 3.9 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

1. 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.
2. 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, Phison life plaza to effectively integrate the internal control functions, promote productivity and monitor the product quality.
3. The important risk assessments such as the assessment and evaluation of information security risks and their response measurement:The Company established the "Information Security Committee" in July 2017 to take charge of information security management, planning, supervision and implementation, and set up "Information Security Management Policy", "QW220010 Information System Change Management Specification", "QW220011 Server Host Management Specifications", "QW220006 System Development and Maintenance Management Specifications", etc.The committee, has obtained the BSI British Standards Association ISO27001 international security certificate, will hold reviewing meeting annually to improve information security and applicability of evaluation, keeps strengthen colleagues and organization over information security protection and establishes joint defense mechanism with vendors or partners in future.

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 2018 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: Not applicable.

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

1. <u>Excessive Concentration of Purchasing Sources:</u> 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 Taiwan Toshiba Memory (Toshiba TMTC) TMTC, which is a subsidiary of subsidiary company of Toshiba Memory Japan. Toshiba Memory 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.

2. Excessive Customer Concentration: 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. Pua Khein Seng, 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

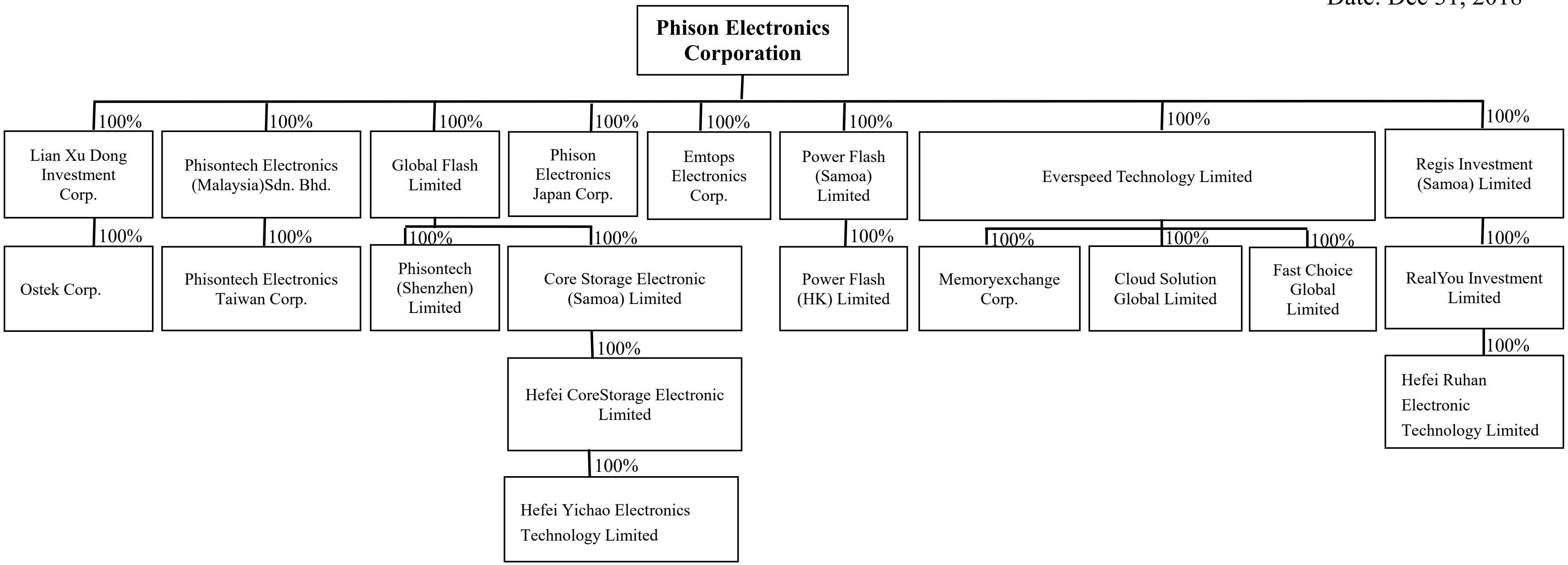
8.1 Summary of Affiliated Companies

8.1.1Consolidated Business Report

8.1.1.1 Profile of Affiliates

Organization Chart of Affiliates

Date: Dec 31, 2018



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 31/12/2018; 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	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, 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	200,000	59,508	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
Regis Investment (Samoa) Limited	Jan 2018	Portcullis Chambers, P.O. Box 1225,Apia,Samoa	USD	6,700	199,332	Investment	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
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	Oct 2012	Vistra Corporate Services Centre, Wickhams Cay II, Road	USD	5,950	186,963	Trade of electronic components	Sub-subsidiary

Company Name	Date of Incorporation	Registration Address	Capital			Major Business or Product	Remark
			Original Currency		NT Dollar		
【Note 6】		Town, Tortola, VG1110, British Virgin Islands					
RealYou Investment Limited 【Note 7】	Feb 2018	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	6,650	197,760	Investment	Sub-subsidiary
Hefei Yichao Electronic Technology Limited 【Note 8】	Jul 2018	Room 1201,F3 Floor,HIGH-TECH ZONE INNOVATION INDUSTRIAL PARK,HEFEI,ANHUI,CHINA	CNY	40,500	185,369	Design, R&D, sale of electronics hardware and software and rendering of related services and investment	Sub-subsidiary
Hefei Ruhan Electronics Technology Limited 【Note 9】	May 2018	Room 2046,Building D8,Hefei Innovation Industrial Park,2800 Wangjiang West Road,Hefei High-tech Zone	CNY	40,800	182,825	Design, R&D, sale of electronics hardware and rendering of related services and investment	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.

【Note 7】This company is our subsidiary of subsidiary company via Regis Investment (Samoa) Limited.

【Note 8】This company is our subsidiary of subsidiary company via Hefei Core Storage Electronic Limited.

【Note 9】This company is our subsidiary of subsidiary company via Real You Investment 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.	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.
Hefei Ruhan Electronic Technology Limited	Sales of flash memory peripheral application products.
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 31/12/2018; 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	Aw Yong 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	Aw Yong 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	Aw Yong Chee Kong	0	0.00%
Phison Electronics Japan Corp.	Parent company	Phison Electronics Corporation	2,000	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%
Regis Investment (Samoa) Limited	Parent company	Phison Electronics Corporation	6,700,000	100.00%
	Legal representative director	Phison Electronics Corporation	6,700,000	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	Aw Yong 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%

Company Name	Title	Name of Representative	Shareholding	
			Shares	%
Core Storage Electronic (Samoa) Limited 【Note 3】	Parent company	Global Flash Limited	18,050,000	100.00%
	Director	Pua Khein Seng	0	0.00%
	Director	Aw Yong 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%
RealYou Investment Limited 【Note 7】	Parent company	Regis Investment (Samoa) Limited	6,650,000	100.00%
	Director	Chang Yu Chu	0	0.00%
Hefei Yichao Electronics Technology Limited 【Note 8】	Parent company	Hefei Core Storage Electronic Limited	CNY40,500,000	100.00%
	Executive director	Wang Chih Ling	0	0.00%
	Supervisor	Liao Wan Hsin	0	0.00%

Company Name	Title	Name of Representative	Shareholding	
			Shares	%
Hefei Ruhan Electronic Technology Limited【Note 9】	Parent company	RealYou Investment Limited	CNY40,800,000	100.00%
	Executive director	Cheng Kuo Yi	0	0.00%
	Supervisor	Liao Wan Hsin	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.
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【Note 8】This company is our subsidiary of subsidiary company via Hefei Core Storage Electronic Limited.
【Note 9】This company is our subsidiary of subsidiary company via Real You Investment Limited.

8.1.1.6 Operation Summary of the Affiliates

As of 31/12/2018; in thousand in NT$

Name of Subsidiary	Capital	Assets	Liabilities	Net Worth	Net Revenue	Income(loss) from Operation	Net Income(Loss) (after tax)	EPS (NT$/ after tax)
Lian Xu Dong Investment Corp.	650,000	484,517	150	484,367	621	(896)	(211)	—
Phisontech Electronics (Malaysia) Sdn. Bhd.	93,990	74,420	10,145	64,275	25,577	(2,047)	1,414	0.14
Global Flash Limited	665,823	628,701	0	628,701	0	(75)	34,684	—
Phison Electronics Japan Corp.	59,508	36,025	1,261	34,764	15,083	591	(17)	—
Emtops Electronics Corp.	95,000	71,358	256	71,102	0	(731)	994	0.10
Power Flash (Samoa) Limited	105,440	101,359	0	101,359	0	(61)	553	—
Everspeed Technology Limited	-	252,981	0	252,981	0	(218)	112,544	—
Regis Investment (Samoa) Limited	199,332	205,618	0	205,618	0	(46)	769	—
Ostek Corp. 【Note1】	9,000	61,000	8,145	52,855	34,152	268	(691)	(0.77)
Phisontech Electronics Taiwan Corp.【Note 2】	10,000	49,101	7,466	41,635	17,861	4,296	2,880	2.88
Phisontech (Shenzhen) Limited【Note3】	53,096	13,324	4,547	8,777	21,332	(14,806)	(14,830)	—
Core Storage Electronic (Samoa) Limited 【Note 3】	576,229	599,958	0	599,958	0	(40)	49,188	—
Hefei Core Storage Electronic Limited 【Note 4】	576,780	684,064	85,172	598,892	489,881	14,818	49,190	—
Power Flash (HK) Limited 【Note 5】	98,754	95,351	43	95,308	0	(120)	403	—
Memoryexchange Corp. 【Note 6】	409,500	471,506	354,988	116,518	0	(283)	109,154	2.67
Fast Choice Global Limited 【Note 6】	1,482	2,681	0	2,681	0	(44)	(40)	—
Cloud Solution Global Limited【Note 6】	186,963	11,984	0	11,984	0	(71)	339	—
RealYou Investment Limited【Note 7】	197,760	204,123	0	204,123	0	(130)	845	—

Name of Subsidiary	Capital	Assets	Liabilities	Net Worth	Net Revenue	Income(loss) from Operation	Net Income(Loss) (after tax)	EPS (NT$/ after tax)
Hefei Yichao Electronics Technology Limited 【Note 8】	185,369	180,191	58	180,133	0	(50)	(1,003)	—
Hefei Ruhan Electronic Technology Limited 【Note 9】	182,825	205,013	21,862	183,151	107,194	1,023	703	—

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【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.
【Note 7】This company is our subsidiary of subsidiary company via Regis Investment (Samoa) Limited.
【Note 8】This company is our subsidiary of subsidiary company via Hefei Core Storage Electronic Limited.
【Note 9】This company is our subsidiary of subsidiary company via Real You Investment Limited.

8.1.2 Consolidated financial statement of affiliates: for 2018 (Jan 1, 2018 through to Dec 31, 2018), 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.

8.1.3 Report 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 24/5/2019

<table>
<tr><th>Item</th><th colspan="5">Date of approval by board of directors: Mar 16, 2018
Approved quantity: less than 18,000,000 shares</th><th colspan="5">Date of approval by board of directors: Mar 21, 2019
Approved quantity: less than 18,000,000 shares</th></tr>
<tr><td>Securities under private placement</td><td colspan="5">Common stock</td><td colspan="5">Common stock</td></tr>
<tr><td>Date of resolution and approved quantity</td><td colspan="5">【Note 1】</td><td colspan="5">【Note 2】</td></tr>
<tr><td>Basis and rationale forprice setting</td><td colspan="5">【Note 1】</td><td colspan="5">【Note 2】</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><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><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>Date of payment and completion</td><td colspan="5">Not applicable</td><td colspan="5">Not applicable</td></tr>
<tr><td rowspan="2">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><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></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Actual purchase (or conversion) price</td><td colspan="5">Not applicable</td><td colspan="5">Not applicable</td></tr>
<tr><td>Difference between the actual purchase (or conversion) price and the reference price</td><td colspan="5">Not applicable</td><td colspan="5">Not applicable</td></tr>
<tr><td>Impact of private placement on shareholders' equity (ex. causing an increase in accumulated losses)</td><td colspan="5">No serious impact</td><td colspan="5">No serious impact</td></tr>
<tr><td>Use of funds from private placement and progress of proposed plans</td><td colspan="5">Not applicable</td><td colspan="5">Not applicable</td></tr>
<tr><td>Effectiveness of private placement</td><td colspan="5">Not applicable</td><td colspan="5">Not applicable</td></tr>
</table>

【Note 1】The board of directors has decided that this private placement is be cancelled on Mar 21,2019. This decision will be reported to the 2019 shareholders' meeting.

【Note 2】This private placement has been approved by the board of directors on Mar 21, 2019 and will be reported to the 2019 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, 2018 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 21, 2019

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Phison Electronics Corp.

Opinion

We have audited the consolidated financial statements of Phison Electronics Corp. (the "Corporation") and its subsidiaries (collectively, the "Group") which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018. 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.

The key audit matter for the Group's consolidated financial statements for the year ended December 31, 2018 is stated as follows:

Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presumes there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Group's customers are numerous and diverse, and the operating revenue of the Group for the year ended December 31, 2018 amounted to NT$40,788,105 thousand. Therefore, the possibility of sales from transactions with unusual customers, validity of the transactions and whether they fulfilled the criteria for revenue recognition may result in a significant impact on the financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

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

1. We understood and tested the process of sales revenue recognition and the design and implementation of the relevant internal controls.

2. We sampled the original sales orders, shipping documents, export declarations and examined the process for the payment receipts to confirm that the sales revenue have met the conditions of revenue recognition.

3. We checked if there were any instances of simultaneous purchases from and sales to the same entity. If such situations exist, 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.

Emphasis of Matter

As stated in Note 35 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 Prosecutors Office and was concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutors Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code of the Republic of China, the prosecutor charged the chairman of the Corporation and others culminating in either deferred prosecution or dropping the claim for further prosecution. The Taiwan Hsinchu District Prosecutors 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 Prosecutors Office against the chairman of the Corporation 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, 2018 and 2017 on which we have issued an unmodified opinion with an emphasis of matter section.

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, 2018 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 21, 2019

Notice to Readers

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

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

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 14,176,396	39	$ 14,142,389	40
Financial assets at fair value through profit or loss (FVTPL) - current (Notes 4, 7 and 29)	3,077,540	8	1,271,217	4
Financial assets at amortized cost - current (Notes 4 and 9)	67,217	-	-	-
Debt investments with no active market - current (Notes 4, 10 and 32)	-	-	80,534	-
Notes and accounts receivable				
Non-related parties (Notes 4 and 11)	4,899,709	14	5,413,304	15
Related parties (Notes 4, 11 and 30)	344,249	1	318,151	1
Other receivables (Note 11)	273,062	1	288,599	1
Current tax assets (Notes 4 and 24)	23,448	-	9,237	-
Inventories (Notes 4 and 12)	7,576,721	21	7,192,346	21
Prepayments	63,194	-	28,720	-
Other current assets	104,271	-	65,190	-
Total current assets	30,605,807	84	28,809,687	82
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss (FVTPL) - non-current (Notes 4, 7 and 29)	427,789	1	-	-
Financial assets at fair value through other comprehensive income (FVTOCI) - non-current (Notes 4, 8 and 29)	450,397	1	-	-
Available-for-sale financial assets - non-current (Notes 4 and 13)	-	-	434,763	1
Financial assets measured at cost - non-current (Notes 4 and 14)	-	-	817,627	2
Investments accounted for using the equity method (Notes 4 and 16)	1,494,049	4	1,709,711	5
Property, plant and equipment (Notes 4 and 17)	2,990,231	8	2,822,881	8
Intangible assets (Notes 4 and 18)	152,550	1	218,130	1
Deferred tax assets (Notes 4 and 24)	310,563	1	310,025	1
Guarantee deposits paid	7,154	-	3,780	-
Total non-current assets	5,832,733	16	6,316,917	18
TOTAL	$ 36,438,540	100	$ 35,126,604	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Contract liabilities - current	$ 34,270	-	$ -	-
Notes and accounts payable				
Non-related parties	1,949,403	5	1,086,707	3
Related parties (Note 30)	2,856,144	8	2,560,538	7
Other payables (Note 19)	3,716,898	10	3,736,777	11
Tax payable (Notes 4 and 24)	523,854	2	1,092,802	3
Provisions (Notes 4 and 21)	-	-	292,081	1
Other current liabilities (Note 20)	339,062	1	194,503	1
Total current liabilities	9,419,631	26	8,963,408	26
NON-CURRENT LIABILITIES				
Long-Term Deferred Revenue	14,068	-	19,710	-
Net defined benefit liabilities - non-current (Notes 4 and 22)	92,827	-	84,897	-
Guarantee deposits received	144	-	274	-
Total non-current liabilities	107,039	-	104,881	-
Total liabilities	9,526,670	26	9,068,289	26
EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Note 23)				
Share capital				
Common shares	1,970,740	6	1,970,740	6
Capital surplus	6,674,650	18	6,660,502	19
Retained earnings				
Legal reserve	3,418,903	9	2,842,806	8
Special reserve	-	-	25,965	-
Unappropriated earnings	15,228,504	42	14,521,886	41
Total retained earnings	18,647,407	51	17,390,657	49
Other equity	(380,927)	(1)	36,416	-
Total equity attributable to owners of the Corporation	26,911,870	74	26,058,315	74
Total equity	26,911,870	74	26,058,315	74
TOTAL	$ 36,438,540	100	$ 35,126,604	100

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4 and 30)				
Gross sales	$ 40,976,395	101	$ 42,115,942	101
Less: Sales returns and allowances	361,131	1	425,229	1
Net sales	40,615,264	100	41,690,713	100
Other operating revenue	172,841	-	174,046	-
Total operating revenue	40,788,105	100	41,864,759	100
OPERATING COSTS (Notes 4, 12, 25 and 30)	31,656,151	78	30,365,137	73
GROSS PROFIT	9,131,954	22	11,499,622	27
OPERATING EXPENSES (Note 25)				
Marketing	513,837	1	531,728	1
General and administrative	441,225	1	522,373	1
Research and development	3,495,417	9	3,713,829	9
Reversal of expected credit losses	(28,309)	-	-	-
Total operating expenses	4,422,170	11	4,767,930	11
OPERATING INCOME	4,709,784	11	6,731,692	16
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 25)	175,624	-	(571,886)	(1)
Share of gains of associates (Note 16)	(174,654)	-	442,368	1
Other income (Note 25)	299,497	1	120,677	-
Financial costs	(5,070)	-	(4,981)	-
Total nonoperating income and expenses	295,397	1	(13,822)	-
PROFIT BEFORE INCOME TAX	5,005,181	12	6,717,870	16
INCOME TAX EXPENSE (Notes 4 and 24)	687,062	1	956,580	2
NET PROFIT FOR THE YEAR	4,318,119	11	5,761,290	14
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	(3,701)	-	(8,288)	-

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	$ (169,451)	(1)	$ -	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss (Note 24)	2,171	-	1,408	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(3,975)	-	1,516	-
Unrealized gain on available-for-sale financial assets	-	-	62,712	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 24)	3,214	-	61	-
Other comprehensive income (loss) for the year, net of income tax	(171,742)	(1)	57,409	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 4,146,377	10	$ 5,818,699	14
NET PROFIT ATTRIBUTED TO:				
Owners of the Corporation	$ 4,318,119	11	$ 5,760,972	14
Non-controlling interests	-	-	318	-
	$ 4,318,119	11	$ 5,761,290	14
TOTAL COMPREHENSIVE INCOME ATTRIBUTED TO:				
Owners of the Corporation	$ 4,146,377	10	$ 5,816,473	14
Non-controlling interests	-	-	2,226	-
	$ 4,146,377	10	$ 5,818,699	14
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 26)				
Basic	$ 21.91		$ 29.23	
Diluted	$ 21.60		$ 28.83	

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

(With Deloitte & Touche auditors' report dated March 21, 2019) (Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(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	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	$ 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 of 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
Non-controlling interests	-	-	-	-	-	-	-	-	-	(7,626)	(7,626)
Actual disposal or acquisition of interests in subsidiaries	-	(2,686)	-	-	-	-	-	-	(2,686)	-	(2,686)
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
Effect of retrospective application	-	-	-	-	463,052	-	(103,563)	(316,201)	43,288	-	43,288
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	1,970,740	6,660,502	2,842,806	25,965	14,984,938	(67,147)	-	(316,201)	26,101,603	-	26,101,603
Appropriation of the 2017 earnings											
Legal reserve	-	-	576,097	-	(576,097)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	(25,965)	25,965	-	-	-	-	-	-
Cash dividends - NT$17 per share	-	-	-	-	(3,350,258)	-	-	-	(3,350,258)	-	(3,350,258)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	14,148	-	-	-	-	-	-	14,148	-	14,148
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(172,633)	-	-	172,633	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	4,318,119	-	-	-	4,318,119	-	4,318,119
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(1,530)	(761)	-	(169,451)	(171,742)	-	(171,742)
BALANCE AT DECEMBER 31, 2018	$ 1,970,740	$ 6,674,650	$ 3,418,903	$ -	$ 15,228,504	$ (67,908)	$ -	$ (313,019)	$ 26,911,870	$ -	$ 26,911,870

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 5,005,181	$ 6,717,870
Adjustments for:		
Depreciation	223,830	169,364
Amortization	201,357	166,091
Share of loss (profit) of associates	174,654	(442,368)
Recognition of refund liabilities	166,648	-
Write-down of inventories	94,910	19,361
Net (gain) loss on foreign currency exchange	(91,066)	369,978
Interest income	(54,189)	(42,511)
Dividend income	(41,698)	(29,947)
Expected credit loss reversed on trade receivables	(28,309)	-
Gains on disposal of property, plant and equipment	(1,413)	-
Financial costs	5,070	4,981
Gain on disposal of associates	(392)	-
Recognition of provisions	-	238,449
Impairment loss recognized on financial assets	-	169,512
Allowance for bad debts	-	22,958
Gain on disposal of financial assets measured at cost	-	(7,545)
Other non-cash items	-	1,163
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	12,148	4,585
Notes and accounts receivable	501,434	(1,005,072)
Other receivables	16,046	98,188
Inventories	(479,247)	(1,989,417)
Prepayments	(36,059)	38,239
Other current assets	(39,081)	(36,968)
Contract liabilities	34,270	-
Notes and accounts payable	1,172,875	(185,891)
Other payables	(16,658)	594,250
Provisions	-	(290,444)
Unearned revenue	(5,642)	19,710
Other current liabilities	(333,586)	(44,250)
Net defined benefit liabilities	7,930	12,172
Cash generated from operations	6,489,013	4,572,458
Interest paid	(5,070)	(5,385)
Income tax paid	(1,270,759)	(694,831)
Net cash generated from operating activities	5,213,184	3,872,242
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(3,032,790)	(47,635)
Proceeds from financial assets at fair value through profit or loss	1,501,263	-
Payments for property, plant and equipment	(370,970)	(565,320)
Dividends received from others	41,698	29,947

(Continued)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Dividends received from associates	$ 233,310	$ -
Acquisition of associates	(178,880)	-
Payments for intangible assets	(135,845)	(161,956)
Purchase of financial assets at fair value through other comprehensive income	(134,207)	-
Proceeds from capital reduction of financial assets at fair value through profit or loss	69,855	-
Interest received	53,967	41,876
Proceeds from sale of financial assets at fair value through other comprehensive income	25,586	-
Proceeds from sale of financial assets at amortized cost	13,317	-
(Increase) decrease in refundable deposits	(3,374)	7,545
Proceeds from disposal of property, plant and equipment	1,628	-
Net cash inflow on disposal of associates	398	-
Purchase of financial assets measured at cost	-	(281,538)
Increase in debt investments with no active market	-	(21,805)
Proceeds from sale of financial assets measured at cost	-	14,315
Net cash used in investing activities	(1,915,044)	(984,571)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(3,350,258)	(2,759,036)
Decrease in guarantee deposits	(130)	(40)
Decrease in short-term borrowings	-	(580,500)
Decrease in non-controlling interests	-	(10,312)
Net cash used in financing activities	(3,350,388)	(3,349,888)
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	86,255	(353,725)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	34,007	(815,942)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	14,142,389	14,958,331
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 14,176,396	$ 14,142,389

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

(With Deloitte & Touche auditors' report dated March 21, 2019) (Concluded)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(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 trading on the Taipei Exchange (over-the-counter exchange 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 21, 2019.

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:

   1) IFRS 9 "Financial Instruments" and related amendments

      IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

      Classification, measurement and impairment of financial assets

      On the basis of the facts and circumstances that existed as at January 1, 2018, the Group has performed an assessment of the classification of recognized financial assets retrospectively and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Group's financial assets as at January 1, 2018.

Financial Assets	Measurement Category IAS 39	Measurement Category IFRS 9	Carrying Amount IAS 39	Carrying Amount IFRS 9	Remark
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 14,142,389	$ 14,142,389	(a)
Equity securities	Available for sale	Mandatorily at FVTPL	778,478	784,451	(b)
	Available for sale	FVTOCI - equity instruments	473,912	511,227	(b)
	Held for trading	Mandatorily at FVTPL	67,095	67,095	-
Beneficiary certificates - open-end funds	Held for trading	Mandatorily at FVTPL	1,150,400	1,150,400	(c)
Convertible bonds	Designated as at FVTPL	Mandatorily at FVTPL	53,722	53,722	(d)
Financial assets pledged as collateral	Loans and receivables	Amortized cost	80,534	80,534	(a)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	6,020,054	6,020,054	(a)
Guarantee deposits paid	Loans and receivables	Amortized cost	3,780	3,780	(a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remeasure-ments	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ 1,271,217	$ -	$ -	$ 1,271,217	$ -	$ -	
Add: Reclassification from available-for-sale (IAS 39)							
Required reclassification	-	778,478	5,973	784,451	109,536	(103,563)	(b)
	1,271,217	778,478	5,973	2,055,668	109,536	(103,563)	
FVTOCI	-	-	-	-	-	-	
Add: Reclassification from available-for-sale (IAS 39)	-	473,912	37,315	511,227	353,516	(316,201)	(b)
	-	473,912	37,315	511,227	353,516	(316,201)	
	$ 1,271,217	$ 1,252,390	$ 43,288	$ 2,566,895	$ 463,052	$ (419,764)	

a) Cash and cash equivalents, financial assets pledged as collateral, notes receivable, accounts receivable, other receivables and guarantee deposits paid that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

b) The Group elected to classify all of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL under IFRS 9. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of $103,563 thousand was reclassified to retained earnings.

   Investments in unlisted shares previously measured at cost under IAS 39 have been classified at FVTPL and designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $5,973 thousand was recognized in both financial assets at FVTPL and retained earnings. An increase of $37,315 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

   The Group recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of $353,516 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of $353,516 thousand in retained earnings on January 1, 2018.

c) Beneficiary certificates - open-ended funds previously classified as held-for-trading under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.

d) Convertible bonds previously classified as at FVTPL under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.

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 supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Refer to Note 4 for the related accounting policies.

The Group elected only to retrospectively apply IFRS 15 to contracts that were not complete on January 1, 2018 and not restate prior reporting periods. The cumulative effect of the initial application of this standard was retrospectively recognized at the date of initial application.

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 (IAS 18 and Related Explanations)	**Adjustments Arising from Initial Application**	**Carrying Amount as of January 1, 2018 (IFRS 15)**
Provisions - current	$ 292,081	$ (292,081)	$ -
Other current liabilities	194,503	292,081	486,584
Total effect on liabilities		$ -	

Prior to the application of IFRS 15, estimated sales returns and allowances were recognized in provisions of sales returns and allowances. After the application of IFRS 15, it is recognized in refund liabilities (other current liabilities).

The differences if the Group was to continue applying IAS 18 in 2018 instead of IFRS 15 is shown below.

Impact on assets, liabilities and equity for the current year

	December 31, 2018
Increase in provisions - current	$ 185,919
Decrease in other current liabilities	(185,919)
Increase (decrease) in liabilities	$ -

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

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)
IFRS 16 “Leases”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 3)
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: 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.

Definition of a lease

Upon initial application of IFRS 16, the Group will elect to apply the guidance of IFRS 16, in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

Upon initial application of IFRS 16, the Group 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. On the consolidated statements of comprehensive income, the Group should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows.

The Group anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases under IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. The Group will apply IAS 36 to all right-of-use assets.

The Group expects to apply the following practical expedients:

1) The Group will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Group will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Group will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

4) The Group will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Group as lessor

The Group will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Right-of-use assets	$ -	$ 26,831	$ 26,831
Guarantee deposits paid	7,154	(164)	6,990
Total effect on assets	$ 7,154	$ 26,667	$ 33,821
Lease liabilities - current	$ -	$ 8,277	$ 8,277
Lease liabilities - non-current	-	18,390	18,390
Total effect on liabilities	$ -	$ 26,667	$ 26,667

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Group assessed that the application of other standards and interpretations will not have a material impact on the Group'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)**
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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 Group shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Group shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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 which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which 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, 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 (i.e. its subsidiaries). 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, a gain or loss is recognized in profit or loss and is calculated as the difference between (1) the aggregate of the fair value of the consideration received and any investment retained in the former subsidiary at its fair value at the date when control is lost and (2) the assets (including any goodwill) and liabilities and any non-controlling interests of the former subsidiary at their carrying amounts at the date when control is lost. The Group accounts for all amounts recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required had the Group directly disposed of the related assets or liabilities.

Before 2018, the fair value of any investment retained in a former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate. Starting from 2018, the fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the cost on initial recognition of an investment in an associate.

See Note 15 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 financial statements of each individual group entity, transactions in currencies other than the 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 currencies 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 goods, 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 the investment's 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 Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

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 initially stated at cost, and subsequently 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 and assets related to contract costs

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 any 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, cash-generating unit or assets related to contract costs 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, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized 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 FVTPL) 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 FVTPL are recognized immediately in profit or loss.

a. Financial assets

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

   1) Measurement category

      <u>2018</u>

      Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

      a) Financial assets at FVTPL

         Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at 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 such a financial asset. Fair value is determined in the manner described in Note 29.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents and notes and trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such a financial asset; and

ii. Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Group may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

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 such financial assets are either held for trading or designated as at fair value through profit or loss.

   A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

   i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

   ii. The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

   iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

   Financial assets at fair value through profit or loss are stated at 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 the financial asset. Fair value is determined in the manner described in Note 29.

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 amounts 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 such investments are disposed of or are 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 value 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 measured 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 equivalents, debt investments with no active market, notes receivable and trade receivables) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

2018

The Group recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) at the end of each reporting period.

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For other financial assets, when the credit risk has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events of the financial instruments within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events over the expected life of the financial instruments.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. The portion of expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date are 12-month expected credit losses. Lifetime expected credit losses are the expected credit losses that arise if debtors default on their obligations at some time during the life of a financial instrument.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account. Except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

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 at amortized cost, such as trade receivables, such assets 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.

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

For financial assets 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 on which 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 a 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 impairment is recognized in other comprehensive income. In respect of available-for-sale debt securities, 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 measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its 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 the 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 uncollectible, 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 uncollectible trade receivables that are written off against the allowance account.

3) 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.

Before 2018, 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. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, 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. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Equity instruments

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

c. Financial liabilities

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

1) Recognition and measurement

On initial recognition, the transaction costs of financial assets that are neither held for trading nor designated as at FVTPL (including short-term borrowing, trade and notes payables, other payables and guarantee deposits received) which are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities. Subsequent valuation is measured at amortized cost determined by the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, 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

2018

The Group identifies contracts with the customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods comes from the sale of flash memory controllers, peripheral systems and other applications. Sales of the aforementioned goods are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

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 the materials' ownership.

2017

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.

Sale of goods

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

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

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

c. The amount of revenue can be measured reliably;

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

e. 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 the materials' ownership.

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

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 net defined benefit liabilities (assets) 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 liabilities (assets) represent 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 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 financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 11. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

When there is objective evidence of impairment loss of receivables, the Group takes into consideration the estimation of the future cash flows of such assets. The amount of impairment loss is measured as the difference between such an asset's carrying amount and the present value of its 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.

c. 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.

6. CASH AND CASH EQUIVALENTS

	December 31 2018	December 31 2017
Cash on hand	$ 109	$ 102
Checking accounts and demand deposits	9,299,883	9,638,350
Cash equivalents		
Time deposits with original maturities of less than 3 months	4,876,404	4,503,937
	$ 14,176,396	$ 14,142,389

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2018	December 31 2017
Non-derivative financial assets - current		
Financial assets at FVTPL		
Convertible bonds	$ -	$ 53,722
Financial assets held for trading		
Beneficiary certificates - open-ended funds	-	1,150,400
Domestic listed shares	-	67,095
	-	1,217,495
Financial assets mandatorily at FVTPL		
Beneficiary certificates - open-ended funds	2,619,258	-
Domestic listed shares	372,994	-
Convertible bonds	85,288	-
	3,077,540	-
	$ 3,077,540	$ 1,271,217
Non-derivative financial assets - non-current		
Financial assets mandatorily classified at FVTPL		
Private equity funds	$ 47,366	$ -
Domestic unlisted shares	281,900	-
Overseas unlisted shares	98,523	-
	$ 427,789	$ -

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT - 2018

Investments in Equity Instruments at FVTOCI

	December 31, 2018
Domestic investments - unlisted shares	$ 132,871
Overseas investments - unlisted shares	317,526
	$ 450,397

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3 and 14 for information relating to their reclassification and comparative information for 2017.

In 2018, the Group paid $134,207 thousand to acquire common shares of domestic and foreign unlisted entities for medium- to long-term strategic purposes; the management designated these investments as at FVTOCI.

In 2018, some of the Group's domestic and foreign unlisted investments completed liquidation procedures and were dissolved, and the related other equity - unrealized loss on financial assets at FVTOCI of $172,633 thousand was transferred to retained earnings.

9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT - 2018

	December 31, 2018
Certificates of deposit	$ 56,997
Time deposits with original maturities of more than 3 months	10,220
	$ 67,217

The interest rates for time deposits with original maturities of more than 3 months was 0.13% at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39. Refer to Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

Refer to Note 32 for information relating to investments in financial assets at amortized cost pledged as security.

10. DEBT INVESTMENTS WITH NO ACTIVE MARKET - CURRENT - 2017

	December 31, 2017
Certificates of deposit	$ 80,534

Refer to Note 32 for information relating to debt investments with no active market pledged as security.

11. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	2017
Notes receivable		
Notes receivable - operating	$ -	$ 4
Accounts receivable		
At amortized cost		
Gross carrying amount - non-related parties	$ 5,051,051	$ 5,598,693
Gross carrying amount - related parties	344,249	318,151
	5,395,300	5,916,844
Less: Loss Allowance	151,342	185,393
	$ 5,243,958	$ 5,731,451
Other receivables		
Income tax refund receivable	$ 176,307	$ 116,866
Factored accounts receivable	74,777	147,526
Others	21,978	24,207
	$ 273,062	$ 288,599

Trade Receivables

For the year ended December 31, 2018

The average credit period of sales of goods was 30 to 90 days. The Group adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Group uses other publicly available financial information or its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Corporation has delegated staff responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that an adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Group's credit risk is significantly reduced.

The Group applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected credit losses allowance for all trade receivables. The expected credit losses on trade receivables are estimated using an allowance matrix by reference to past default experience with the respective debtors and an analysis of each debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Group's historical credit losses experience does not show significantly different loss patterns for different customer segments, the loss allowance, which is based on the past due status of receivables, is not further distinguished according to different segments of the Group's customer base.

The Group writes off a trade receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery, e.g. the earlier of either when the debtor has been placed under liquidation or when the trade receivables are over two years past due. For trade receivables that have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables - non-related parties based on the Group's allowance matrix.

December 31, 2018

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Expected credit losses rate	1.57%	13.64%	19.39%	26.79%	61.45%	100%	
Gross carrying amount	$ 4,592,145	$ 413,222	$ 4,813	$ 6,474	$ 13,879	$ 20,518	$ 5,051,051
Loss allowance (lifetime expected credit losses)	(72,558)	(47,920)	(923)	(1,687)	(8,203)	(20,051)	(151,342)
Amortized cost	$ 4,519,587	$ 365,302	$ 3,890	$ 4,787	$ 5,676	$ 467	$ 4,899,709

The movements of the loss allowance of trade receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	$ 185,393
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	185,393
Less: Provision (reversal) of loss allowance	(28,309)
Less: Amounts written off	(5,533)
Foreign exchange gains and losses	(209)
Balance at December 31, 2018	$ 151,342

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, 2018					
HSBC Bank	US$ 42,640	US$ 39,855	-	-	US$ 10,400
For the year ended December 31, 2017					
HSBC Bank	US$ 41,383	US$ 35,711	-	-	US$ 12,800

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.

December 31, 2017

The Group applied the same credit policy in 2018 and 2017. For some trade receivables balances that were past due at the end of the reporting period, the Group did not recognize an allowance for impairment loss because there was 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.

The aging of receivables was as follows:

	December 31, 2017
Not past due	$ 5,457,310
1-60 days	406,230
61-90 days	429
91-120 days	38,566
More than 120 days	14,309
	$ 5,916,844

The above aging schedule was based on the number of days past due at 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, 2017	$ -	$ 161,680	$ 161,680
Add: Impairment losses recognized on receivables	-	22,958	22,958
Exchange differences	-	755	755
Balance at December 31, 2017	$ -	$ 185,393	$ 185,393

As of December 31, 2017, the Group individually recognized impairment losses on trade receivables of $0. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The Group did not hold any collateral over these receivables.

12. INVENTORIES

	December 31	
	2018	2017
Raw materials	$ 4,264,410	$ 3,941,530
Work-in-process	2,000,892	1,295,526
Semifinished goods	1,273,952	1,883,751
Finished goods	37,467	71,539
	$ 7,576,721	$ 7,192,346

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $31,656,151 thousand and $30,365,137 thousand, respectively.

The cost of goods sold for the years ended December 31, 2018 and 2017 included inventory write-downs of $94,910 thousand and $19,361 thousand, respectively.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NON-CURRENT - 2017

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

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.

14. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT - 2017

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

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.

During 2017, the Group disposed of certain financial assets measured at cost with a total carrying amount of $6,770 thousand and recognized a disposal gain of $7,545 thousand.

During 2017, the Group recognized an impairment loss of $169,512 thousand on the above unlisted equity investments.

15. SUBSIDIARIES

a. Subsidiaries included in the consolidated financial statements

The subsidiaries included in the consolidated financial statements are as follows:

Investor	Investee	Principal Activities	Proportion of Ownership December 31 2018	Proportion of Ownership December 31 2017	Remark
Phison Electronics Corp.	Lian Xu Dong Investment Corporation	Investment	100.00	100.00	
	Phison Electronics Japan Corp.	Sales and service office	100.00	100.00	
	Emtops Electronics Corp.	Sales of flash memory controllers and peripheral system applications products	100.00	100.00	
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Design, production and sale of flash memory controllers and peripheral system applications	100.00	100.00	
	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	
	Regis Investment (Samoa) Limited	Investment	100.00	-	Remark 1
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	
Hefei Core Storage Electronic Limited	Hefei Yichao Electronics Technology Ltd.	Design, R&D and sale of electronic products and technical support service and rendering of related services.	100.00	-	Remark 2
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	
Regis Investment (Samoa) Limited	Real You Investment Limited	Investment	100.00	-	Remarks 1
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	Design, R&D and sale of electronic products and technical support service and rendering of related services.	100.00	-	Remarks 1

Remark 1: During 2018, Regis Investment (Samoa) Limited was incorporated in Samoa for operational purposes, and its reinvestment entity, RealYou Investment Limited, was incorporated in Hong Kong; the reinvestment entity of RealYou Investment Limited, Hefei Ruhan Electronic Technology Limited, was incorporated in Hefei.

Remark 2: During 2018, the reinvestment entity of Hefei Core Storage Electronic Limited, Hefei Yichao Electronics Technology Ltd., was incorporated in Hefei for operational purposes.

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

c. During the preparation of the consolidated financial statements, the substantial transactions between the group entities were eliminated.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments in Associates	December 31 2018	December 31 2017
Unlisted shares		
Kingston Solutions Inc.	$ 1,257,971	$ 1,623,790
Epostar Electronics (BVI) Corporation	17,596	47,741
Microtops Design Corporation ("Microtops")	22,696	21,563
PMS Technology Corporation	17,929	16,617
Hefei Xinpeng Technology Co., Ltd.	177,857	-
	$ 1,494,049	$ 1,709,711

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

As of December 31, 2018, no investments in associates were individually material to the Group.

As of December 31, 2017, 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.

a. Material associate

Kingston Solutions Inc.

	December 31, 2017
Current assets	$ 6,703,051
Non-current assets	149,930
Current liabilities	(1,250,947)
Non-current liabilities	(668,003)
Equity	$ 4,934,031
Equity attributable to the Corporation	$ 1,623,790

	For the Year Ended December 31, 2017
Operating revenue	$ 20,205,762
Net profit for the year	$ 1,441,523
Other comprehensive loss	(92)
Total comprehensive income for the year	$ 1,441,431

b. Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2018	2017
The Group's share of:		
Net loss for the year	$ (174,654)	$ (32,037)
Other comprehensive income (loss)	(745)	14
Total comprehensive loss for the year	$ (175,399)	$ (32,023)

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, 2018 and 2017 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, 2018 and 2017.

Flexmedia Electronics Corporation held a shareholders' meeting on February 25, 2016 for the approval of liquidation, and completed liquidation processes on August 29, 2018.

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	
	2018	2017
Unrecognized share of losses of associates for the year	$ -	$ (1,280)
Accumulated unrecognized share of losses of associates	$ (1,295)	$ (1,295)

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

17. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
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
Cost								
Balance at January 1, 2018	$ 813,738	$ 28,775	$ 1,965,976	$ 414,707	$ 46,685	$ 30,322	$ -	$ 3,300,203
Additions	-	-	79,495	281,956	15,215	13,634	-	390,300
Disposals	-	(5,095)	-	(42,359)	(10,142)	(844)	-	(58,440)
Effects of foreign currency exchange difference	-	-	-	(923)	(135)	(28)	-	(1,086)
Reclassification	-	-	-	1,585	-	-	-	1,585
Balance at December 31, 2018	$ 813,738	$ 23,680	$ 2,045,471	$ 654,966	$ 51,623	$ 43,084	$ -	$ 3,632,562

(Continued)

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
Accumulated depreciation								
Balance at January 1, 2018	$ -	$ 20,926	$ 233,074	$ 188,492	$ 23,543	$ 11,287	$ -	$ 477,322
Disposals	-	(5,095)	-	(42,181)	(10,105)	(844)	-	(58,225)
Depreciation	-	3,472	56,845	138,056	15,928	9,529	-	223,830
Effects of foreign currency exchange difference	-	-	-	(483)	(99)	(14)	-	(596)
Balance at December 31, 2018	$ -	$ 19,303	$ 289,919	$ 283,884	$ 29,267	$ 19,958	$ -	$ 642,331
Balance at December 31, 2018, net	$ 813,738	$ 4,377	$ 1,755,552	$ 371,082	$ 22,356	$ 23,126	$ -	$ 2,990,231

(Concluded)

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	3-5 years
Office equipment	3 years
Other equipment	3-5 years

18. INTANGIBLE ASSETS

	Computer Software	Technology License Fees	Total
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
Balance at January 1, 2018	$ 153,511	$ 64,619	$ 218,130
Additions	112,514	23,331	135,845
Amortization	(152,472)	(48,885)	(201,357)
Effects of foreign currency exchange differences	(68)	-	(68)
Balance at December 31, 2018	$ 113,485	$ 39,065	$ 152,550

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

Computer software	1-5 years
Technology license fees	1-8 years

19. OTHER PAYABLES

	December 31	
	2018	2017
Other payables		
Salaries and bonuses payable	$ 2,452,835	$ 2,598,177
Others	1,264,063	1,138,600
	$ 3,716,898	$ 3,736,777

20. OTHER LIABILITIES

	December 31	
	2018	2017
Current		
Other payables		
Refund liabilities (Note 21)	$ 185,919	$ -
Payables for purchases of equipment	30,832	11,416
Receipts under custody	23,927	88,771
Others	98,384	94,316
	$ 339,062	$ 194,503

21. PROVISIONS - CURRENT

	December 31, 2017
Sales returns and allowances	$ 292,081

	For the Year Ended December 31, 2017
Balance at January 1	$ 344,076
Additional provisions recognized	238,449
Usage	(290,444)
Balance at December 31	$ 292,081

Prior to 2017, 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.

The Corporation started the application of IFRS 15 in 2018, and the estimated sales returns and provisions are recognized as refund liabilities (other current liabilities).

22. 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 consolidated balance sheets in respect of the Corporation's defined benefit plan were as follows:

	December 31	
	2018	**2017**
Present value of defined benefit obligation	$ 127,656	$ 116,566
Fair value of plan assets	(34,829)	(31,669)
Net defined benefit liabilities	$ 92,827	$ 84,897

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liabilities (Assets)**
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

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	$ 116,566	$ (31,669)	$ 84,897
Service costs			
Current service costs	4,954	-	4,954
Net interest expense (income)	1,633	(443)	1,190
Recognized in profit or loss	6,587	(443)	6,144
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(802)	(802)
Actuarial loss - changes in financial assumptions	4,695	-	4,695
Actuarial loss - experience adjustments	(192)	-	(192)
Recognized in other comprehensive income	4,503	(802)	3,701
Contributions from the employer	-	(1,915)	(1,915)
Balance at December 31, 2018	$ 127,656	$ (34,829)	$ 92,827

(Concluded)

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	
	2018	2017
Operating costs	$ 859	$ 723
Marketing expenses	716	685
Administrative expenses	1,597	1,561
Research and development expenses	2,972	2,796
	$ 6,144	$ 5,765

Recognized in other comprehensive income was an actuarial loss of $1,530 thousand in 2018 and an actuarial loss of $6,880 thousand in 2017. The cumulative amount of actuarial loss recognized in other comprehensive income as of December 31, 2018 and 2017 was $41,127 thousand and $39,597 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	
	2018	**2017**
Discount rate	1.20%	1.40%
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	
	2018	**2017**
Discount rate		
0.25% increase	$ (5,838)	$ (5,582)
0.25% decrease	$ 6,160	$ 5,902
Expected rate of salary increase		
0.25% increase	$ 5,655	$ 5,443
0.25% decrease	$ (5,404)	$ (5,191)

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	
	2018	**2017**
The expected contributions to the plan for the next year	$ 2,097	$ 1,888
The average duration of the defined benefit obligation	19 years	20 years

23. EQUITY

a. Share capital

Common shares

	December 31	
	2018	**2017**
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 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 was in effect from December 5, 2017. In accordance with Article 55, 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. 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 4, 2018.

On November 13, 2018, 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. 1070344165 and will take effect starting from November 28, 2018. In accordance with Article 55, 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 2018, 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	
	2018	**2017**
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 the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
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	288,231	274,083
	$ 6,674,650	$ 6,660,502

* 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

Under the dividends policy as set forth 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 to directors and supervisors before and after amendment, refer to Note 25 (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. Profit 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.

The appropriations of earnings for 2017 and 2016 were approved in the shareholders' meeting on June 8, 2018 and June 13, 2017, respectively, and were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	For Year 2017	**For Year 2016**	**For Year 2017**	**For Year 2016**
Legal reserve	$ 576,097	$ 486,699		
Reversal of special reserve	(25,965)	(85,393)		
Cash dividends	3,350,258	2,759,036	$17	$14

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors on March 21, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 431,812	
Special reserve	380,927	
Cash dividends	2,561,962	$13

The appropriation of earnings for 2018 are subject to the resolution of the shareholders in the shareholders' meeting to be held on June 12, 2019.

d. Other equity items

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

	For the Year Ended December 31	
	2018	2017
Balance at January 1	$ (67,147)	$ (66,816)
Effect of change in tax rate	2,426	-
Exchange differences arising on translating the financial statements of foreign operations	(3,975)	(392)
Related income tax	788	61
Balance at December 31	$ (67,908)	$ (67,147)

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

Balance at January 1, 2017	$ 40,851
Unrealized gain arising during the year	62,712
Balance at December 31, 2017	$ 103,563
Balance at January 1, 2018 per IAS 39	$ 103,563
Adjustment on initial application of IFRS 9	(103,563)
Balance at January 1, 2018 per IFRS 9	$ -

3) Unrealized gain (loss) on financial assets at FVTOCI

	For the Year Ended December 31, 2018
Balance at January 1 per IAS 39	$ -
Adjustment on initial application of IFRS 9	(316,201)
Balance at January 1 per IFRS 9	(316,201)
Recognized during the period	
Unrealized gain (loss) - equity instruments	(169,451)
Cumulative unrealized gain (loss) on equity instruments transferred to retained earnings due to disposals	172,633
Balance at December 31	$ (313,019)

e. Non-controlling interests

	For the Year Ended December 31, 2017
Balance at January 1	$ 5,400
Acquisition of non-controlling interests in subsidiaries of Phisontech Electronics (Malaysia) Sdn. Bhd. (Note 27)	(7,626)
Attributable to non-controlling interests:	
Share of profit for the year	318
Exchange difference arising on translation of foreign operations	1,908
Balance at December 31	$ -

24. 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	
	2018	2017
Current tax		
In respect of the current year	$ 659,411	$ 976,422
Income tax on unappropriated earnings	185,973	170,486
Adjustments for prior periods	(163,086)	(100,245)
	682,298	1,046,663
Deferred tax		
In respect of the current year	54,748	(90,083)
Effect of change in tax rate	(49,984)	-
	4,764	(90,083)
Income tax expense recognized in profit or loss	$ 687,062	$ 956,580

A reconciliation of accounting profit and income tax expense for 2018 and 2017 is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	$ 5,005,181	$ 6,717,870
Income tax expense calculated at the statutory rate	$ 1,022,903	$ 1,142,671
Nondeductible expenses in determining taxable income	1,107	93
Unrecognized deductible temporary differences	(6,690)	(4,837)
Tax-exempt income	(304,852)	(255,057)
Income tax on unappropriated earnings	185,973	170,486
Effect of change in tax rate	(49,984)	-
Effect of different tax rate of group entitles operating in other jurisdictions	1,691	3,469
Adjustments for prior years' tax	(163,086)	(100,245)
Income tax expense recognized in profit or loss	$ 687,062	$ 956,580

In 2017, the applicable corporate income tax rate used by the group entities in the ROC was 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. 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.

The appropriation of the 2019 earnings is uncertain and is subject to approval at the shareholders' meeting; thus, the potential consequences of income tax on the 2018 unappropriated earnings are not reliably determinable.

b. Income tax benefit recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred income tax		
Effect of change in tax rate	$ 3,857	$ -
Recognized in other comprehensive income		
Actuarial gain on defined benefit plan	740	1,408
Translation of foreign operations	788	61
Total income tax recognized in other comprehensive income	$ 5,385	$ 1,469

c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax assets		
Tax refund receivable	$ 23,448	$ 9,237
Current tax liabilities		
Income tax payable	$ 523,854	$ 1,092,802

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, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Doubtful accounts	$ 21,608	$ (4,211)	$ -	$ -	$ 17,397
Inventory write-downs	52,567	27,752	-	-	80,319
Unearned revenue	4,928	(967)	-	(83)	3,878
Refund liabilities	49,654	(12,470)	-	-	37,184

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Compre-hensive Income	Exchange Differences	Closing Balance
Defined benefit obligation	$ 14,433	$ 1,961	$ 2,171	$ -	$ 18,565
Unrealized exchange losses	77,475	7,767	-	-	85,242
Impairment loss on financial assets	44,475	(12,674)	-	-	31,801
Exchange differences on translating foreign operations	13,746	-	3,214	-	16,960
Share of losses of subsidiaries and associates	29,224	(16,114)	-	-	13,110
Property, plant and equipment	1,915	282	-	-	2,197
Unrealized gain on transactions with subsidiaries	-	3,910	-	-	3,910
	$ 310,025	$ (4,764)	$ 5,385	$ (83)	$ 310,563

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	$ -

e. Income tax assessments

Associate	For the Year Ended
Phison Electronics Corp.	2016
Lian Xu Dong Investment Corporation	2016
Emtops Electronics Corp.	2016
Ostek Corporation	2016
Phisontech Electronics Taiwan Corp.	2016
Memoryexchange Corporation	2016

25. NET PROFIT (LOSS) FROM CONTINUING OPERATIONS

The following items were included in the net profit for 2018 and 2017:

a. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Fair value changes of financial assets and financial liabilities		
Financial assets mandatorily at FVTPL	$ (12,148)	$ -
Net foreign exchange gains (losses), net	185,916	(404,573)
Impairment loss recognized on financial assets	-	(169,512)
Loss arising on financial assets classified as held for trading	-	(4,585)
Net gain on disposal of financial assets measured at cost	-	7,545
Others	1,856	(761)
	$ 175,624	$ (571,886)

b. Other income

	For the Year Ended December 31	
	2018	2017
Interest income		
Bank deposits	$ 51,067	$ 42,511
Convertible bonds	3,122	-
Rental income	1,885	2,530
Dividend income	41,698	29,947
Others	201,725	45,689
	$ 299,497	$ 120,677

c. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	$ 223,830	$ 169,364
Intangible assets	201,357	166,091
	$ 425,187	$ 335,455
An analysis of depreciation by function		
Operating costs	$ 45,945	$ 37,340
Operating expenses	177,885	132,024
	$ 223,830	$ 169,364
An analysis of amortization by function		
General and administrative expenses	$ 7,909	$ 8,369
Research and development expenses	193,448	157,722
	$ 201,357	$ 166,091

d. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 2,939,711	$ 3,539,975
Post-employment benefits		
Defined contribution plan	82,200	69,244
Defined benefit plan	6,144	5,765
	88,344	75,009
Other employee benefits		
Employee welfare	55,870	54,933
Food stipend	41,210	36,766
	97,080	91,699
Termination benefits	55	-
	$ 3,125,190	$ 3,706,683
Employee benefits		
Recognized in operating costs	$ 212,504	$ 197,568
Recognized in operating expenses	2,912,686	3,509,115
	$ 3,125,190	$ 3,706,683

e. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates of 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, 2018 and 2017, which have been approved by the Corporation's board of directors on March 21, 2019 and March 16, 2018, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2018	2017
Employees' compensation	9.84%	9.00%
Remuneration of directors and supervisors	0.72%	0.81%

Amount

	For the Year Ended December 31			
	2018		2017	
	Cash Dividends	Share Dividends	Cash Dividends	Share Dividends
Employees' compensation	$ 550,000	$ -	$ 670,000	$ -
Remuneration of directors and supervisors	40,000	-	60,000	-

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 consolidated financial statements for the years ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2019 and 2018 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	
	2018	**2017**
Foreign exchange gains	$ 589,489	$ 404,688
Foreign exchange losses	(403,573)	(809,261)
Net gain (loss)	$ 185,916	$ (404,573)

26. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2018	**2017**
Basic earnings per share	$ 21.91	$ 29.23
Diluted earnings per share	$ 21.60	$ 28.83

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

Net Profit for the Year

	For the Year Ended December 31	
	2018	**2017**
Earnings used in the computation of basic earnings per share		
Profit for the period attributable to owners of the Corporation	$ 4,318,119	$ 5,760,972
Earnings used in the computation of diluted earnings per share		
Profit for the period attributable to owners of the Corporation	$ 4,318,119	$ 5,760,972

Shares

(In Thousands of Shares)

	For the Year Ended December 31	
	2018	**2017**
Weighted-average number of common shares used in the computation of basic earnings per share	197,074	197,074
Effect of potentially dilutive common shares:		
Employees' compensation	2,867	2,766
Weighted-average number of common shares used in the computation of dilutive earnings per share	199,941	199,840

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.

27. 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%.

28. 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.

29. 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, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	$ 372,994	$ -	$ -	$ 372,994
Domestic unlisted shares	-	-	281,900	281,900
Overseas unlisted shares	-	-	98,523	98,523
Domestic private equity funds	-	-	47,366	47,366
Beneficiary certificates - open-ended funds	2,619,258	-	-	2,619,258
Convertible bonds	-	-	85,288	85,288
	$ 2,992,252	$ -	$ 513,077	$ 3,505,329
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	$ -	$ -	$ 132,871	$ 132,871
Overseas unlisted shares	-	-	317,526	317,526
	$ -	$ -	$ 450,397	$ 450,397

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	$ 67,095	$ -	$ -	$ 67,095
Beneficiary certificates - open-ended 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				
Investments in equity instruments				
Unlisted debt securities - ROC	$ -	$ -	$ 434,763	$ 434,763

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, 2018

Financial Assets	Financial Assets at FVTPL			Financial Assets at FVTOCI	Total
	Derivatives - Private Equity Funds	Derivatives - Convertible Bonds	Equity Instruments	Equity Instruments	
Balance at January 1, 2018 (IAS 39)	$ -	$ 53,722	$ 434,763	$ -	$ 488,485
Transfers into Level 3 (Application of IFRS 9)	47,032	-	302,656	511,227	860,915
Recognized in profit or loss					
Other gains and losses	334	3,478	134,421	-	138,233
Recognized in other comprehensive income					
Unrealized loss on financial assets at FVTOCI	-	-	-	(169,451)	(169,451)
Purchases	-	77,763	13,201	134,207	225,171
Sales	-	(49,675)	-	(25,586)	(75,261)
Capital reduction and refund of shares	-	-	(69,855)	-	(69,855)
Transfers out of Level 3	-	-	(434,763)	-	(434,763)
Balance at December 31, 2018	$ 47,366	$ 85,288	$ 380,423	$ 450,397	$ 963,474

For the year ended December 31, 2017

	Financial Assets at FVTPL	Available-for-sale Financial Assets	Total
	Convertible Bonds	Equity Instruments	
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

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 the Binary Tree Evaluation Model and option pricing models where the significant unobservable input is historical volatility. As of December 31, 2018 and 2017, the historical volatilities used were 58.61% and 46.75%, respectively.

b) The fair values of unlisted debt securities - ROC are as follows:

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.

c) The fair values of unlisted equity securities - domestic and foreign were determined using the market approach. In accordance with the trading prices of analogous subjects, taking the difference of the unlisted equity securities and analogous subjects into consideration, the value of the unlisted equity securities are estimated using the appropriate multiplier. The significant unobservable inputs used are listed in the table below. A decrease of the discount for the lack of marketability used in isolation would result in an increase in fair value.

	December 31	
	2018	2017
Discount for lack of marketability	15%	Note

Note: The fair values were determined using the market approach starting from January 1, 2018, after the application of IFRS 9.

d) The fair values of unlisted equity securities - foreign were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests, the discount for lack of marketability and the weighted-average cost of capital (WACC) would result in increases in fair value. A decrease in sustainable revenue growth rates would result in a decrease in fair value.

	December 31	
	2018	2017
Discount for non-controlling interests	15.0%	Note
Discount for lack of marketability	15.0%	Note
Sustainable revenue growth rates	2.0%	Note
WACC	13.7%	Note

Note: The fair values were determined using the income approach starting from January 1, 2018, after the application of IFRS 9.

e) The fair values of unlisted equity securities - domestic and foreign and private equity funds were determined using the asset-based approach. In order to reflect the overall value of the Corporation or business, the total market value of the individual assets and individual liabilities of the evaluation target are evaluated. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests and the discount for a lack of marketability would result in increases in fair value.

	December 31	
	2018	**2017**
Discount for non-controlling interests	10%	Note
Discount for lack of marketability	10%	Note

Note: The fair values were determined using the asset-based approach starting from January 1, 2018, after the application of IFRS 9.

c. Categories of financial instruments

	December 31	
	2018	**2017**
Financial assets		
Financial assets at FVTPL		
Held for trading	$ -	$ 1,271,217
Mandatorily at FVTPL	3,505,329	-
Loans and receivables (Note 1)	-	20,242,977
Available-for-sale financial assets (Note 2)	-	1,252,390
Financial assets at amortized cost (Note 3)	19,760,633	-
Financial assets at FVTOCI		
Equity instruments	450,397	-
Financial liabilities		
Financial liabilities at amortized cost (Note 4)	8,522,445	7,384,022

Note 1: The balance includes 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 balance includes the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balance includes financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable and other receivables.

Note 4: The balances include financial liabilities measured at amortized cost, which comprise short-term loans, notes payable, and trade and other payables.

d. 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.

1) Market risk

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

a) 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 34.

Sensitivity analysis

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	
	2018	**2017**
Profit or loss	$ 256,005	$ 373,382

b) 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	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 4,943,621	$ 4,584,471
Cash flow interest rate risk		
Financial assets	9,299,883	9,638,332

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, 2018 and 2017 would increase by $930 thousand and $964 thousand, respectively.

c) Other price risk

The Group was exposed to equity price risks through its investments in international and domestic listed stock, private equity funds 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 year ended December 31, 2018 would have increased/decreased by $35,053 thousand, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2018 would have increased/decreased by $4,504 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

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

2) 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 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.

3) 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, 2018 and 2017, the Group had available unutilized short-term bank loan facilities of $7,922,200 thousand and $6,820,500 thousand, respectively.

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

The following tables detail the Group's remaining contractual maturities 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, 2018				
Non-derivative financial liabilities	On Demand or Less Than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	More than 5 Years
Non-interest bearing liabilities	$ 3,848,521	$ 2,902,468	$ 2,295,310	$ -	$ -

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

e. Information on transfers of financial assets

Refer to Note 11 for more information relating to the Group's factored trade receivables.

30. 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 party
Toshiba Memory America, Inc.	Other related party
Toshiba Singapore Pte. Ltd.	Other related party
Toshiba Corporation, Japan	Other related party
Toshiba Client Solutions ANZ Pty Limited	Other related party
Toshiba Memory Corporation	Other related party
Toshiba Electronics Asia (Singapore) Pte., Ltd.	Other related party
Toshiba America Electronic, Components, Inc.	Other related party
Toshiba (Australia) Pty., Limited	Other related party
Toshiba Memory Singapore Pte. Ltd.	Other related party
Toshiba Electronics (China) Co., Ltd.	Other related party
Toshiba Memory Taiwan Corporation	Other related party
Toshiba Electronic Components Taiwan Corporation	Other related party
Orient Semiconductor Electronics Ltd.	Other related party
Dawning Leading Technology Inc.	Other related party (Note)
Apacer Technology Inc.	Other related party
Kingston Solutions Inc.	Associate
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate

Note: The dissolution of Dawning Leading Technology Inc. was approved in their shareholders' meeting held on August 29, 2018 and the date of merger was set as November 1, 2018; thus, starting from November 1, Dawning Leading Technology Inc. was no longer a related party of the Group.

b. Operating revenue

	For the Year Ended December 31	
	2018	2017
Related-party categories		
Associates	$ 88,762	$ 22,380
Other related parties	1,831,022	1,855,850
	$ 1,919,784	$ 1,878,230

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	
	2018	2017
Related-party categories		
Associates	$ 689,883	$ 293,119
Other related parties		
Toshiba Memory Taiwan Corporation	13,871,205	3,210,897
Toshiba Memory America, Inc.	4,468,490	921,246
Toshiba Electronic Components Taiwan Corporation	168	12,335,671
Others	8,899	2,814,061
	$ 19,038,645	$ 19,574,994

2) Processing costs

	For the Year Ended December 31	
	2018	2017
Related-party categories		
Associates	$ 185	$ 1,330
Other related parties	1,758,073	1,387,601
	$ 1,758,258	$ 1,388,931

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

d. Receivables from related parties

	December 31	
	2018	2017
Related-party categories		
Associates	$ 81,354	$ 465
Other related parties	262,895	317,686
	$ 344,249	$ 318,151

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	
	2018	2017
Related-party categories		
Associates	$ 134,362	$ 24,959
Other related parties		
Toshiba Electronic Components Taiwan Corporation	-	17
Toshiba Memory Taiwan Corporation	2,077,768	2,105,363
Others	644,014	430,199
	$ 2,856,144	$ 2,560,538

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 192,693	$ 287,412
Post-employment benefits	1,866	1,492
Other employee benefits	4,294	4,873
	$ 198,853	$ 293,777

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

31. OPERATING LEASE ARRANGEMENTS

a. The Group as lessee

The Group's lease contracts for a factory and an office expire on December 31, 2022.

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

	December 31	
	2018	2017
Not later than 1 year	$ 19,421	$ 17,644
Later than 1 year and not later than 5 years	21,855	34,538
	$ 41,276	$ 52,182

b. The Group as lessor

Operating leases relate to the property are owned by the Group, and such leases will expire on December 31, 2019.

For the years ended December 31, 2018 and 2017, the Group recognized a guarantee on trade receivables of $76 thousand and $206 thousand, respectively.

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

	December 31	
	2018	2017
Not later than 1 year	$ 1,353	$ 2,087

32. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2018	2017
Refundable deposits for the Customs Duty Bureau - certificates of deposit (financial assets at amortized cost)	$ 56,997	$ -
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	-	80,534
	$ 56,997	$ 80,534

33. 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, 2018 and 2017 were as follows:

Significant Commitments

	December 31	
	2018	**2017**
Unused letters of credit	$ 1,670,000	$ 2,046,500

34. 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, 2018		
	Foreign Currency	**Exchange Rates**	**New Taiwan Dollars**
Financial assets			
Monetary			
USD (USD:NTD)	$ 240,853	30.7150	$ 7,397,797
USD (USD:CNY)	4,805	6.8632	147,582
CNY (CNY:NTD)	33,224	4.4720	148,577
Financial liabilities			
Monetary			
USD (USD:NTD)	106,744	30.7150	3,278,640

	December 31, 2017		
	Foreign Currency	**Exchange Rates**	**New Taiwan Dollars**
Financial assets			
Monetary			
USD (USD:NTD)	$ 290,208	29.7600	$ 8,636,591
USD (USD:CNY)	14,854	6.5342	442,054
CNY (CNY:NTD)	32,782	4.5650	149,648
Financial liabilities			
Monetary			
USD (USD:NTD)	95,955	29.7600	2,855,622

For the years ended December 31, 2018 and 2017, (realized and unrealized) net foreign exchange gains were $185,916 thousand and loss $404,573 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.

35. OTHER SIGNIFICANT EVENT

In April 2018, Macronix International Co., Ltd. accused the Corporation of infringement of one of its patent rights. In October 2018, Macronix International Co., Ltd. withdrew the lawsuit. Therefore, the Taiwan Intellectual Property Court has terminated the case.

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 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 and others, the case is under re-investigation, and the financial position and operations of the Corporation are not affected in respect of this matter.

36. 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 or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital. (Table 2)

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

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

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

37. 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 Profit (Loss)	
	For the Year Ended December 31		For the Year Ended December 31	
	2018	2017	2018	2017
Department that designs and sells flash memory controllers	$ 40,788,105	$ 41,864,759	$ 4,710,274	$ 6,732,575
Investment department	-	-	(490)	(883)
Total operating segments	$ 40,788,105	$ 41,864,759	4,709,784	6,731,692
Other gains and losses			175,624	(571,886)
Share of gains (losses) of associates			(174,654)	442,368
Other income			299,498	120,677
Financial costs			(5,071)	(4,981)
Profit before tax			$ 5,005,181	$ 6,717,870

Segment revenue reported above was generated from external customers. There were no intersegment sales for the years 2018 and 2017.

Segment profit represented the profit before tax earned by each segment without the share of gains or losses of associates, rental income, interest income, gains or losses on the 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.

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	
	2018	2017
Sales of nand flash controller and application products etc.	$ 40,615,264	$ 41,690,713
Services income	172,841	174,046
	$ 40,788,105	$ 41,864,759

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	
	2018	2017	2018	2017
Asia	$ 24,336,197	$ 23,853,418	$ 3,149,935	$ 3,044,791
America	12,646,332	13,514,981	-	-
Europe	3,609,347	4,126,140	-	-
Australia	195,271	368,827	-	-
Others	958	1,393	-	-
	$ 40,788,105	$ 41,864,759	$ 3,149,935	$ 3,044,791

Revenue was categorized depending on clients' locations.

e. Information about major customers

Included in revenue arising from the sale of nand flash, controller and application products of $40,615,264 thousand and $41,690,713 thousand in 2018 and 2017, respectively, is revenue of approximately $8,928,975 thousand and $9,217,685 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 2018 and 2017.

TABLE 1

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)
DECEMBER 31, 2018
(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, 2018				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 FVTPL - current	16,326	$ 204,436	-	$ 204,436	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	13,369	204,235	-	204,235	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	20,685	213,487	-	213,487	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at FVTPL - current	9,298	151,380	-	151,380	Note 3
	Jih Sun Money Market Fund	-	Financial assets at FVTPL - current	13,767	203,655	-	203,655	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	16,113	201,596	-	201,596	Note 3
	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL - current	18,239	200,702	-	200,702	Note 3
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	12,070	190,629	-	190,629	Note 3
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at FVTPL - current	11,087	150,607	-	150,607	Note 3
	Taishin 1699 Money Market Fund		Financial assets at FVTPL - current	14,809	200,032	-	200,032	Note 3
	Taishin Ta-Chong Money Market Fund		Financial assets at FVTPL - current	14,102	200,030	-	200,030	Note 3
	TCB Taiwan Money Market Fund		Financial assets at FVTPL - current	19,716	200,030	-	200,030	Note 3
	Capital Money Market Fund		Financial assets at FVTPL - current	12,416	200,031	-	200,031	Note 3
	Convertible bonds							
	Ubitus Inc.		Financial assets at FVTPL - current	-	85,288	-	85,288	Note 9
	Common shares							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	86,569	1.33	86,569	Note 4
	Apacer Technology Inc.	-	Financial assets at FVTPL - current	10,050	286,425	9.96	286,425	Note 4
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets at FVTPL - non-current	1,000	1,134	0.50	1,134	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets at FVTPL - non-current	2,165	27,799	18.75	27,799	Note 5
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	1,059	-	1.86	-	-
	Viva Baseball Co., Ltd.	-	Financial assets at FVTOCI - non-current	Note 6	-	8.33	-	-
	Adam Elements International Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,710	20,556	19.00	20,556	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	950	53,097	0.67	53,097	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets at FVTPL - non-current	8,850	214,309	11.11	214,309	Note 5
	Innorich Venture Capital Corp.	-	Financial assets at FVTPL - non-current	3,000	20,402	5.61	20,402	Note 5
	THLight Co., Ltd.	-	Financial assets at FVTOCI - non-current	6,388	-	17.94	-	-
	UD INFO Corp.	-	Financial assets at FVTOCI - non-current	570	33,137	18.15	33,137	Note 5
	GeoThings, Inc.	-	Financial assets at FVTOCI - non-current	150	-	6.70	-	-

(Continued)

Holding Company Name	Marketable Securities Type/ Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
	Ironyun Incorporated (preference shares)	-	Financial assets at FVTOCI - non-current	5,000	$ -	5.92	$ -	-
	Gospal Ltd.	-	Financial assets at FVTOCI - non-current	811,857	3,004	3.40	3,004	Note 7
	H3 Platform, Inc.	-	Financial assets at FVTOCI - non-current	18,400	30,705	12.14	30,705	Note 7
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at FVTOCI - non-current	11,966	48,859	17.16	48,859	Note 5
	Gomore Inc.	-	Financial assets at FVTOCI - non-current	16,925	10,741	6.15	10,741	Note 5
	Patriot Memory Asia Headquarter	-	Financial assets at FVTOCI - non-current	580	16,441	4.33	16,441	Note 5
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Financial assets at FVTPL - non-current	25,000	19,390	1.08	19,390	Note 5
	Private equity fund							
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	47,366	3.81	47,366	Note 5
Lian Xu Dong Investment Corporation	Beneficiary certificates							
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	30,341	-	30,341	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	2,424	30,329	-	30,329	Note 3
	Common shares							
	United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	5,616	44,394	16.12	44,394	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,250	-	2.23	-	-
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,440	37,786	1.18	37,786	Note 5
	Translink Capital Partners IV L.P	-	Financial assets at FVTPL - non-current	300	6,506	0.78	6,506	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	98,740	10.92	98,740	Note 5
	UMBO CV Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,626	29,696	3.02	29,696	Note 8
	Omni Media International Incorporation	-	Financial assets at FVTOCI - non-current	1,714	18,343	4.56	18,343	Note 8
	RENIAC, INC. (preference shares)	-	Financial assets at FVTOCI - non-current	302	15,285	3.46	15,285	Note 5
Emtops Electronics Corporation	Beneficiary certificates - open-end funds							
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	815	10,194	-	10,194	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	988	10,202	-	10,202	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	Beneficiary certificates							
	United Cash Fund	-	Financial assets at FVTPL - current	2,410	17,342	-	17,342	Note 3
Cloud Solution Global Limited	Common shares							
	My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	-	19.00	-	-
Hefei Core Storage Electronic Limited	Common shares							
	Hangzhou Hualan Microelectronique Co., Ltd.	-	Financial assets at FVTOCI - non-current	3,000	80,496	4.74	80,496	Note 7

(Continued)

Note 1: The marketable securities listed refer to the types of financial instruments within the scope of IFRS 9 “Financial Instruments”.

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

Note 3: The calculation of the market value was based on the net asset value as of December 28, 2018.

Note 4: The calculation of the market value was based on the closing price as of December 28, 2018.

Note 5: Refer to Note 29 (b)-3 for market value information.

Note 6: The issuing company is not limited by shares.

Note 7: The calculation of the market value was based on the most recent buying price.

Note 8: The calculation of the market value was based on the most recent acquisition price.

Note 9: The calculation of the market value was based on the expert evaluation report as of December 28, 2018.

Note 10: The Group held marketable securities that had not been guaranteed, pledged or mortgaged as collateral or restricted by other commitments.

(Concluded)

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, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance (Note)	
					Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares (In Thousands)	Amount
Phison Electronics Corp.	Beneficiary certificates													
	Taishin Ta-Chong Money Market Fund	Financial assets at FVTPL - current	-	-	3,594	$ 50,757	21,180	$ 300,000	10,672	$ 151,070	$ 150,000	$ 1,070	14,102	$ 200,030
	Taishin 1699 Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	29,668	400,000	14,859	200,290	200,000	290	14,809	200,032
	TCB Taiwan Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	39,497	400,000	19,781	200,289	200,000	289	19,716	200,030

Note: The amounts of beginning and ending balance include the valuation gains or losses on financial instruments.

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, 2018
(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.	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	$ 673,914	2	Net 30 days after monthly closing	None	None	$ (134,248)	(3)	-
	Toshiba Memory America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	4,468,490	16	Net 30 days after receipt date	None	None	(300,170)	(6)	-
	Toshiba Memory Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	13,871,205	51	Net 30 days after monthly closing	None	None	(2,077,768)	(43)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,439,882	5	Net 15 days after monthly closing	None	None	(343,844)	(7)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	318,191	1	Net 45 days after monthly closing	None	None	-	-	Note
	Toshiba Singapore Pte Ltd	The associates of a subsidiary which is a legal entity on the Corporation's board of directors	Sale	(169,870)	-	Net 60 days after monthly closing	None	None	-	-	-
	Toshiba Memory Corporation	The Corporation's legal entity board of directors	Sale	(885,227)	(2)	Net 60 days after monthly closing	None	None	95,909	2	-
	Apacer Technology Inc.	The Corporation is its director	Sale	(613,758)	(2)	Net 45 days after monthly closing	None	None	132,734	2	-
	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	(265,696)	(1)	Net 30 days after monthly closing	None	None	3,439	-	-
	Hefei Ruhan Electronic Technology Limited	Sub-subsidiary	Sale	(103,518)	-	Net 30 days after monthly closing	None	None	19,360	-	
Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	Fellow subsidiary	Purchase	107,194	29	Net 30 days after monthly closing	None	None	20,566	56	

Note: The dissolution of Dawning Leading Technology Inc. was approved in their shareholders' meeting held on August 29, 2018 and the date of merger was set as November 1, 2018; and thus, starting from November 1, Dawning Leading Technology Inc. was no longer a related party of the Corporation.

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, 2018
(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.	Apacer Technology Inc.	The Corporation is its director	$ 132,734	6.66	$ -	-	$ 132,734	$ -

Note: As of March 5, 2019.

TABLE 5

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(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	$ 265,696	Based on regular terms	1
		Hefei Core Storage Electronic Limited	1	Accounts receivable	3,439	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Other payables	44,116	Based on regular terms	-
		Hefei Core Storage Electronic Limited	1	Research expense	164,383	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Sales revenue	11,423	Based on regular terms	-
		Phisontech Electronics Taiwan Corp.	1	Accounts receivable	6,773	Based on regular terms	-
		Ostek Corporation	1	Manufacturing expenses	34,152	Based on regular terms	-
		Ostek Corporation	1	Accounts payable	5,291	Based on regular terms	-
		Ostek Corporation	1	Other payables	2,300	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Sales expenses	15,192	Based on regular terms	-
		Phison Electronics Japan Corp.	1	Other payables	2,830	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Sales revenue	18,134	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Accounts receivable	9,781	Based on regular terms	-
		Phisontech Electronics (Malaysia) Sdn. Bhd.	1	Inventory	6,643	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	1	Sales revenue	103,518	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	1	Accounts receivable	19,360	Based on regular terms	-
1	Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	2	Inventory	107,194	Based on regular terms	-
		Hefei Ruhan Electronic Technology Limited	2	Accounts payable	20,566	Based on regular terms	-

Note: The following numerals represent the corresponding directional flow of transactions.

a. Parent company to subsidiary: 1.
b. Between subsidiaries: 2.

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION OF INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2018	December 31, 2017	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	$ 1,257,971	$ (402,522)	$ (132,470)	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	71,102	944	944	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	484,367	(211)	(211)	Subsidiary
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	22,696	2,313	1,133	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	28,982	2,000	100.00	34,764	(17)	(17)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	665,823	665,823	21,000,000	100.00	628,701	34,684	34,684	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	91,422	91,422	10,000,000	100.00	64,275	1,414	1,414	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	17,596	(115,248)	(43,587)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	101,359	553	553	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	252,981	112,544	112,544	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	199,332	-	6,700,000	100.00	205,618	769	769	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	52,855	(691)	-	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	17,929	3,936	-	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	41,635	2,880	-	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	599,958	49,188	-	Sub-subsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2018	December 31, 2017	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	$ 95,308	$ 403	$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Production and sale of flash memory related products	391,986	391,986	40,950,000	100.00	116,518	109,154	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,681	(40)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	11,984	339	-	Sub-subsidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	197,760	-	6,650,000	100.00	204,123	845	-	Sub-subsidiary

(Concluded)

PHISON ELECTRONICS CORP. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	$ 53,096	2	$ 53,096	$ -	$ -	$ 53,096	100.00	$ (14,830)	$ 8,777	$ -
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	49,190	598,892	-
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics hardware and rendering of related services and investment	182,825	1	-	182,825	-	182,825	100.00	703	183,151	-
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and software and rendering of related services and investment	185,369	2	-	-	-	-	100.00	(1,003)	180,133	-
Hefei Xinpeng Technology Co., Ltd.	Design, R&D, production and sale of integrated circuits and electronics hardware and software and rendering of related services	493,570	2	-	-	-	-	36.36	(1,043)	177,857	-

Accumulated Investments in Mainland China as of December 31, 2018	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investments (Note 3)
$ 812,701 (US$ 25,762)	$ 1,220,501 (US$ 39,190)	$ 16,147,122

(Continued)

Note 1: 1) Indirectly invested in a China-based company through a company located in a third region, Regis Investment Limited, and its subsidiaries.
2) Indirectly invested in a China-based company through a company located in a third region, Global Flash Limited, and its subsidiaries.

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

Note 3: The limit of investments in mainland China, which is based on Regulations Governing the Approval of Investments on Technical Corporation in Mainland China, is 60% of the Group's net asset value, which is $26,911,870 x 60% = $16,147,122.

(Concluded)

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, 2018
(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	$ 265,696	1	Net 30 days after monthly closing	None	None	$ 3,439	-	-
	Hefei Ruhan Electronic Technology Limited	Sub-subsidiary	Sale	103,518	-	Net 30 days after monthly closing	None	None	19,360	-	-
Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	Fellow subsidiary	Purchase	107,194	29	Net 30 days after monthly closing	None	None	20,566	56	-

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, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018. 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.

The key audit matter for the Corporation's financial statements for the year ended December 31, 2018 is stated as follows:

Sales Revenue Recognition

Auditing standards generally accepted in the Republic of China presumes there is a risk of fraud in the recognition of sales revenue. Management may artificially inflate sales revenue due to pressure in meeting the sales target. The Corporation's customers are numerous and diverse, and the operating revenue of the Corporation for the year ended December 31, 2018 amounted to NT$40,804,130 thousand. Therefore, the possibility of sales from transactions with unusual customers, validity of the transactions and whether they fulfilled the criteria for revenue recognition may result in a significant impact on the financial statements. Thus, the recognition of sales revenue has been identified as a key audit matter.

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

1. We understood and tested the process of sales revenue recognition and the design and implementation of the relevant internal controls.

2. We sampled the original sales orders, shipping documents, export declarations and examined the process for the payment receipts to confirm that the sales revenue have met the conditions of revenue recognition.

3. We checked if there were any instances of simultaneous purchases from and sales to the same entity. If such situations exist, 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.

Emphasis of Matter

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 Prosecutors Office and was concluded on August 31, 2017. According to the press release announcement from the Taiwan Hsinchu District Prosecutors Office on September 1, 2017, under the Securities and Exchange Act and related provisions in the Criminal Code of the Republic of China, the prosecutor charged the chairman of the Corporation and others culminating in either deferred prosecution or dropping the claim for further prosecution. The Taiwan Hsinchu District Prosecutors 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 Prosecutors Office against the chairman of the Corporation 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, 2018 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 21, 2019

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, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 4 and 6)	$ 12,778,312	35	$ 12,754,576	37
Financial assets at fair value through profit or loss (FVTPL) - current (Notes 4, 7 and 27)	2,979,132	8	1,171,056	3
Financial assets at amortized cost - current (Notes 4 and 9)	30,576	-	-	-
Debt investments with no active market - current (Notes 4, 10 and 30)	-	-	20,549	-
Notes and accounts receivable				
Non-related parties (Notes 4 and 11)	4,853,397	14	5,307,499	15
Related parties (Notes 4, 11 and 28)	383,602	1	336,042	1
Other receivables (Note 11)	253,105	1	266,475	1
Inventories (Notes 4 and 12)	7,491,072	21	7,186,003	21
Prepayments	62,823	-	27,446	-
Other current assets	8,521	-	6,489	-
Total current assets	28,840,540	80	27,076,135	78
NON-CURRENT ASSETS				
Financial assets at fair value through profit or loss (FVTPL) - non-current (Notes 4, 7 and 27)	383,497	1	-	-
Financial assets at fair value through other comprehensive income (FVTOCI) - non-current (Notes 4, 8 and 27)	163,443	1	-	-
Available-for-sale financial assets - non-current (Notes 4 and 13)	-	-	434,763	1
Financial assets measured at cost - non-current (Notes 4 and 14)	-	-	447,416	1
Investments accounted for using the equity method (Notes 4 and 15)	3,141,430	9	3,307,982	10
Property, plant and equipment (Notes 4 and 16)	2,961,130	8	2,793,102	8
Intangible assets (Notes 4 and 17)	149,381	-	212,108	1
Deferred tax assets (Notes 4 and 23)	306,595	1	304,835	1
Guarantee deposits paid	2,570	-	1,371	-
Total non-current assets	7,108,046	20	7,501,577	22
TOTAL	$ 35,948,586	100	$ 34,577,712	100
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Contract liabilities - current	$ 34,266	-	$ -	-
Notes and accounts payable				
Non-related parties	1,936,292	5	1,081,013	3
Related parties (Note 28)	2,861,765	8	2,565,726	8
Other payables (Note 18)	3,290,868	9	3,246,454	9
Tax payable (Notes 4 and 23)	522,579	2	1,090,947	3
Provisions (Notes 4 and 20)	-	-	292,081	1
Other current liabilities (Note 19)	297,716	1	157,746	1
Total current liabilities	8,943,486	25	8,433,967	25
NON-CURRENT LIABILITIES				
Net defined benefit liabilities - non-current (Notes 4 and 21)	92,827	-	84,897	-
Guarantee deposits received	403	-	533	-
Total non-current liabilities	93,230	-	85,430	-
Total liabilities	9,036,716	25	8,519,397	25
EQUITY (Notes 22 and 25)				
Share capital				
Common shares	1,970,740	5	1,970,740	6
Capital surplus	6,674,650	19	6,660,502	19
Retained earnings				
Legal reserve	3,418,903	10	2,842,806	8
Special reserve	-	-	25,965	-
Unappropriated earnings	15,228,504	42	14,521,886	42
Total retained earnings	18,647,407	52	17,390,657	50
Other equity	(380,927)	(1)	36,416	-
Total equity	26,911,870	75	26,058,315	75
TOTAL	$ 35,948,586	100	$ 34,577,712	100

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

PHISON ELECTRONICS CORP.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 4 and 28)				
Gross sales	$ 41,027,588	101	$ 42,068,216	101
Less: Sales returns and allowances	371,291	1	432,902	1
Net sales	40,656,297	100	41,635,314	100
Other operating revenue	147,833	-	138,218	-
Total operating revenue	40,804,130	100	41,773,532	100
OPERATING COSTS (Notes 4, 12, 24 and 28)	31,652,858	78	30,324,437	73
GROSS PROFIT	9,151,272	22	11,449,095	27
UNREALIZED GAIN ON TRANSACTIONS	(19,550)	-	-	-
REALIZED GROSS PROFIT	9,131,722	22	11,449,095	27
OPERATING EXPENSES (Note 24)				
Marketing	525,116	1	529,936	1
General and administrative	384,276	1	476,329	1
Research and development	3,525,077	9	3,719,729	9
Reversal of expected credit loss	(39,098)	-	-	-
Total operating expenses	4,395,371	11	4,725,994	11
OPERATING INCOME	4,736,351	11	6,723,101	16
NONOPERATING INCOME AND EXPENSES				
Other gains and losses (Note 24)	161,238	1	(510,793)	(1)
Share of (losses) gains of subsidiaries and associates (Notes 4 and 15)	(24,194)	-	416,073	1
Other income (Note 24)	132,028	-	89,805	-
Financial costs	(5,070)	-	(4,981)	-
Total nonoperating income and expenses	264,002	1	(9,896)	-
PROFIT BEFORE INCOME TAX	5,000,353	12	6,713,205	16
INCOME TAX EXPENSE (Notes 4 and 23)	682,234	1	952,233	2
NET PROFIT FOR THE YEAR	4,318,119	11	5,760,972	14

(Continued)

PHISON ELECTRONICS CORP.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017	
	Amount	**%**	**Amount**	**%**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF INCOME TAX				
Items that will not be reclassified subsequently to profit or loss				
Unrealized loss on investments in equity instruments at fair value through other comprehensive income	$ (106,094)	(1)	$ -	-
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	(63,357)	-	-	-
Remeasurement of defined benefit plan	(3,701)	-	(8,288)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 23)	2,171	-	1,408	-
Items that may be reclassified subsequently to profit or loss:				
Share of other comprehensive loss of subsidiaries and associates	(3,975)	-	(392)	-
Unrealized gain on available-for-sale financial assets	-	-	62,712	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss (Note 23)	3,214	-	61	-
Other comprehensive income (loss) for the year, net of income tax	(171,742)	(1)	55,501	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 4,146,377	10	$ 5,816,473	14
EARNINGS PER SHARE; NEW TAIWAN DOLLARS (Note 25)				
Basic	$ 21.91		$ 29.23	
Diluted	$ 21.60		$ 28.83	

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

(With Deloitte & Touche auditors' report dated March 21, 2019) (Concluded)

PHISON ELECTRONICS CORP.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(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	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Total Equity
BALANCE AT JANUARY 1, 2017	$ 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 of 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
Effect of retrospective application	-	-	-	-	463,052	-	(103,563)	(316,201)	43,288
BALANCE AT JANUARY 1, 2018 AS ADJUSTED	1,970,740	6,660,502	2,842,806	25,965	14,984,938	(67,147)	-	(316,201)	26,101,603
Appropriation of the 2017 earnings									
Legal reserve	-	-	576,097	-	(576,097)	-	-	-	-
Reversal of special reserve	-	-	-	(25,965)	25,965	-	-	-	-
Cash dividends - NT$17 per share	-	-	-	-	(3,350,258)	-	-	-	(3,350,258)
Changes in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	14,148	-	-	-	-	-	-	14,148
Subsidiaries' disposal of the investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	(21,785)	-	-	21,785	-
Disposal of equity instrument investments at fair value through other comprehensive income	-	-	-	-	(150,848)	-	-	150,848	-
Net profit for the year ended December 31, 2018	-	-	-	-	4,318,119	-	-	-	4,318,119
Other comprehensive loss for the year ended December 31, 2018, net of income tax	-	-	-	-	(1,530)	(761)	-	(169,451)	(171,742)
BALANCE AT DECEMBER 31, 2018	$ 1,970,740	$ 6,674,650	$ 3,418,903	$ -	$ 15,228,504	$ (67,908)	$ -	$ (313,019)	$ 26,911,870

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

(With Deloitte & Touche auditors' report dated March 21, 2019)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	$ 5,000,353	$ 6,713,205
Adjustments for:		
Depreciation	208,353	156,455
Amortization	198,436	163,653
Recognition of refund liabilities	166,648	-
Write-down of inventories	92,379	19,396
Net (gain) loss on foreign currency exchange	(69,951)	205,687
Interest income	(49,565)	(38,504)
Dividend income	(41,698)	(29,947)
Expected credit loss reversed on trade receivables	(39,098)	-
Unrealized gain on transactions with subsidiaries	19,550	-
Financial costs	5,070	4,981
Gain on disposal of property, plant and equipment	(1,406)	-
Share of profit (loss) of subsidiaries and associates	24,194	(416,073)
Recognition of provisions	-	238,449
Impairment loss recognized on financial assets	-	147,890
Allowance for bad debts	-	24,522
Other non-cash items	-	1,163
Net changes related to operating assets and liabilities		
Financial assets at fair value through profit or loss	11,605	5,529
Notes and accounts receivable	431,181	(851,863)
Other receivables	14,114	104,867
Inventories	(397,448)	(1,984,494)
Prepayments	(36,962)	38,375
Other current assets	(2,032)	740
Contract liabilities	34,266	-
Notes and accounts payable	1,165,893	(187,539)
Other payables	44,474	593,813
Provisions	-	(290,444)
Other current liabilities	(318,759)	(27,674)
Net defined benefit liabilities	4,228	3,883
Cash generated from operations	6,463,825	4,596,070
Interest paid	(5,070)	(5,385)
Income tax paid	(1,246,975)	(675,621)
Net cash generated from operating activities	5,211,780	3,915,064
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(3,021,042)	(49,675)
Proceeds from financial assets at fair value through profit or loss	1,498,384	-
Payments for property, plant and equipment	(374,975)	(557,045)
Dividends received from associates	233,310	-
Dividends received from others	41,698	29,947

(Continued)

PHISON ELECTRONICS CORP.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Purchase of investments accounted for using the equity method	$ (229,857)	$ (289,778)
Payments for intangible assets	(135,709)	(157,998)
Purchase of financial assets at fair value through other comprehensive income	(53,712)	-
Proceeds from capital reduction of financial assets at fair value through profit or loss	69,855	-
Interest received	49,114	38,087
Proceeds from sale of financial assets at fair value through other comprehensive income	25,437	-
Purchase of financial assets at amortized cost	(10,027)	-
(Increase) decrease in refundable deposits	(1,199)	173
Proceeds from disposal of property, plant and equipment	1,585	-
Purchase of financial assets measured at cost	-	(100,889)
Proceeds from sale of financial assets measured at cost	-	6,770
Decrease in debt investments with no active market	-	1,244
Net cash used in investing activities	(1,907,138)	(1,079,164)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits	(130)	(35)
Decrease in short-term borrowings	-	(580,500)
Dividends paid	(3,350,258)	(2,759,036)
Net cash used in financing activities	(3,350,388)	(3,339,571)
EFFECT OF EXCHANGE RATE CHANGES	69,482	(293,941)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,736	(797,612)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	12,754,576	13,552,188
CASH AND CASH EQUIVALENTS, END OF THE YEAR	$ 12,778,312	$ 12,754,576

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

(With Deloitte & Touche auditors' report dated March 21, 2019) (Concluded)

PHISON ELECTRONICS CORP.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(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 trading on the Taipei Exchange (over-the-counter exchange in Taiwan) since December 6, 2004.

The financial statements are presented in the Corporation's functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Corporation's board of directors on March 21, 2019.

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:

1) IFRS 9 "Financial Instruments" and related amendments

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as at January 1, 2018, the Corporation has performed an assessment of the classification of recognized financial assets retrospectively and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amounts under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the Corporation's financial assets as at January 1, 2018.

Financial Assets	Measurement Category		Carrying Amount		Remark
	IAS 39	**IFRS 9**	**IAS 39**	**IFRS 9**	
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 12,754,576	$ 12,754,576	a)
Equity securities	Available-for-sale	Mandatorily at FVTPL	737,002	750,375	b)
	Available-for-sale	FVTOCI - equity instruments	145,176	241,262	b)
	Held-for-trading	Mandatorily at FVTPL	67,095	67,095	-
Beneficiary certificates - open-ended funds	Held-for-trading	Mandatorily at FVTPL	1,050,239	1,050,239	c)
Convertible bonds	Designated as at FVTPL	Mandatorily at FVTPL	53,722	53,722	d)
Financial assets pledged as collateral	Loans and receivables	Amortized cost	20,549	20,549	a)
Notes receivable, trade receivables and other receivables	Loans and receivables	Amortized cost	5,910,016	5,910,016	a)
Guarantee deposits paid	Loans and receivables	Amortized cost	1,371	1,371	a)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifi-cations	Remeasure-ments	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ 1,171,056	$ -	$ -	$ 1,171,056	$ -	$ -	
Add: Reclassification from available-for-sale (IAS 39)							
Required reclassification	-	737,002	13,373	750,375	116,936	(103,563)	b)
	1,171,056	737,002	13,373	1,921,431	116,936	(103,563)	
FVTOCI	-	-	-	-	-	-	
Add: Reclassification from available-for-sale (IAS 39)	-	145,176	96,086	241,262	234,554	(138,468)	b)
	-	145,176	96,086	241,262	234,554	(138,468)	
	$ 1,171,056	$ 882,178	$ 109,459	$ 2,162,693	$ 351,490	$ (242,031)	

a) Cash and cash equivalents, financial assets pledged as collateral, notes receivable, accounts receivable, other receivables and guarantee deposits paid that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9.

b) The Corporation elected to classify all of its investments in equity securities previously classified as available-for-sale under IAS 39 as at FVTPL under IFRS 9. As a result, the related other equity - unrealized gain (loss) on available-for-sale financial assets of $103,563 thousand was reclassified to retained earnings.

   Investments in unlisted shares previously measured at cost under IAS 39 have been classified at FVTPL and designated as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $13,373 thousand was recognized in both financial assets at FVTPL and retained earnings. An increase of $96,086 thousand was recognized in both financial assets at FVTOCI and other equity - unrealized gain (loss) on financial assets at FVTOCI on January 1, 2018.

   The Corporation recognized under IAS 39 impairment loss on certain investments in equity securities previously measured at cost and the loss was accumulated in retained earnings. Since those investments were designated as at FVTOCI under IFRS 9 and no impairment assessment is required, an adjustment was made that resulted in a decrease of $234,554 thousand in other equity - unrealized gain (loss) on financial assets at FVTOCI and an increase of $234,554 thousand in retained earnings on January 1, 2018.

c) Beneficiary certificates - open-ended funds previously classified as held-for-trading under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.

d) Convertible bonds previously classified as at FVTPL under IAS 39 were classified mandatorily as at FVTPL under IFRS 9, because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments.

	IAS 39 Carrying Amount as of January 1, 2018	Adjustments Arising from Initial Application	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
Investments accounted for using the equity method	$ 3,307,982	$ (66,171)	$ 3,241,811	$ 111,562	$ (177,733)	e)

e) As a result of the retrospective application of IFRS 9 by subsidiaries, there was a decrease in investments accounted for using the equity method of $66,171 thousand, a decrease in other equity - unrealized gain (loss) on financial assets at FVTOCI of $177,733 thousand, and an increase in retained earnings of $111,562 thousand on January 1, 2018.

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 supersedes IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations. Refer to Note 4 for the related accounting policies.

The Corporation elected only to retrospectively apply IFRS 15 to contracts that were not complete as of January 1, 2018 and did not restate prior reporting periods. The cumulative effect of the initial application of this standard was retrospectively recognized at the date of initial application.

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 (IAS 18 and Related Explanations)	Adjustments Arising from Initial Application	Carrying Amount as of January 1, 2018 (IFRS 15)
Provisions - current	$ 292,081	$ (292,081)	$ -
Other current liabilities	157,746	292,081	449,827
Total effect on liabilities		$ -	

Prior to the application of IFRS 15, estimated sales returns and allowances were recognized in provisions of sales returns and allowances. After the application of IFRS 15, it is recognized in refund liabilities (other current liabilities).

The differences if the Corporation was to continue applying IAS 18 in 2018 instead of IFRS 15 is shown in the table below.

Impact on assets, liabilities and equity for the current year

	December 31, 2018
Increase in provisions - current	$ 185,919
Decrease in other current liabilities	(185,919)
Increase (decrease) in liabilities	$ -

b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2019

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)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
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: 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.

Definition of a lease

Upon initial application of IFRS 16, the Corporation will elect to apply the guidance of IFRS 16, in determining whether contracts are, or contain, a lease, only to contracts entered into (or changed) on or after January 1, 2019 in order to determine whether those contracts are, or contain, a lease. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Corporation as lessee

Upon initial application of IFRS 16, the Corporation shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. On the statements of comprehensive income, the Corporation should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the statements of cash flows.

The Corporation anticipates applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases under IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at their carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the aforementioned incremental borrowing rate. The Corporation will apply IAS 36 to all right-of-use assets.

The Corporation expects to apply the following practical expedients:

1) The Corporation will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Corporation will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Corporation will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

4) The Corporation will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Corporation as lessor

The Corporation will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	**Adjustments Arising from Initial Application**	**Adjusted Carrying Amount as of January 1, 2019**
Right-of-use assets	$ -	$ 26,831	$ 26,831
Guarantee deposits paid	2,570	(164)	2,406
Total effect on assets	$ 2,570	$ 26,667	$ 29,237
Lease liabilities - current	$ -	$ 8,277	$ 8,277
Lease liabilities - non-current	-	18,390	18,390
Total effect on liabilities	$ -	$ 26,667	$ 26,667

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (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 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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 Corporation shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Corporation shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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 which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which 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, 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.

When preparing its parent company only financial statements, the Corporation used the equity method to account for its investments 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 using the 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 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 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 goods, 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 the 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 financial statements of the subsidiary as a whole. 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 using 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 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 the investment's 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 had that associate directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Corporation continues to apply the equity method and does not remeasure the retained interest.

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 initially stated at cost and subsequently 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.

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 is 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 FVTPL) 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 FVTPL are recognized immediately in profit or loss.

a. Financial assets

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

   1) Measurement category

      <u>2018</u>

      Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in equity instruments at FVTOCI.

      a) Financial assets at FVTPL

         Financial assets are classified as at FVTPL when such financial assets are mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

Financial assets at FVTPL are subsequently measured at 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 such a financial asset. Fair value is determined in the manner described in Note 27.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents and notes and trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for:

i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such a financial asset; and

ii. Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such a financial asset.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in equity instruments at FVTOCI

On initial recognition, the Corporation may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Corporation’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

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 such financial assets are either held for trading or designated as at fair value through profit or loss.

   A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

   i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

   ii. The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis in accordance with the Corporation's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

   iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

   Financial assets at fair value through profit or loss are stated at 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 the financial asset. Fair value is determined in the manner described in Note 27.

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 amounts 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 such investments are disposed of or are 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 that do not have a quoted market price in an active market and whose fair value 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 as a separate line item as financial assets measured 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 equivalents, debt investments with no active market, notes receivable and trade receivables) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

2018

The Corporation recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) at the end of each reporting period.

The loss allowance for accounts receivable is measured at an amount equal to lifetime expected credit losses. For other financial assets, when the credit risk has not increased significantly since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events of the financial instruments within 12 months after the reporting date. If, on the other hand, there has been a significant increase in credit risk since initial recognition, a loss allowance is recognized at an amount equal to the expected credit losses resulting from possible default events over the expected life of the financial instruments.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. The portion of expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date are 12-month expected credit losses. Lifetime expected credit losses are the expected credit losses that arise if debtors default on their obligations at some time during the life of a financial instrument.

The Corporation recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account. Except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

2017

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 at amortized cost, such as trade receivables, such assets 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.

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

For financial assets 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 on which 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 a 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, 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 measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its 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 the 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 uncollectible, 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 uncollectible trade receivables that are written off against the allowance account.

3) 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.

Before 2018, 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. From 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, 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. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss that had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

b. Equity instruments

Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

c. Financial liabilities

1) Recognition and measurement

On initial recognition, the transaction costs of financial assets that are neither held for trading nor designated as at FVTPL (including short-term borrowings, trade and notes payables, other payables and guarantee deposits received) which are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities. Subsequent valuation is measured at amortized cost determined by the effective interest method.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, 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

2018

The Corporation identifies contracts with the customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

Revenue from the sale of goods

Revenue from the sale of goods comes from the sale of flash memory controllers, peripheral systems and other applications. Sales of the aforementioned goods are recognized as revenue when the goods are delivered to the customer's specific location or the goods are shipped because it is the time when the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility for sales to future customers, and bears the risks of obsolescence. Trade receivables are recognized concurrently. When the customer initially purchases the goods, the transaction price received is recognized as a contract liability until the goods have been delivered to the customer.

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 the materials' ownership.

2017

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.

Sale of goods

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

a. The Corporation has transferred to the buyer the significant risks and rewards of ownership of the goods;

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

c. The amount of revenue can be measured reliably;

d. It is probable that the economic benefits associated with the transaction will flow to the Corporation; and

e. 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 have passed to the buyer.

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 net defined benefit liabilities (assets) 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 liabilities (assets) represent 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 estimate 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 of unappropriated earnings is provided as income tax in the year the shareholders approve to retain 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 amount of assets and liabilities in the 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 carry-forwards 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 recognized only 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 the liabilities are settled or the assets are 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 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 financial assets - 2018

The provision for impairment of trade receivables is based on assumptions about the risk of defaults and expected loss rates. The Corporation uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, which are based on the Corporation's historical experience, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 11. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

b. Estimated impairment of trade receivables - 2017

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.

c. 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 the sale of products of a similar nature. Changes in market conditions may have a material impact on the estimation of net realizable value.

6. CASH AND CASH EQUIVALENTS

	December 31 2018	December 31 2017
Cash on hand	$ 60	$ 60
Checking accounts and demand deposits	7,956,746	8,440,071
Cash equivalents		
Time deposits with original maturities of less than 3 months	4,821,506	4,314,445
	$ 12,778,312	$ 12,754,576

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2018	December 31 2017
Non-derivative financial assets - current		
Financial assets at FVTPL		
Convertible bonds	$ -	$ 53,722
Financial assets held for trading		
Beneficiary certificates - open-ended funds	-	1,050,239
Domestic listed shares	-	67,095
	-	1,117,334
Financial assets mandatorily at FVTPL		
Beneficiary certificates - open-ended funds	2,520,850	-
Domestic listed shares	372,994	-
Convertible bonds	85,288	-
	2,979,132	-
	$ 2,979,132	$ 1,171,056
Non-derivative financial assets - non-current		
Financial assets mandatorily classified at FVTPL		
Private equity funds	$ 47,366	$ -
Domestic unlisted shares	281,900	-
Overseas unlisted shares	54,231	-
	$ 383,497	$ -

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NON-CURRENT - 2018

Investments in Equity Instruments at FVTOCI

	December 31, 2018
Domestic investments - unlisted shares	$ 70,134
Overseas investments - unlisted shares	93,309
	$ 163,443

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Corporation's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3 and 14 for information relating to their reclassification and comparative information for 2017.

In 2018, the Corporation paid $53,712 thousand to acquire common shares of domestic and foreign unlisted entities for medium- to long-term strategic purposes; the management designated these investments as at FVTOCI.

In 2018, some of the Corporation's domestic and foreign unlisted investments completed liquidation procedures and were dissolved, and the related other equity - unrealized gain on financial assets at FVTOCI of $150,848 thousand was transferred to retained earnings.

9. FINANCIAL ASSETS AT AMORTIZED COST - CURRENT - 2018

	December 31, 2018
Certificates of deposit	$ 20,356
Time deposits with original maturities of more than 3 months	10,220
	$ 30,576

The interest rate for time deposits with original maturities of more than 3 months was 0.13% at the end of the reporting period. The time deposits were classified as debt investments with no active market under IAS 39. Refer to Notes 3 and 10 for information relating to their reclassification and comparative information for 2017.

Refer to Note 30 for information relating to investments in financial assets at amortized cost pledged as security.

10. DEBT INVESTMENTS WITH NO ACTIVE MARKET - 2017

	December 31, 2017
Certificates of deposit	$ 20,549

Refer to Note 30 for information relating to debt investments with no active market pledged as security.

11. NOTES RECEIVABLE, TRADE RECEIVABLES AND OTHER RECEIVABLES

	December 31	
	2018	2017
Notes receivable		
Notes receivable - operating	$ -	$ 4
Accounts receivable		
At amortized cost		
Gross carrying amount - non-related parties	$ 4,994,159	$ 5,492,888
Gross carrying amount - related parties	383,602	336,042
	5,377,761	5,828,930
Less: Loss allowance	140,762	185,393
Notes and accounts receivable, net	$ 5,236,999	$ 5,643,537
Other receivables		
Income tax refund receivable	$ 176,010	$ 116,593
Factored accounts receivable	74,777	147,526
Others	2,318	2,356
Other receivables	$ 253,105	$ 266,475

Trade Receivables

For the year ended December 31, 2018

The average credit period of sales of goods was 30 to 90 days. The Corporation adopted a policy of only dealing with entities that are rated the equivalent of investment grade or higher and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Credit rating information is obtained from independent rating agencies where available or, if not available, the Corporation uses other publicly available financial information or its own trading records to rate its major customers. The Corporation's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

In order to minimize credit risk, the management of the Corporation has delegated staff responsible for determining credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Corporation reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that an adequate allowance is made for possible irrecoverable amounts. In this regard, the management believes the Corporation's credit risk is significantly reduced.

The Corporation applies the simplified approach to allowing for expected credit losses prescribed by IFRS 9, which permits the use of a lifetime expected credit losses allowance for all trade receivables. The expected credit losses on trade receivables are estimated using an allowance matrix by reference to past default experience with the respective debtors and an analysis of each debtor's current financial position, adjusted for general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecasted direction of economic conditions at the reporting date. As the Corporation's historical credit losses experience does not show significantly different loss patterns for different customer segments, the loss allowance, which is based on the past due status of receivables, is not further distinguished according to different segments of the Corporation's customer base.

The Corporation writes off a trade receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery, e.g. the earlier of either when the debtor has been placed under liquidation or when the trade receivables are over two years past due. For trade receivables that have been written off, the Corporation continues to engage in enforcement activity to attempt to recover the receivables which are due. Where recoveries are made, these are recognized in profit or loss.

The following table details the loss allowance of trade receivables - non-related parties based on the Corporation's allowance matrix.

December 31, 2018

	Not Past Due	Less than 2 Months	2 to 3 Months	3 to 4 Months	4 to 5 Months	Over 5 Months	Total
Expected credit loss rate	1.57%	13.64%	19.39%	26.79%	61.45%	100%	
Gross carrying amount	$ 4,548,162	$ 410,894	$ 4,813	$ 6,474	$ 13,879	$ 9,937	$ 4,994,159
Loss allowance (lifetime expected credit losses)	(72,558)	(47,920)	(923)	(1,687)	(8,203)	(9,471)	(140,762)
Amortized cost	$ 4,475,604	$ 362,974	$ 3,890	$ 4,787	$ 5,676	$ 466	$ 4,853,397

The movements of the loss allowance of trade receivables were as follows:

	2018
Balance at January 1, 2018 per IAS 39	$ 185,393
Adjustment on initial application of IFRS 9	-
Balance at January 1, 2018 per IFRS 9	185,393
Less: Provision (reversal) of loss allowance	(39,098)
Less: Amount written off	(5,533)
Balance at December 31, 2018	$ 140,762

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, 2018					
HSBC Bank	US$ 42,640	US$ 39,855	-	-	US$ 10,400
For the year ended December 31, 2017					
HSBC Bank	US$ 41,383	US$ 35,711	-	-	US$ 12,800

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.

December 31, 2017

The Corporation applied the same credit policy in 2018 and 2017. For some trade receivable balances that were past due at the end of the reporting period, the Corporation did not recognize an allowance for impairment loss because there was 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.

The aging of receivables was as follows:

	December 31, 2017
Not past due	$ 5,369,396
1-60 days	406,230
61-90 days	429
91-120 days	38,566
More than 120 days	14,309
	$ 5,828,930

The above aging schedule was based on the number of days past due at 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, 2017	$ -	$ 160,871	$ 160,871
Add: Impairment losses recognized on receivables	-	24,522	24,522
Balance at December 31, 2017	$ -	$ 185,393	$ 185,393

As of December 31, 2017, the Corporation recognized impairment losses on individually impaired trade receivables amounting to $0 thousand. These amounts mainly pertained to customers that were in the process of liquidation or experiencing severe financial difficulties. The Corporation did not hold any collateral over these receivables.

12. INVENTORIES

	December 31	
	2018	2017
Raw materials	$ 4,239,740	$ 3,939,844
Work-in-process	1,942,660	1,293,814
Semifinished goods	1,271,222	1,880,843
Finished goods	37,450	71,502
	$ 7,491,072	$ 7,186,003

The costs of inventories recognized as cost of goods sold for the years ended December 31, 2018 and 2017 was $31,652,858 thousand and $30,324,437 thousand, respectively. The costs of goods sold for the years ended December 31, 2018 and 2017 included inventory write-downs of $92,379 thousand and $19,396 thousand, respectively.

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

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

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.

14. FINANCIAL ASSETS MEASURED AT COST - NON-CURRENT

	December 31, 2017
Domestic unlisted common shares	$ 296,380
Overseas unlisted common shares	91,036
Domestic private equity fund	60,000
	$ 447,416
Classified according to financial asset measurement categories	
Available-for-sale	$ 447,416

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

In 2017, the Corporation disposed of certain financial assets measured at cost with a total carrying amount of $6,770 thousand.

In 2017, the Corporation recognized an impairment loss of $147,890 thousand on the above unlisted equity investments.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31	
	2018	2017
Investments in subsidiaries	$ 1,843,167	$ 1,614,888
Investments in associates	$ 1,298,263	$ 1,693,094

a. Investments in subsidiaries

	December 31	
	2018	2017
Unlisted shares		
Global Flash Limited	$ 628,701	$ 626,167
Lian Xu Dong Investment Corporation	484,367	614,104
Emtops Electronics Corp.	71,102	70,108
Phisontech Electronics (Malaysia) Sdn. Bhd.	64,275	62,707
Power Flash (Samoa) Limited	101,359	97,848
Everspeed Technology Limited	252,981	139,985
Phison Electronics Japan Corp.	34,764	3,969
Regis Investment (Samoa) Limited	205,618	-
	$ 1,843,167	$ 1,614,888

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

	December 31	
Name of Subsidiaries	**2018**	**2017**
Global Flash Limited	100%	100%
Lian Xu Dong Investment Corporation	100%	100%
Emtops Electronics Corp.	100%	100%
Phisontech Electronics (Malaysia) Sdn. Bhd.	100%	100%
Power Flash (Samoa) Limited	100%	100%
Everspeed Technology Limited	100%	100%
Phison Electronics Japan Corp.	100%	100%
Regis Investment (Samoa) Limited	100%	-

In March 2018, the Corporation invested in Regis Investment (Samoa) Limited, which is principally engaged in investment services.

Except for Global Flash Limited, Power Flash (Samoa) Limited, Everspeed Technology Limited and Regis Investment (Samoa) Limited, which were calculated based on the financial statements which have not been audited, other investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments held by the Corporation were calculated based on the financial statements which have been audited. Management believes there will be no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income if the financial statements of Global Flash Limited, Power Flash (Samoa) Limited, Everspeed Technology Limited and Regis Investment (Samoa) Limited were to be audited.

b. Investments in associates

	December 31	
	2018	2017
Unlisted shares		
Kingston Solutions Inc.	$ 1,257,971	$ 1,623,790
Epostar Electronics (BVI) Corporation	17,596	47,741
Microtops Design Corporation (“Microtops”)	22,696	21,563
	$ 1,298,263	$ 1,693,094

Refer to Table 5 "Information on Investees" for the nature of activities, principal place of business and country of incorporation of the associates.

As of December 31, 2018, no investments in associates were individually material to the Corporation.

As of December 31, 2017, 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.

1) Material associates

Kingston Solutions Inc.

	December 31, 2017
Current assets	$ 6,703,051
Non-current assets	149,930
Current liabilities	(1,250,947)
Non-current liabilities	(668,003)
Equity	$ 4,934,031
Equity attributable to the Corporation	$ 1,623,790

	For the Year Ended December 31, 2017
Operating revenue	$ 20,205,762
Net profit for the year	$ 1,441,523
Other comprehensive loss	(92)
Total comprehensive income for the year	$ 1,441,431

2) Aggregate information of associates that are not individually material

	For the Year Ended December 31	
	2018	2017
The Corporation's share of:		
Net loss for the year	$ (174,924)	$ (46,456)
Other comprehensive income (loss)	(745)	14
Total comprehensive loss for the year	$ (175,669)	$ (46,442)

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, 2018 and 2017 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, 2018 and 2017.

All the associates are accounted for using the equity method.

Flexmedia Electronics Corporation held a shareholders' meeting on February 25, 2016 for the approval of liquidation, and completed liquidation processes on August 29, 2018.

The Corporation's share of losses of an associate is limited to its interest in that associate. The amounts 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	
	2018	2017
Unrecognized share of losses of associates for the year	$ -	$ 1,273
Accumulated unrecognized share of losses of associates	$ 1,273	$ 1,273

The investments accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments for the years ended December 31, 2018 and 2017 were based on the subsidiaries' financial statements audited for the same years.

16. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Testing Equipment	Office Equipment	Other Equipment	Construction in Progress	Total
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
Cost								
Balance, January 1, 2018	$ 813,738	$ 28,775	$ 1,965,976	$ 378,049	$ 40,194	$ 26,966	$ -	$ 3,253,698
Additions	-	-	79,495	267,500	14,623	13,357	-	374,975
Disposals	-	(5,095)	-	(42,359)	(9,994)	(188)	-	(57,636)
Reclassification	-	-	-	1,585	-	-	-	1,585
Balance, December 31, 2018	$ 813,738	$ 23,680	$ 2,045,471	$ 604,775	$ 44,823	$ 40,135	$ -	$ 3,572,622
Accumulated depreciation								
Balance, January 1, 2018	$ -	$ 20,926	$ 233,073	$ 176,109	$ 20,156	$ 10,332	$ -	$ 460,596
Disposals	-	(5,095)	-	(42,180)	(9,994)	(188)	-	(57,457)
Depreciation	-	3,472	56,845	125,299	14,085	8,652	-	208,353
Balance, December 31, 2018	$ -	$ 19,303	$ 289,918	$ 259,228	$ 24,247	$ 18,796	$ -	$ 611,492
Balance, December 31, 2018, net	$ 813,738	$ 4,377	$ 1,755,553	$ 345,547	$ 20,576	$ 21,339	$ -	$ 2,961,130

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

17. INTANGIBLE ASSETS

	December 31	
	2018	2017
Computer software	$ 110,317	$ 147,490
Technology license fees	39,064	64,618
	$ 149,381	$ 212,108

	Computer Software	Technology License Fees	Total
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
Balance at January 1, 2018	$ 147,490	$ 64,618	$ 212,108
Additions	112,378	23,331	135,709
Amortization	(149,551)	(48,885)	(198,436)
Balance, December 31, 2018	$ 110,317	$ 39,064	$ 149,381

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

Computer software	1-5 years
Technology license fees	1-8 years

18. OTHER PAYABLES

	December 31	
	2018	2017
Salaries and bonuses payable	$ 2,386,479	$ 2,576,430
Others	904,389	670,024
	$ 3,290,868	$ 3,246,454

19. OTHER LIABILITIES

	December 31	
	2018	2017
Current		
Other payables		
Refund liabilities (Note 20)	$ 185,919	$ -
Payables for purchases of equipment	30,295	11,049
Receipts under custody	31,029	89,635
Others	50,473	57,062
	$ 297,716	$ 157,746

20. PROVISIONS - CURRENT

	December 31	
	2018	2017
Sales returns and allowances	$ -	$ 292,081

	For the Year Ended December 31, 2017
Balance at January 1	$ 344,076
Additional provisions recognized	238,449
Usage	(290,444)
Balance at December 31	$ 292,081

Prior to 2017, 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.

The Corporation applied IFRS 15 since 2018, and the estimated sales returns and provisions are recognized as refund liabilities (other current liabilities).

21. 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 2018	December 31 2017
Present value of defined benefit obligation	$ 127,656	$ 116,566
Fair value of plan assets	(34,829)	(31,669)
Net defined benefit liabilities	$ 92,827	$ 84,897

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
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
Balance at January 1, 2018	$ 116,566	$ (31,669)	$ 84,897
Service costs			
Current service costs	4,954	-	4,954
Net interest expense (income)	1,633	(443)	1,190
Recognized in profit or loss	6,587	(443)	6,144
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(802)	(802)
Actuarial loss - changes in financial assumptions	4,695	-	4,695
Actuarial loss - experience adjustments	(192)	-	(192)
Recognized in other comprehensive income	4,503	(802)	3,701
Contributions from the employer	-	(1,915)	(1,915)
Balance at December 31, 2018	$ 127,656	$ (34,829)	$ 92,827

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	
	2018	**2017**
Operating costs	$ 859	$ 723
Marketing expenses	716	685
Administrative expenses	1,597	1,561
Research and development expenses	2,972	2,796
	$ 6,144	$ 5,765

Recognized in other comprehensive income was an actuarial loss of $1,530 thousand in 2018 and an actuarial loss of $6,880 thousand in 2017. The cumulative amount of actuarial loss recognized in other comprehensive income as of December 31, 2018 and 2017 was $41,127 thousand and $39,597 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	
	2018	**2017**
Discount rate	1.20%	1.40%
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	
	2018	**2017**
Discount rate		
0.25% increase	$ (5,838)	$ (5,582)
0.25% decrease	$ 6,160	$ 5,902
Expected rate of salary increase		
0.25% increase	$ 5,655	$ 5,443
0.25% decrease	$ (5,404)	$ (5,191)

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	
	2018	**2017**
The expected contributions to the plan for the next year	$ 2,097	$ 1,888
The average duration of the defined benefit obligation	19 years	20 years

22. EQUITY

a. Share capital

Common shares

	December 31	
	2018	**2017**
Number of shares authorized (in thousands)	230,000	230,000
Amount of shares authorized	$ 2,300,000	$ 2,300,000
Number of shares issued and fully paid (in thousands)	197,074	197,074
Amount of shares issued	$ 1,970,740	$ 1,970,740

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 was in effect from December 5, 2017. In accordance with Article 55, 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. 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 4, 2018.

On November 13, 2018, 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. 1070344165 and will take effect starting from November 28, 2018. In accordance with Article 55, 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 2018, 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	
	2018	2017
May be used to offset a deficit, distributed as cash dividends, or transferred to share capital*		
Issuance of common shares	$ 6,237,434	$ 6,237,434
The difference between the consideration received or paid and the carrying amount of the subsidiaries' net assets during actual disposal or acquisition	148,758	148,758
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	288,231	274,083
	$ 6,674,650	$ 6,660,502

* 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

Under the dividends policy as set forth in the amended Articles, where the Corporation made a 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 to directors and supervisors before and after amendment, refer to Note 24 (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 dividends distributed.

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.

The appropriations of earnings for 2017 and 2016 which were approved in the shareholders' meeting on June 8, 2018 and June 13, 2017, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	For Year 2017	For Year 2016	For Year 2017	For Year 2016
Legal reserve	$ 576,097	$ 486,699		
Reversal of special reserve	(25,965)	(85,393)		
Cash dividends	3,350,258	2,759,036	$17	$14

The appropriation of earnings for 2018 had been proposed by the Corporation's board of directors on March 21, 2019. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 431,812	
Special reserve	380,927	
Cash dividends	2,561,962	$13

The appropriation of earnings for 2018 are subject to the resolution of the shareholders in the shareholders' meeting to be held on June 12, 2019.

d. Other equity items

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

	For the Year Ended December 31	
	2018	2017
Balance at January 1	$ (67,147)	$ (66,816)
Effect of change in tax rate	2,426	-
Share of other comprehensive loss of subsidiaries and associates	(3,975)	(392)
Income tax relating to share of other comprehensive loss of subsidiaries and associates	788	61
Balance at December 31	$ (67,908)	$ (67,147)

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

Balance at January 1, 2017	$ 40,851
Recognized for the year	
Unrealized gain arising on revaluation of available-for-sale financial assets	62,712
Balance at December 31, 2017	$ 103,563
Balance at January 1, 2018 per IAS 39	$ 103,563
Adjustment on initial application of IFRS 9	(103,563)
Balance at January 1, 2018 per IFRS 9	$ -

3) Unrealized gain (loss) on financial assets at FVTOCI

	For the Year Ended December 31, 2018
Balance at January 1 per IAS 39	$ -
Adjustment on initial application of IFRS 9	(316,201)
Balance at January 1 per IFRS 9	(316,201)
Recognized during the period	
Unrealized gain (loss) - equity instruments	(106,094)
Share from associates accounted for using the equity method	(63,357)
Cumulative unrealized gain (loss) on equity instruments transferred to retained earnings due to disposals	150,848
Cumulative unrealized gain (loss) on equity instruments transferred to retained earnings due to disposals from subsidiaries	21,785
Balance at December 31	$ (313,019)

23. 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	
	2018	2017
Current tax		
In respect of the current year	$ 657,085	$ 971,302
Income tax on unappropriated earnings	185,370	170,460
Adjustments for prior periods	(163,846)	(104,686)
	678,609	1,037,076
Deferred tax		
In respect of the current year	53,562	(84,843)
Effect of change in tax rate	(49,937)	-
	3,625	(84,843)
Income tax expense recognized in profit or loss	$ 682,234	$ 952,233

A reconciliation of accounting profit and income tax expense for 2018 and 2017 is as follows:

	For the Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	$ 5,000,353	$ 6,713,205
Income tax expense calculated at the statutory rate	$ 1,000,071	$ 1,141,245
Tax-exempt income	(289,424)	(254,786)
Income tax on unappropriated earnings	185,370	170,460
Effect of change in tax rate	(49,937)	-
Adjustments for prior years' tax	(163,846)	(104,686)
Income tax expense recognized in profit or loss	$ 682,234	$ 952,233

In 2017, the applicable corporate income tax rate used by the Corporation in the ROC was 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

The appropriation of the 2019 earnings is uncertain and is subject to approval at the shareholders' meeting; thus, the potential consequences of income tax on the 2018 unappropriated earnings are not reliably determinable.

b. Income tax benefit recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
Deferred income tax		
Effect of change in tax rate	$ 3,857	$ -
In respect of the current period		
Share of other comprehensive income of subsidiaries and associates	788	61
Actuarial gain on defined benefit plan	740	1,408
Total income tax expense recognized in other comprehensive income	$ 5,385	$ 1,469

c. Current tax assets and liabilities

	December 31	
	2018	2017
Current tax liabilities		
Income tax payable	$ 522,579	$ 1,090,947

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, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Doubtful accounts	$ 21,608	$ (4,211)	$ -	$ 17,397
Inventory write-downs	52,567	27,752	-	80,319
Refund liabilities	49,654	(12,470)	-	37,184
Defined benefit obligation	14,433	1,961	2,171	18,565
Unrealized exchange losses	77,212	7,940	-	85,152
Impairment loss on financial assets	44,475	(12,674)	-	31,801
Exchange differences on translating foreign operations	13,746	-	3,214	16,960
Share of losses of subsidiaries and associates	29,225	(16,115)	-	13,110
Unrealized gain on transactions with subsidiaries	-	3,910	-	3,910
Property, plant and equipment	1,915	282	-	2,197
	$ 304,835	$ (3,625)	$ 5,385	$ 306,595

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
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

e. Income tax returns through 2016 have been assessed by the tax authorities.

24. NET PROFIT AND OTHER COMPREHENSIVE INCOME

The following items were included in net profit:

a. Other gains and losses

	For the Year Ended December 31	
	2018	2017
Fair value changes of financial assets and financial liabilities		
Financial assets mandatorily classified as at FVTPL	$ (11,605)	$ -
Net foreign exchange gains (losses)	171,439	(357,532)
Losses on financial assets held for trading	-	(5,529)
Impairment losses recognized on financial assets	-	(147,890)
Others	1,404	158
	$ 161,238	$ (510,793)

b. Other income

	For the Year Ended December 31	
	2018	2017
Interest income		
Bank deposits	$ 46,443	$ 38,504
Convertible bonds	3,122	-
Rental income	2,964	3,605
Dividend income	41,698	29,947
Others	37,801	17,749
	$ 132,028	$ 89,805

c. Depreciation and amortization

	For the Year Ended December 31	
	2018	2017
Property, plant and equipment	$ 208,353	$ 156,455
Intangible assets	198,436	163,653
	$ 406,789	$ 320,108
An analysis of depreciation by function		
Operating costs	$ 45,880	$ 37,325
Operating expenses	162,473	119,130
	$ 208,353	$ 156,455
An analysis of amortization by function		
General and administrative expenses	$ 7,899	$ 8,359
Research and development expenses	190,537	155,294
	$ 198,436	$ 163,653

d. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 2,767,933	$ 3,424,548
Post-employment benefits		
Defined contribution plan	80,851	67,832
Defined benefit plan	6,144	5,765
	86,995	73,597
Other employee benefits		
Employee welfare	53,016	53,249
Food stipend	39,684	35,170
	92,700	88,419
	$ 2,947,628	$ 3,586,564

(Continued)

	For the Year Ended December 31	
	2018	2017
Employee benefits		
Recognized in operating costs	$ 178,713	$ 166,677
Recognized in operating expenses	2,768,915	3,419,887
	$ 2,947,628	$ 3,586,564

(Concluded)

e. Employees' compensation and remuneration of directors and supervisors

The Corporation accrued employees' compensation and remuneration of directors and supervisors at the rates of 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, 2018 and 2017, which have been approved by the Corporation's board of directors on March 21, 2019 and March 16, 2018, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2018	2017
Employees' compensation	9.84%	9.00%
Remuneration of directors and supervisors	0.72%	0.81%

Amount

	For the Year Ended December 31			
	2018		2017	
	Cash	Shares	Cash	Shares
Employees' compensation	$ 550,000	$ -	$ 670,000	$ -
Remuneration of directors and supervisors	40,000	-	60,000	-

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, 2017 and 2016.

Information on the employees' compensation and remuneration of directors and supervisors resolved by the Corporation's board of directors in 2019 and 2018 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	
	2018	2017
Foreign exchange gains	$ 572,646	$ 404,352
Foreign exchange losses	(401,207)	(761,884)
Net gain (loss)	$ 171,439	$ (357,532)

25. EARNINGS PER SHARE

(In New Taiwan Dollars)

	For the Year Ended December 31	
	2018	2017
Basic earnings per share	$ 21.91	$ 29.23
Diluted earnings per share	$ 21.60	$ 28.83

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

Net Profit for the Year

	For the Year Ended December 31	
	2018	2017
Earnings used in the computation of basic earnings per share		
Profit for the period attributable to owners of the Corporation	$ 4,318,119	$ 5,760,972
Earnings used in the computation of diluted earnings per share		
Profit for the period attributable to owners of the Corporation	$ 4,318,119	$ 5,760,972

Shares

(In Thousands of Shares)

	For the Year Ended December 31	
	2018	2017
Weighted-average number of common shares used in the computation of basic earnings per share	197,074	197,074
Effect of potentially dilutive common shares:		
Employees' compensation	2,867	2,766
Weighted-average number of common shares used in the computation of dilutive earnings per share	199,941	199,840

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.

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 consisted of net debts (borrowings offset by cash and cash equivalents) and equity (comprising share capital, capital surplus, retained earnings and other equity).

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, or the amount of new debt issued or existing debt redeemed.

27. 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, 2018

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	$ 372,994	$ -	$ -	$ 372,994
Domestic unlisted shares	-	-	281,900	281,900
Overseas unlisted shares	-	-	54,231	54,231
Domestic private equity funds	-	-	47,366	47,366
Beneficiary certificates - open-ended funds	2,520,850	-	-	2,520,850
Convertible bonds	-	-	85,288	85,288
	$ 2,893,844	$ -	$ 468,785	$ 3,362,629
Financial assets at FVTOCI				
Investments in equity instruments				
Domestic unlisted shares	$ -	$ -	$ 70,134	$ 70,134
Overseas unlisted shares	-	-	93,309	93,309
	$ -	$ -	$ 163,443	$ 163,443

December 31, 2017

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Domestic listed shares	$ 67,095	$ -	$ -	$ 67,095
Beneficiary certificates - open-ended 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

There were no transfers between Levels 1 and 2 for the years ended December 31, 2018 and 2017.

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

For the year ended December 31, 2018

	Financial Assets at FVTPL			Financial Assets at FVTOCI	
Financial Assets	**Derivatives - Private Equity Funds**	**Derivatives - Convertible Bonds**	**Equity Instruments**	**Equity Instruments**	**Total**
Balance at January 1, 2018 (IAS 39)	$ -	$ 53,722	$ 434,763	$ -	$ 488,485
Transfers into Level 3 (Application IFRS 9)	47,032	-	268,580	241,262	556,874
Recognized in profit or loss					
Other gains and losses	334	3,478	135,952	-	139,764
Recognized in other comprehensive income					
Unrealized loss on financial assets at FVTOCI	-	-	-	(106,094)	(106,094)
Purchases	-	77,763	1,454	53,712	132,929
Sales	-	(49,675)	-	(25,437)	(75,112)
Capital reduction and refund of shares	-	-	(69,855)	-	(69,855)
Transfers out of Level 3	-	-	(434,763)	-	(434,763)
Balance at December 31, 2018	$ 47,366	$ 85,288	$ 336,131	$ 163,443	$ 632,228

For the year ended December 31, 2017

	Financial Assets at FVTPL	Available-for-sale Financial Assets	
	Convertible Bonds	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

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 input is historical volatility. As of December 31, 2018 and 2017, the historical volatilities used was 58.61% and 46.75%, respectively.

b) The fair values of unlisted debt securities - ROC are as follows:

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.

c) The fair values of unlisted equity securities - domestic and foreign were determined using the market approach. In accordance with the trading prices of analogous subjects, taking the difference of the unlisted equity securities and analogous subjects into consideration, the values of the unlisted equity securities are estimated using the appropriate multiplier. The significant unobservable inputs used are listed in the table below. A decrease in the discount for the lack of marketability used in isolation would result in an increase in fair value.

	December 31	
	2018	2017
Discount for lack of marketability	15%	Note

Note: The fair values were determined using the market approach starting from January 1, 2018, after the application of IFRS 9.

d) The fair values of unlisted equity securities - foreign were determined using the income approach. In this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests, the discount for lack of marketability and the weighted-average cost of capital (WACC) would result in increases in fair value. A decrease in sustainable revenue growth rates would result in a decrease in fair value.

	December 31	
	2018	**2017**
Discount for non-controlling interests	15%	Note
Discount for lack of marketability	15%	Note
Sustainable revenue growth rate	2%	Note
WACC	13.7%	Note

Note: The fair values were determined using the income approach starting from January 1, 2018, after the application of IFRS 9.

e) The fair values of unlisted equity securities - domestic and foreign and private equity funds were determined using the asset-based approach. In order to reflect the overall value of the Corporation or business, the total market value of the individual assets and individual liabilities of the evaluation target are evaluated. The significant unobservable inputs used are listed in the table below. Decreases in the discount for non-controlling interests and the discount for a lack of marketability would result in increases in fair value.

	December 31	
	2018	**2017**
Discount for non-controlling interests	10%	Note
Discount for lack of marketability	10%	Note

Note: The fair values were determined using the asset-based approach starting from January 1, 2018, after the application of IFRS 9.

c. Categories of financial instruments

	December 31	
	2018	**2017**
Financial assets		
Financial assets at FVTPL		
Held for trading	$ -	$ 1,171,056
Mandatorily at FVTPL	3,362,629	-
Loans and receivables (Note 1)	-	18,685,141
Available-for-sale financial assets (Note 2)	-	882,179
Financial assets at amortized cost (Note 3)	18,298,992	-
Financial assets at FVTOCI		
Equity instruments	163,443	-
Financial liabilities		
Financial liabilities at amortized cost (Note 4)	8,088,925	6,893,193

Note 1: The balance includes 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 balance includes the carrying amount of available-for-sale financial assets measured at cost.

Note 3: The balance includes financial assets measured at amortized cost, which comprise cash and cash equivalents, notes receivable, accounts receivable and other receivables.

Note 4: The balances include financial liabilities measured at amortized cost, which comprise notes payable, and trade and other payables.

d. Financial Risk Management Objectives and Policies

The Corporation's major financial instruments include equity investments, trade receivables, trade payables and borrowings. The Corporation's financial management department provides services to the business unit and coordinates access the operations in 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.

1) Market risk

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

a) 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.

<u>Sensitivity analysis</u>

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 of 6% used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change. 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	
	2018	**2017**
Profit or loss	$ 235,207	$ 332,100

b) Interest rate risk

The Corporation was exposed to interest rate risk because the Corporation borrowed funds at both fixed and 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	
	2018	**2017**
Fair value interest rate risk		
Financial assets	$ 4,852,082	$ 4,334,994
Cash flow interest rate risk		
Financial assets	7,956,746	8,440,053

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, 2018 and 2017 would have increased by $796 thousand and $844 thousand, respectively.

c) Other price risk

The Corporation was exposed to equity price risks through its investments in international and domestic listed and unlisted stock, convertible bonds, private equity funds and beneficial certificates.

Sensitivity analysis

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

If equity prices had been 1% higher/lower, pre-tax profit for the year ended December 31, 2018 would have increased/decreased by $33,626 thousand, as a result of the changes in fair value of financial assets at FVTPL, and the pre-tax other comprehensive income for the year ended December 31, 2018 would have increased/decreased by $1,634 thousand, as a result of the changes in fair value of financial assets at FVTOCI.

If equity prices had been 1% higher/lower, pre-tax profit for the year ended December 31, 2017 would have increased/decreased by $11,711 thousand, as a result of the changes in fair value of held-for-trading investments, and the pre-tax other comprehensive income for the year ended December 31, 2017 would increase/decrease by $4,348 thousand, as a result of the changes in fair value of available-for-sale investments.

2) 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 and financial guarantees provided by the Corporation, comes from the carrying amounts of the respective recognized financial assets as stated in the parent company only balance sheets

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.

3) 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, 2018 and 2017, the Corporation had available unutilized overdraft and short-term bank loan facilities of approximately $7,887,200 thousand and $6,785,500 thousand, respectively.

Liquidity and interest risk rate tables

The following tables detail the Corporation's remaining contractual maturities for its non-derivative financial liabilities with agreed upon repayment periods. The tables were drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which the Corporation can be required to pay.

	December 31, 2018				
	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 liabilities	$ 3,827,886	$ 2,845,240	$ 1,938,378	$ -	$ -

	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 liabilities	$ 2,628,330	$ 2,397,428	$ 2,958,382	$ -	$ -

e. Information on Transfers of Financial Assets

Refer to Note 11 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 parties and their relationships with the Corporation

Related Party	Relationship
Toshiba International Procurement Hong Kong, Ltd.	Other related party
Toshiba Memory America, Inc.	Other related party
Toshiba Singapore Pte. Ltd.	Other related party
Toshiba Corporation, Japan	Other related party
Toshiba Client Solutions ANZ Pty Limited	Other related party
Toshiba Memory Corporation	Other related party
Toshiba America Electronic Components, Inc.	Other related party
Toshiba (Australia) Pty Limited	Other related party
Toshiba Memory Taiwan Corporation	Other related party
Toshiba Electronic Components Taiwan Corporation	Other related party
Orient Semiconductor Electronics Ltd.	Other related party
Dawning Leading Technology Inc.	Other related party (Note)
Apacer Technology Inc.	Other related party
Kingston Solutions Inc.	Associate
PMS Technology Corporation	Associate
Microtops Design Corporation	Associate
Epostar Electronics Corporation	Associate
Lian Xu Dong Investment Corporation	Subsidiary
Phisontech Electronics (Malaysia) Sdn. Bhd.	Subsidiary
Hefei Ruhan Electronic Technology Limited	Subsidiary
Emtops Electronics Corp.	Subsidiary
Ostek Corporation	Subsidiary
Phisontech Electronics Taiwan Corp.	Subsidiary
Hefei Core Storage Electronic Limited	Subsidiary
Memoryexchange Corporation	Subsidiary

Note: The dissolution of Dawning Leading Technology Inc. was approved in their shareholders' meeting held on August 29, 2018 and the date of merger was set as November 1, 2018; thus, starting from November 1, Dawning Leading Technology Inc. was no longer a related party of the Corporation.

b. Operating revenue

	For the Year Ended December 31	
	2018	2017
Related party category		
Subsidiaries	$ 399,107	$ 533,925
Associates	88,762	22,380
Other related parties	1,831,022	1,855,850
	$ 2,318,891	$ 2,412,155

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	
	2018	2017
Related party category		
Subsidiaries	$ 6,643	$ 35,993
Associates	689,883	293,119
Other related parties		
Toshiba Memory Taiwan Corporation	13,871,205	3,210,897
Toshiba Memory America, Inc.	4,468,490	921,246
Toshiba Electronic Components Taiwan Corporation	168	12,335,671
Others	4,185	2,795,019
	$ 19,040,574	$ 19,591,945

2) Processing costs

	For the Year Ended December 31	
	2018	2017
Related party category		
Subsidiaries	$ 24,977	$ 23,405
Associates	185	1,330
Other related parties	1,758,073	1,387,601
	$ 1,783,235	$ 1,412,336

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

d. Receivables from related parties

	December 31	
	2018	2017
Related party category		
Subsidiaries	$ 39,353	$ 17,891
Associates	81,354	465
Other related parties	262,895	317,686
	$ 383,602	$ 336,042

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	
	2018	2017
Related party category		
Subsidiaries	$ 5,621	$ 5,188
Associates	134,362	24,959
Other related parties		
Toshiba Memory Taiwan Corporation	2,077,768	2,105,363
Others	644,014	430,216
	$ 2,861,765	$ 2,565,726

The outstanding trade payables from related parties are unsecured.

f. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Short-term employee benefits	$ 188,245	$ 280,848
Post-employment benefits	1,803	1,436
Other employee benefits	4,288	4,869
	$ 194,336	$ 287,153

The remuneration of directors and key executives was determined by the remuneration committee based on 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 December 31, 2022.

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

	December 31	
	2018	2017
Not later than 1 year	$ 8,455	$ 9,124
Later than 1 year and not later than 5 years	17,824	25,076
	$ 26,279	$ 34,200

b. The Corporation as lessor

All operating leases relate to the property owned by the Corporation, and such leases will expire on December 31, 2019.

For the years ended December 31, 2018 and 2017, the Corporation individually recognized guarantee on trade receivables of $335 thousand and $465 thousand, respectively.

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

	December 31	
	2018	2017
Not later than 1 year	$ 2,432	$ 3,163

30. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

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

	December 31	
	2018	2017
Refundable deposits for the Customs Duty Bureau - certificates of deposit (financial assets at amortized cost)	$ 20,356	$ -
Refundable deposits for the Customs Duty Bureau - certificates of deposit (debt investments with no active market)	-	20,549
	$ 20,356	$ 20,549

31. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2018 and 2017 were as follows:

Significant Commitments

	December 31	
	2018	2017
Unused letters of credit	$ 1,670,000	$ 2,046,500

32. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Corporation's 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:

(New Taiwan Dollars and Foreign Currencies in Thousands)

	December 31, 2018		
	Foreign Currency	Exchange Rates	New Taiwan Dollars
Financial assets			
Monetary			
USD	$ 234,373	30.715	$ 7,198,760
CNY	23,545	4.472	105,292
Financial liabilities			
Monetary			
USD	106,744	30.715	3,278,640

	December 31, 2017		
	Foreign Currency	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

33. OTHER SIGNIFICANT EVENTS

In April 2018, Macronix International Co., Ltd. accused the Corporation of infringement of one of its patent rights. In October 2018, Macronix International Co., Ltd. withdrew the lawsuit. Therefore, the Taiwan Intellectual Property Court has terminated the case.

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 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 and others, the case is under re-investigation, and the financial position and operations of the Corporation are 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/guarantees provided. (None)

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

4) Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 20% of the paid-in capital. (Table 2)

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

6) Disposals 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.

TABLE 1

PHISON ELECTRONICS CORP.

MARKETABLE SECURITIES HELD (EXCLUDING INVESTMENTS IN SUBSIDIARIES)
DECEMBER 31, 2018
(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, 2018				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 FVTPL - current	16,326	$ 204,436	-	$ 204,436	Note 3
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	13,369	204,235	-	204,235	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	20,685	213,487	-	213,487	Note 3
	Yuanta De-Li Money Market Fund	-	Financial assets at FVTPL - current	9,298	151,380	-	151,380	Note 3
	Jih Sun Money Market Fund	-	Financial assets at FVTPL - current	13,767	203,655	-	203,655	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	16,113	201,596	-	201,596	Note 3
	CTBC Hwa-win Money Market Fund	-	Financial assets at FVTPL - current	18,239	200,702	-	200,702	Note 3
	Prudential Financial Money Market Fund	-	Financial assets at FVTPL - current	12,070	190,629	-	190,629	Note 3
	Eastspring Investments Well Pool Money Market Fund	-	Financial assets at FVTPL - current	11,087	150,607	-	150,607	Note 3
	Taishin 1699 Money Market Fund		Financial assets at FVTPL - current	14,809	200,032	-	200,032	Note 3
	Taishin Ta-Chong Money Market Fund		Financial assets at FVTPL - current	14,102	200,030	-	200,030	Note 3
	TCB Taiwan Money Market Fund		Financial assets at FVTPL - current	19,716	200,030	-	200,030	Note 3
	Capital Money Market Fund		Financial assets at FVTPL - current	12,416	200,031	-	200,031	Note 3
	Corporate bond							
	Ubitus Inc.		Financial assets at FVTPL - current	-	85,288	-	85,288	Note 9
	Common shares							
	Orient Semiconductor Electronics, Ltd.	-	Financial assets at FVTPL - current	7,336	86,569	1.33	86,569	Note 4
	Apacer Technology Inc.	-	Financial assets at FVTPL - current	10,050	286,425	9.96	286,425	Note 4
	JAFCO Asia Technology Fund IV L.P.	-	Financial assets at FVTPL - non-current	1,000	1,134	0.50	1,134	Note 5
	AppWorks Fund I Co., Ltd.	-	Financial assets at FVTPL - non-current	2,165	27,799	18.75	27,799	Note 5
	Aptos Technology Inc.	-	Financial assets at FVTOCI - non-current	1,059	-	1.86	-	-
	Viva Baseball Co., Ltd.	-	Financial assets at FVTOCI - non-current	Note 6	-	8.33	-	-
	Adam Elements International Co., Ltd.	-	Financial assets at FVTOCI - non-current	1,710	20,556	19.00	20,556	Note 5
	JAFCO Asia Technology Fund VI L.P.	-	Financial assets at FVTPL - non-current	950	53,097	0.67	53,097	Note 5
	Appworks Fund II Co., Ltd.	-	Financial assets at FVTPL - non-current	8,850	214,309	11.11	214,309	Note 5
	Innorich Venture Capital Corp.	-	Financial assets at FVTPL - non-current	3,000	20,402	5.61	20,402	Note 5
	THLight Co., Ltd.	-	Financial assets at FVTOCI - non-current	6,388	-	17.94	-	-
	UD INFO Corp.	-	Financial assets at FVTOCI - non-current	570	33,137	18.15	33,137	Note 5
	GeoThings, Inc.	-	Financial assets at FVTOCI - non-current	150	-	6.70	-	-

(Continued)

Holding Company Name	Marketable Securities Type/ Name and Issuer (Note 1)	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares or Units (In Thousands)	Carrying Amount (Note 2)	Percentage of Ownership (%)	Market Value	
	Ironyun Incorporated (preference shares)	-	Financial assets at FVTOCI - non-current	5,000	$ -	5.92	$ -	-
	Gospal Ltd.	-	Financial assets at FVTOCI - non-current	811,857	3,004	3.40	3,004	Note 7
	H3 Platform, Inc.	-	Financial assets at FVTOCI - non-current	18,400	30,705	12.14	30,705	Note 7
	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at FVTOCI - non-current	11,966	48,859	17.16	48,859	Note 5
	Gomore Inc.	-	Financial assets at FVTOCI - non-current	16,925	10,741	6.15	10,741	Note 5
	Patriot Memory Asia Headquarter	-	Financial assets at FVTOCI - non-current	580	16,441	4.33	16,441	Note 5
	Taishan Buffalo Investment Co., Ltd. (preference shares)	-	Financial assets at FVTPL - non-current	25,000	19,390	1.08	19,390	Note 5
	Private equity fund							
	Fuh Hwa Smart Energy Fund	-	Financial assets at FVTPL - non-current	6,000	47,366	3.81	47,366	Note 5
Lian Xu Dong Investment Corporation	Beneficiary certificates							
	FSITC Taiwan Money Market Fund	-	Financial assets at FVTPL - current	1,986	30,341	-	30,341	Note 3
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	2,424	30,329	-	30,329	Note 3
	Common shares							
	United Power Research Technology Corp.	-	Financial assets at FVTOCI - non-current	5,616	44,394	16.12	44,394	Note 5
	Fresco Logic, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,250	-	2.23	-	-
	Translink Capital Partners III, L.P.	-	Financial assets at FVTPL - non-current	1,440	37,786	1.18	37,786	Note 5
	Translink Capital Partners IV L.P	-	Financial assets at FVTPL - non-current	300	6,506	0.78	6,506	Note 5
	Liqid, Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	2,111	98,740	10.92	98,740	Note 5
	UMBO CV Inc. (preference shares)	-	Financial assets at FVTOCI - non-current	1,626	29,696	3.02	29,696	Note 8
	Omni Media International Incorporation	-	Financial assets at FVTOCI - non-current	1,714	18,343	4.56	18,343	Note 8
	RENIAC, INC. (preference shares)	-	Financial assets at FVTOCI - non-current	302	15,285	3.46	15,285	Note 5
Emtops Electronics Corporation	Beneficiary certificates - open-end funds							
	Allianz Global Investors Taiwan Money Market Fund	-	Financial assets at FVTPL - current	815	10,194	-	10,194	Note 3
	Franklin Templeton SinoAm Money Market Fund	-	Financial assets at FVTPL - current	988	10,202	-	10,202	Note 3
Phisontech Electronics (Malaysia) Sdn. Bhd.	Beneficiary certificates							
	United Cash Fund	-	Financial assets at FVTPL - current	2,410	17,342	-	17,342	Note 3
Cloud Solution Global Limited	Common shares							
	My Digital Discount, Inc.	-	Financial assets at FVTOCI - non-current	-	-	19.00	-	-
Hefei Core Storage Electronic Limited	Common shares							
	Hangzhou Hualan Microelectronique Co., Ltd.	-	Financial assets at FVTOCI - non-current	3,000	80,496	4.74	80,496	Note 7

(Continued)

Note 1: The marketable securities listed refer to the types of financial instruments within the scope of IFRS 9 “Financial Instruments”.

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

Note 3: The calculation of the market value was based on the net asset value as of December 28, 2018.

Note 4: The calculation of the market value was based on the closing price as of December 28, 2018.

Note 5: Refer to Note 27 (b)-3 for market value information.

Note 6: The issuing company is not limited by shares.

Note 7: The calculation of the market value was based on the most recent buying price.

Note 8: The calculation of the market value was based on the most recent acquisition price.

Note 9: The calculation of the market value was based on the expert evaluation report as of December 28, 2018.

Note 10: The Corporation held marketable securities that had not been guaranteed, pledged or mortgaged as collateral or restricted by other commitments.

(Concluded)

TABLE 2

PHISON ELECTRONICS CORP.

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, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance (Note)	
					Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Number of Shares (In Thousands)	Amount	Carrying Amount	Gain (Loss) on Disposal	Number of Shares (In Thousands)	Amount
Phison Electronics Corp.	Beneficiary certificates													
	Taishin Ta-Chong Money Market Fund	Financial assets at FVTPL - current	-	-	3,594	$ 50,757	21,180	$ 300,000	10,672	$ 151,070	$ 150,000	$ 1,070	14,102	$ 200,030
	Taishin 1699 Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	29,668	400,000	14,859	200,290	200,000	290	14,809	200,032
	TCB Taiwan Money Market Fund	Financial assets at FVTPL - current	-	-	-	-	39,497	400,000	19,781	200,289	200,000	289	19,716	200,030

Note: The amounts of beginning and ending balance include the valuation gains or losses on financial instruments.

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, 2018
(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.	Kingston Solutions Inc.	Equity-method investee subsidiary	Purchase	$ 673,914	2	Net 30 days after monthly closing	None	None	$ (134,248)	(3)	-
	Toshiba Memory America, Inc.	The subsidiary of the Corporation's legal entity board of directors	Purchase	4,468,490	16	Net 30 days after receipt date	None	None	(300,170)	(6)	-
	Toshiba Memory Taiwan Corporation	The subsidiary of the Corporation's legal entity board of directors	Purchase	13,871,205	51	Net 30 days after monthly closing	None	None	(2,077,768)	(43)	-
	Orient Semiconductor Electronics, Ltd.	The Corporation is its director	Processing cost	1,439,882	5	Net 15 days after monthly closing	None	None	(343,844)	(7)	-
	Dawning Leading Technology Inc.	The Corporation is its director	Processing cost	318,191	1	Net 45 days after monthly closing	None	None	-	-	Note
	Toshiba Singapore Pte Ltd	The associates of a subsidiary which is a legal entity on the Corporation's board of directors	Sale	(169,870)	-	Net 60 days after monthly closing	None	None	-	-	-
	Toshiba Memory Corporation	The Corporation's legal entity board of directors	Sale	(885,227)	(2)	Net 60 days after monthly closing	None	None	95,909	2	-
	Apacer Technology Inc.	The Corporation is its director	Sale	(613,758)	(2)	Net 45 days after monthly closing	None	None	132,734	2	-
	Hefei Core Storage Electronic Limited	Sub-subsidiary	Sale	(265,696)	(1)	Net 30 days after monthly closing	None	None	3,439	-	-
	Hefei Ruhan Electronic Technology Limited	Sub-subsidiary	Sale	(103,518)	-	Net 30 days after monthly closing	None	None	19,360	-	
Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	Sister company	Purchase	107,194	29	Net 30 days after monthly closing	None	None	20,566	56	

Note: The dissolution of Dawning Leading Technology Inc. was approved in their shareholders' meeting held on August 29, 2018 and the date of merger was set as November 1, 2018; thus, starting from November 1, Dawning Leading Technology Inc. was no longer a related party of the Corporation.

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, 2018
(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.	Apacer Technology Inc.	The Corporation is its director	$ 132,734	6.66	$ -	-	$ 132,734	$ -

Note: As of March 5, 2019.

PHISON ELECTRONICS CORP.

INFORMATION OF INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2018	December 31, 2017	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	$ 1,257,971	$ (402,522)	$ (132,470)	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	71,102	944	944	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	484,367	(211)	(211)	Subsidiary
	Microtops Design Corporation	Taiwan	Research and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	22,696	2,313	1,133	Equity-method investee
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	28,982	2,000	100.00	34,764	(17)	(17)	Subsidiary
	Global Flash Limited	Samoa	Investment and trade	665,823	665,823	21,000,000	100.00	628,701	34,684	34,684	Subsidiary
	Phisontech Electronics (Malaysia) Sdn. Bhd.	Malaysia	Design, production and sale of flash memory controllers and peripheral system applications	91,422	91,422	10,000,000	100.00	64,275	1,414	1,414	Subsidiary
	Epostar Electronics (BVI) Corporation	British Virgin Islands	Investment	133,988	133,988	10,600,000	37.82	17,596	(115,248)	(43,587)	Equity-method investee
	Power Flash (Samoa) Limited	Samoa	Investment and trade	105,440	105,440	3,200,000	100.00	101,359	553	553	Subsidiary
	Everspeed Technology Limited	Samoa	Trade of electronic components	-	-	1,000,000	100.00	252,981	112,544	112,544	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	199,332	-	6,700,000	100.00	205,618	769	769	Subsidiary
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	52,855	(691)	-	Sub-subsidiary
	PMS Technology Corporation	Taiwan	Research and design of flash memory controllers and related products	2,000	2,000	200,000	33.33	17,929	3,936	-	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	41,635	2,880	-	Sub-subsidiary
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	576,229	576,229	18,050,000	100.00	599,958	49,188	-	Sub-subsidiary

(Continued)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2018			Net (Loss) Income of the Investee	Investment (Loss) Income	Note
				December 31, 2018	December 31, 2017	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	$ 95,308	$ 403	$ -	Sub-subsidiary
Everspeed Technology Limited	Memoryexchange Corporation	Taiwan	Production and sale of flash memory related products	391,986	391,986	40,950,000	100.00	116,518	109,154	-	Sub-subsidiary
	Fast Choice Global Limited	British Virgin Islands	Trade of electronic components	1,482	1,482	50,000	100.00	2,681	(40)	-	Sub-subsidiary
	Cloud Solution Global Limited	British Virgin Islands	Trade of electronic components	186,963	186,963	5,950,440	100.00	11,984	339	-	Sub-subsidiary
Regis Investment (Samoa) Limited	Real You Investment Limited	Hong Kong	Investment	197,760	-	6,650,000	100.00	204,123	845	-	Sub-subsidiary

(Concluded)

TABLE 6

PHISON ELECTRONICS CORP.

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018
(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, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Percentage of Ownership (%)	Investment (Loss) Income (Note 2)	Carrying Amount as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow					
Phisontech (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronics	$ 53,096	2	$ 53,096	$ -	$ -	$ 53,096	100.00	$ (14,830)	$ 8,777	$ -
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	49,190	598,892	-
Hefei Ruhan Electronic Technology Limited	Design, R&D, sale of electronics hardware and rendering of related services and investment	182,825	1	-	182,825	-	182,825	100.00	703	183,151	-
Hefei Yichao Electronics Technology Ltd.	Design, R&D, sale of electronics hardware and software and rendering of related services and investment	185,369	2	-	-	-	-	100.00	(1,003)	180,133	-
Hefei Xinpeng Technology Co., Ltd.	Design, R&D, production and sale of integrated circuits and electronics hardware and software and rendering of related services	493,570	2	-	-	-	-	36.36	(1,043)	177,857	-

Accumulated Investments in Mainland China as of December 31, 2018	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investments (Note 3)
$ 812,701 (US$ 25,762)	$ 1,220,501 (US$ 39,190)	$ 16,147,122

(Continued)

Note 1: 1) Indirectly invested in a China-based company through a company located in a third-region, Regis Investment Limited and its subsidiaries.
2) Indirectly invested in a China-based company through a company located in a third-region, Global Flash Limited and its subsidiaries.

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

Note 3: The limit of investments in mainland China, which is based on Regulations Governing the Approval of Investments on Technical Corporation in Mainland China, is 60% of the Corporation's net asset value, which is \$26,911,870 x 60% = \$16,147,122.

(Concluded)

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, 2018
(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	$ 265,696	1	Net 30 days after monthly closing	None	None	$ 3,439	-	-
	Hefei Ruhan Electronic Technology Limited	Sub-subsidiary	Sale	103,518	-	Net 30 days after monthly closing	None	None	19,360	-	-
Hefei Core Storage Electronic Limited	Hefei Ruhan Electronic Technology Limited	Sister company	Purchase	107,194	29	Net 30 days after monthly closing	None	None	20,566	56	-

Phison Electronics Corp.

Chairman：KS Pua