

Phison Electronics Corporation

2023 Annual Report

Annual Report is available in the following websites Taiwan Stock Exchange
Market Observation Post System : <http://mops.twse.com.tw>

Corporation Website : <https://www.phison.com>

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None.

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Phison Electronics Corporation

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Chapter 1

Letter to Shareholders



Chapter 1. Letter to Shareholders

Dear Shareholders,

Reviewing the overall economic environment of Taiwan in 2023, it was fraught with variables and challenges due to geopolitical tensions, high inventory levels in upstream and downstream supply chains, and lack of confidence among businesses and consumers. However, Phison Electronics managed to maintain relatively stable operational results for the year thanks to its industry-leading position in NAND controllers and high-speed transmission interface technology, as well as its continued investment in research and development of cutting-edge technologies in a highly competitive and dynamic operating environment. With the relentless efforts of all Phison employees, the consolidated total revenue for 2023 was approximately NT\$48.222 billion, with consolidated net profit after tax of about NT\$3.624 billion, resulting in earnings per share of NT\$18.48.

In 2023, SSD products and related controllers for embedded applications accounted for approximately 71% of the company's total revenue, with a continued focus on developing UFS for next-generation mobile devices and PCIe SSD controllers and NAND storage solutions to meet the demand for high-performance data transmission and customized high-speed storage devices. Furthermore, Phison continued its expansion into markets such as servers, data centers, AI high-speed computing, and automotive storage systems to capture future growth opportunities driven by high-speed transmission and AI artificial intelligence.

Recent developments, including the demand for AI servers driven by generative AI, have led to the flourishing of technologies such as cloud computing, big data, metaverse, and IoT, increasing the need for high-speed data access. Additionally, upgrades in gaming software and console specifications have fueled demand for ultra-high-speed solid-state drives (SSDs), contributing to rapid and robust growth in SSD penetration rates. Phison has responded to these diverse market demands by introducing various NAND controllers, including PCIe Gen4 NVMe SSD controllers, and the world's first PCIe Gen5 flagship Client SSD controllers, catering to different application markets. In addition, in the high-end application/enterprise SSD market, the customizable enterprise SSD solutions introduced by Phison continue to receive market recognition. Furthermore, Phison's automotive storage solutions have also been adopted by multiple automotive system integration clients, with expectations for gradual expansion throughout 2024.

In terms of embedded and mobile device applications, our company, as one of the few in the world to offer complete eMMC and UFS controllers, continues to focus on research and development of technologies with lower power consumption and lower heat generation. We are also continuing to elevate BGA SSDs to PCIe NVMe standards. This effort not only makes us the best choice for embedded systems and mobile device applications requiring high-speed, lightweight, and compact

data storage but also drives mobile storage devices into a new generation of higher speed and energy efficiency.

In the realm of SD memory cards, our company has planned to release SD/microSD controllers compliant with the SD 9.0 specification, which will then become the optimal mobile storage solution for content creators capturing high-resolution images. Additionally, in the USB product series, we are set to introduce the world's first SoC USB 4.0 NAND controllers, expected to bring a fresh perspective to the mobile storage market.

Looking ahead to 2024, Phison will continue to expand its research and development investment and pursue a comprehensive strategy to advance NAND storage applications in embedded applications, automotive application systems, and enterprise server markets. Building upon its technological leadership in PCIe Gen4 SSD controllers, Phison will introduce industry-leading PCIe Gen5 SSD controllers and potentially next-generation PCIe Gen6 SSD controllers and signal enhancement Redriver/Retimer ICs, demonstrating its commitment to innovation and customer satisfaction. Phison will remain focused on its core business, strengthening its research and development capabilities, and continuing to create value for shareholders, employees, and customers.

In 2023, Phison Electronics successfully developed several products, including:

1. PCIe 4.0 PS5022-E22T storage solution tailored for the automotive storage market, achieving read/write speeds of up to 7000MB/s and operating temperatures ranging from -40°C to 95°C, receiving the honor of the 2024 Taiwan Excellence Award.
2. Introduction of PCIe 5.0 Redriver PS7102/PS7103 and Retimer PS7201/PS7202 ICs specifically designed for AI data computing architectures, providing excellent signal adjustment functions for high-speed computing frameworks and data centers.
3. The world's first PCIe 4.0 DRAM-Less controller PS5027-E27T supporting 3600MT/s and 2400MT/s NAND Flash, offering outstanding performance and power efficiency ratio for PC OEMs and mobile devices.
4. Release of the E18 pSLC PCIe 4.0 SSD storage solution, ideal for applications requiring intensive writing such as workstations, servers, NAS, and RAID systems, providing optimal durability.
5. Introduction of the exclusive aiDAPTIV+ service solution, integrating Phison's exclusive AI computing architecture for SSDs to structurally partition large AI models and dynamically run model parameters in synergy with SSDs over time, maximizing executable AI models under limited GPU and DRAM resources, thus effectively reducing hardware construction costs for providing AI services.
6. Launch of the world's first and only NAND controllers and storage module development resource sharing and ASIC design service platform (IMAGIN+ Platform), empowering global partners and customers to create ASIC (Application-Specific Integrated Circuit) chips and NAND storage value-added solutions for various emerging applications.

In 2024, we plan to increase our R&D workforce to between 3,300 and 3,600 people. The estimated sales volume of major products for 2024 is estimated as follows, based on the following factors: the growth and mix of our product sales 、 our business plan 、 market demand forecasts 、 the competitive landscape of the industry 、 the business outlook of our major customers ː

Product	Expected Sales Volume
NAND Controllers	252 million units
NAND Modules	145 million units

The product lines currently planned for new development or ongoing upgrades in 2024 are as follows:

1. Introducing the world's first PCIe 5.0 DRAM-less client SSD controller PS5031-E31T, with maximum read/write performance of up to 14GB/s. It is a PCIe 5.0 SSD storage solution that combines performance and power efficiency, ideal for high-end PC OEM applications and the mainstream SSD market.
2. PS5027-E27T PCIe Gen4 SSD controller, featuring a DRAM-Less design with speeds of up to 7400MB/s. It will be a low-power, high-performance PCIe 4.0 SSD storage solution designed specifically for handheld gaming consoles (such as Steam Deck, Ally, or Legion Go), offering the compact M.2 2230 form factor.
3. Introducing a full range of UFS controllers, including UFS 2.2 PS8327, UFS 3.1 PS8325, UFS 3.1 PS8329, and UFS 4.0 PS8361, covering entry-level, mid-range, and flagship smartphones, to deliver ultimate performance in mobile storage.
4. Launching the world's first single-chip (SoC) native USB 4.0 controller PS2251-21 (U21), with maximum performance of up to 4GB/s. It will be the optimal storage solution for content creators and mobile storage applications.
5. Continuing the development of high-end enterprise-grade SSD storage solutions, supporting higher capacities, faster speeds, and interface fault tolerance, in collaboration with strategic partners to meet the demands of the enterprise storage market.
6. Continuing the development of smaller, higher-capacity, and more power-efficient controller solutions, including eMMC, UFS, and BGA SSD tailored for the automotive storage market to meet the future high-speed storage needs of mobile devices.
7. Continuing the development of controllers compliant with automotive specifications and enhancing certifications such as AEC-Q100, ISO26262, IATF16949, and ASPICE to meet the rising demands of automotive electronics.
8. Continuing to introduce Redriver/Retimer ICs tailored for PC, server, and automotive systems to provide the best signal stability solutions for high-speed transmission platforms.

Looking ahead, by upholding the cores of the Company culture, Phison Electronics is moving forward to comply with the changing global trends for continuing to expand the territory of the market and to stand the leadership in the market to achieve the goal of operating the Company stably.

Respectfully yours

Wee Kuan Gan, Chairman

Chung Hsun Ma, President

Chapter 2

Company Profile



Chapter 2. Company Profile

2.1 Date of Incorporation: Nov. 8th, 2000

TPEX-listed Date: Dec. 6th, 2004

2.2 Company History

Year	Important event
Jan, 2016	• Phison Electronics Corporation announced the first controller chip PS5007-E7 which supports PCIe Gen3 x 4 NVMe SSD
July, 2016	• Top 500 of export and import manufacturers with excellent performance in 2015
Sep, 2016	• Phison Electronics Corporation announced the first solution in the industry for the SD 5.0 specification. This solution led the SD card application into an era of high-speed video recording of Video Speed Class
Sep, 2016	• Phison Electronics Corporation announced the microSD card of "Max IOPS" product line
Dec, 2016	• NT\$3,000,000 of treasury shares were annulled. The paid-in capital was decreased to NT\$ 1,970,739,930
Feb, 2017	• Phison SSD controller passed the BiCS3 testing verification which will help the Company and Toshiba to enhance the 3DNAND application
Apr, 2017	• The SD 5.1 A1 controller PS8131 introducing BiCS3 technical
July, 2017	• Top 500 of large enterprises in Taiwan in 2017- Ranking the first of computer peripheral equipment industry/ranking 13th of manufacturing operation performance
Oct, 2017	• Top 500 of export and import manufacturers with excellent performance in 2016
Apr, 2018	• Launched the world's first 512GB microSD card
June, 2018	• Announcing flagship PCIe Gen3x4 NVMe SSD controller PS5012-E12, targeting high-end NAND storage applications such as servers, gaming, and edge computing
July, 2018	• Top 5000 of large enterprises in Taiwan in 2018- Ranking the first of computer peripheral equipment industry/ranking 13th of manufacturing operation performance
Sep, 2018	• Top 500 of export and import manufacturers with excellent performance in 2017
Oct, 2018	• Phison Electronics Corporation won the "15th Taiwan Information Storage Technical Award-Industry Contribution Award" of 2018
Jan, 2019	• Launching the world's first PCIe Gen4x4 NVMe SSD controller PS5106-E16, consistently serving as the leader in the industry
July, 2019	• Top 5000 of large enterprises in Taiwan in 2019- Ranking the first in computer peripheral equipment industry/ranking 13th in manufacturing operation performance
Sep, 2019	• Announcing the world's first controller chip PS5019-E19T of PCIe Gen4x4 DRAMLess NVMe SSD
Oct, 2019	• Top 500 of export and import manufacturers with excellent performance in 2018
Jan, 2020	• Releasing the most complete 3D QLC NAND storage solution at the CES exhibition in the US
Oct, 2020	• Announcing the world's highest capacity S12DC enterprise QLC SSD storage solution
Nov, 2020	• With the coming of AI era, Phison launched FX series of customized enterprise SSD solutions

Year	Important event
Nov, 2020	• Launched the world's fastest PCIe Gen4 SSD controller chip PS5018-E18
Jan, 2021	• Announced a full range of storage solutions for gaming and content creators at CES 2021, including the world's first USB3.2 controller U17/U18, the world's highest CP, the next generation PCIe Gen4x4 DRAM-Less SSD controller PS5021-E21T, which offers the highest CP value for both performance and cost, the world's only PCIe Gen4x4 SSD controller PS5018-E18 that achieves 7000MB/s read/write performance, and the world's first Phison E13T BGA SSD solution to integrate PCIe NVMe performance into a small (11.5mm x 13mm) BGA SSD
Feb, 2021	• Phison launches the world's first SD Express card to meet the advent of high-definition era
Mar, 2021	• Phison joins the AECC alliance to deepen the approach of the automotive storage market
May, 2021	• Phison and Cigent jointly launch self-defense SSD solution to meet new cyber security standards
May, 2021	• Phison exhibited a full range of new-generation gaming storage solutions at Computex to fully meet the high-speed storage needs of the gaming market
Aug, 2021	• Phison launches PCIe 5.0 Redriver IC PS7101 to meet the advent of high-speed transmission era
Sep, 2021	• Phison launches customized PCIe 5.0 SSD controller solution PS5026-E26
Oct, 2021	• Phison purchases green energy and continues to keep pace with the world and implement ESG and energy conservation and carbon reduction goals
Jan, 2022	• Phison Exhibits New Generation Gaming Storage Solution at 2022 CES
Jan, 2022	• Phison launches the world's first SD Express solution certified by SDA SVP
Mar, 2022	• Phison passed ISO 26262 automotive functional safety design process certification
Apr., 2022	• Seagate and Phison Broaden Partnership to Bolster Portfolio of High-Performance, High-Density Enterprise-Class Solid State Drives Optimized to Lower Data Center TCO
• May, 2022	• Phison Announces Successful Deployment of the World's First PCI-SIG Certified PCIe 5.0 Redriver IC PS7101
• May, 2022	• Phison Announces Strategic PCIe Gen5 Relationship with AMD and Micron at Computex 2022
• Jun., 2022	• Phison Announces Customizable PCIe Gen4x4 Enterprise SSDs in M.2 2280 and 22110 Form Factors - Powered by E18DC PCIe Gen4x4 NVMe Controller
• Aug., 2022	• Phison Debuts the X1 to Provide the Industry's Most Advanced Enterprise SSD Solution
• Dec., 2022	• Phison's 8TB SSD Ready for Historic Liftoff After Earning NASA Certification
• Jan., 2023	• Phison Demonstrates Latest PCIe Gen5 Innovation, E26 SSD Controller With I/O+ Technology And Signal Enhancing Redriver To Ignite Success for PCIe Gen5.0 and CXL™ 2.0 at CES 2023
• Mar., 2023	• Phison Introduces Upgraded IMAGIN+ Platform For Customized NAND Storage, ASIC Design Services
• May, 2023	• Phison Electronics Awarded Top 5% Ranking in Corporate Governance Evaluation Among TPEX-Listed Companies
• May, 2023	• Phison Showcases Pioneering Storage Solutions and High-Speed Transmission at Computex2023

Year	Important event
• Jun., 2023	• Phison, the World's First Independent Controller Supplier Earns Automotive-SPICE CL3
• Jul., 2023	• Phison Launches Proprietary AI Service Solutions Expanding NAND Storages in the AI Applications
• Aug., 2023	• From Design to Deployment, Phison's IMAGIN+ System Enables Organizations to Imagine the Possibilities for Flash-enabled AI+ML at FMS 2023
• Oct., 2023	• Phison Introduces New High-speed Signal Conditioner IC Products, Expanding its PCIe 5.0 Ecosystem for AI-Era Data Centers
• Dec., 2023	• Phison Automotive PCIe 4.0 E22T SSD Solution Received 2024 Taiwan Excellence Award

Chapter 3

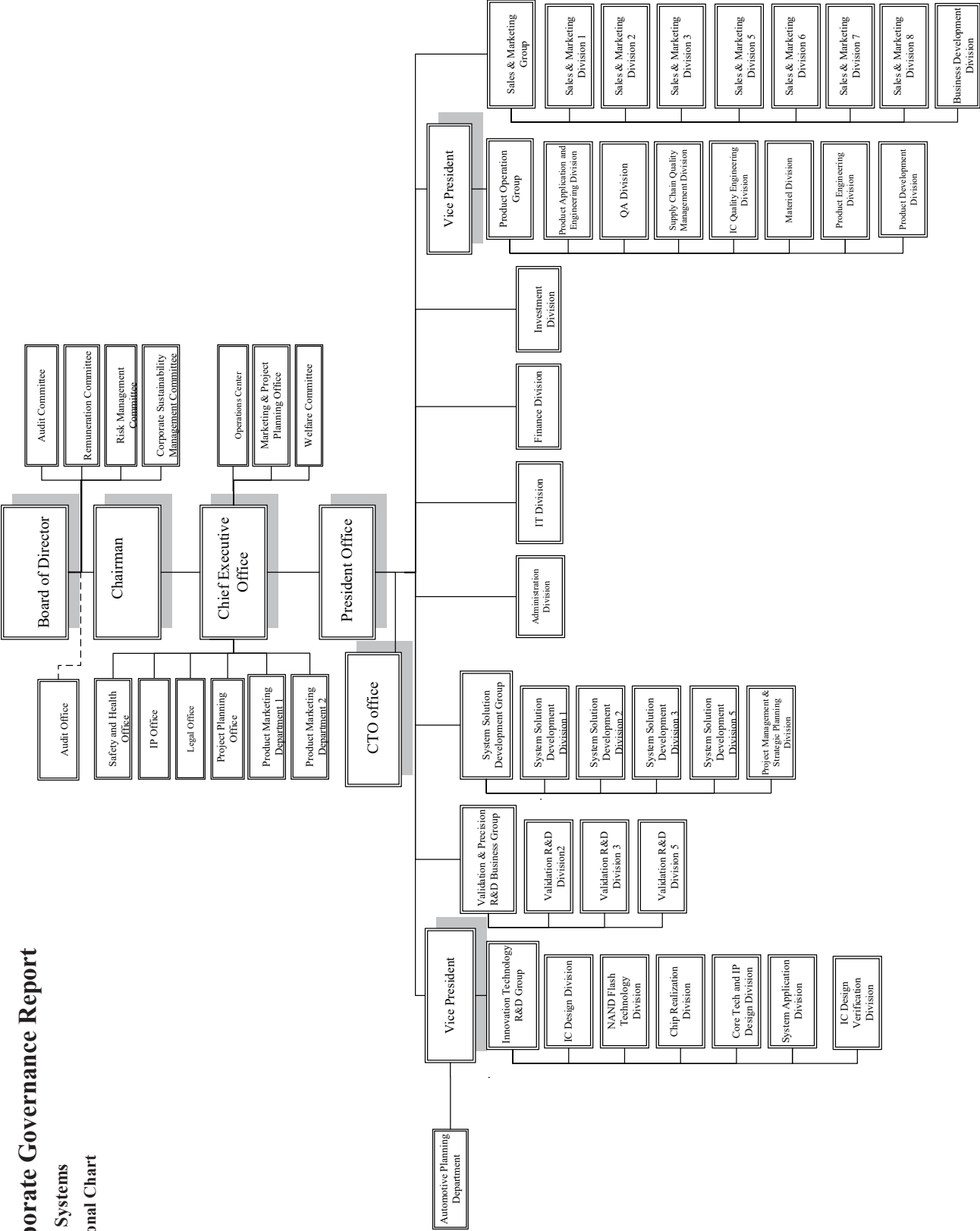
Corporate Governance Report



Chapter 3. Corporate Governance Report

3.1 Organizational Systems

3.1.1 Organizational Chart



3.1.1.2 Business Activities of Main Divisions

Major Departments	Main Duties of Each Department
Audit Office	Responsible for establishing, amending and reviewing the internal audit system; examining, reviewing and auditing the internal control system.
Corporate Sustainability Management Committee	Based on the Company's business model, identify important internal and external stakeholders and the ESG impact on society as a whole, compile stakeholder opinions and expectations, plan sustainable development projects and set performance indicators, and regularly track the results. Compile information and publish a sustainability report annually to enhance the transparency of information disclosure.
President Office Chief Executive Office	Responsible for implementing and completing the jobs assigned by the Board of Directors; establishing the operation guidance and quality policy; operating and decision-making of the Company.
Safety and Health Office	Responsible for the security and health affairs for the employees; ensuring the security of the work environment is in conformity with law.
IP Office	Responsible for the administration and review of the patents, trademarks, patent litigation and other related matters of the Company.
Legal Office	Legal affairs, including contract and commercial negotiation, litigation and dispute resolution, and compliance with laws and regulations.
Operations Center	Responsible for formulating product pricing strategy, coordinating product production and key suppliers, and managing the usage of the company's inventory.
CTO Office	Responsible for collecting market technology trends and competitor product planning information, and discussing and planning the feasibility of the company's future new products and new technologies with relevant units.
Marketing & Project Planning Office	Responsible for market research and analysis, development strategy and marketing planning, supervision and execution.
Project Planning Office	Responsible for office-related projects and supervision of related costs.
Product marketing	Responsible for formulating business goals and business plans for the company's product lines, and cooperating with relevant departments to implement them.
Welfare Committee	Responsible for the planning, execution and operation of activities related to employee benefits, etc.
Innovation Technology R & D Group	1. Responsible for working with System Solution Development Group for product and chip specification confirmation and feasibility evaluation. 2. Chip architecture, IP, integration and layout design.

Major Departments	Main Duties of Each Department
	<p>3. Customized ASIC design.</p> <p>4. Chip application circuit design and customer technical service.</p> <p>5. Research and development of technologies related to flash memory access management.</p>
System Solution Development Group	<p>1. Develop and continuously optimize firmware designs for flash memory devices controlling USB, SD, eMMC, UFS, PCIe, and other interfaces.</p> <p>2. Collaborate with Innovative Technology R&D Group to optimize the next generation of related ICs.</p> <p>3. Develop advanced error detection and debugging methods.</p> <p>Responsible for planning product development programs, acting as a window of communication between R&D and strategic customers, and promoting product and technical specifications.</p>
Validation & Precision R & D Business Group	<p>1. Responsible for system and software development and quality control of product firmware verification.</p> <p>2. Create an automated inspection system.</p> <p>3. Collect and analyze big data from test results as a reference for improving the efficiency and quality of chip and firmware development.</p>
Product Development Division	Responsible for the formulation of product development and sales market strategy, product price strategy, market/competitor analysis, customer returns and replenishment, and exchange issues; the processing of import and export business.
Product Operation Group	Responsible for the formulation and execution of the company's production strategy and scheduling plan; supervision, control and analysis of product yield and quality of mass-produced products, and procurement of goods. Quality inspection and analysis of import and export goods, processes, outsourced processing and other entities and processes.
Administration Division	Responsible for the operation, supervision and management of the company's human resources, general affairs, factory affairs, occupational health protection, etc.
IT Division	Responsible for the evaluation, development and maintenance of the company's information systems; responsible for the evaluation, management and maintenance of network architecture, various server systems and the development and management of information security mechanisms.
Finance Division	Responsible for the establishment, execution and management of the accounting, financial and cost operations of the company.
Investment Division	Responsible for the establishment, execution and management of the Company's investment and share operations.

3.2 Profile of Directors, Supervisors, General Managers, Deputy General Manager, Co-managers, Heads of Departments and Branches

3.2.1 Profile of Directors and supervisors

3.2.1.1 Profile of Directors and supervisors

March 29, 2024; Unit: shares																					
Title	Nationality or Registered Place	Name	Gender Age	Date of election (appointment)	Term	Date of first election	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominees		Experience (education)	Other position held at the Company and other companies	Executives, Directors or Supervisors who are spouses or within the second degree of kinship			Remarks Note 1	
							Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)							
Chairman	Taiwan	Cheng He Investment Co., Ltd.	-	2023.05.31	3years	2020.06.03	2,403,000	1.20	2,403,000	1.17	-	-	0	0.00	N/A	N/A	N/A	N/A	N/A	NIL	
	Malaysia	Representative: Wee Kuan Gan	Male 41-50	2023.05.31		2021.11.18	0	0.00	144,052	0.07	5,451	0.00	0	0.00	Institute of Electrical and Control Engineering, National Yang Ming Chiao Tung University	Vice President of Phison Electronics Corporation, Director of Core Storage Electronic (Samoa) Limited, Global Flash Limited; Legal Representative Director and Chairman of Super Storage Technology Corp.; Representative Supervisor of Phisontech Taiwan Electronics Co.; Representative Representative Director of Lianxudong Investment Co. and Osteck Corp..	N/A	N/A	N/A	N/A	NIL
Director	Taiwan	Tzang Hong Kuang	Male 61-70	2023.05.31	3years	2008.06.13	1,438,736	0.72	1,449,736	0.71	0	0.00	0	0.00	Master of Business Administration, Greenwich University Kogen Singapore Pte Ltd Vice President of Phison Electronics Corporation	Senior Special Asst. of Phison Electronics Corporation , Director of Nextorage Corp., Phison Electronics Japan Corp., Power Flash (Samoa) Limited; Legal Representative	N/A	N/A	N/A	N/A	NIL

Title	Nationality or Registered Place	Name	Gender Age	Date of election (appointment)	Term	Date of first election	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominees		Experience (education)	Other position concurrently held at the company and other companies	Executives, Directors or Supervisors who are spouses or within the second degree of kinship			Remarks Note 1
							Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)			Title	Name	Relationship	
															Director and Chairman of Entops Electronics Corp.; Legal Representative Director of Ostek Corp.; Legal Representative Director of Microtops Design Corp.; Chairman of Yuanxiang Co., Ltd.; Director of Hongfiancheng Co., Ltd.; Supervisor of Goface Co., Ltd.					
Director	Taiwan	Cheng Shuo Investment Limited	-	2023.05.31	3year	2022.05.24	1,158,000	0.58	1,223,000	0.60	-	-	0	0.00	N/A	N/A	N/A	N/A	N/A	NIL
	Taiwan	Representative: Chiu An Chuang	Male 71-80	2023.05.31	3year	2023.05.31	0	0.00	0	0.00			0	0.00	President of Thailand Shin Yu Industrial Co., Ltd. Chairman of the 28th Mediation Committee of Jhushan Town, Nantou County	Government Affairs Advisor, Executive Yuan, Chairman of the Management Committee of Jhushan Zi Nan Temple, Director of Wen Wan Development Co., Ltd.	N/A	N/A	N/A	NIL
Director	Taiwan	Jiunn Yeong Yang	Male 51-60	2023.05.31	3years	2020.06.03	4,549,114	2.28	4,549,114	2.22	0	0.00	0	0.00	Ph.D. of Institute of Electrical and Control Engineering, National Yang Ming Chiao Tung University	N/A	N/A	N/A	N/A	NIL
Director	Japan	KIOXIA Corporation	-	2023.05.31	3years	2017.09.27	19,821,112	9.93	19,821,112	9.68	-	-	1,000	0.00	N/A	Director of KIOXIA Semiconductor Corporation, KIOXIA Taiwan Corporation, Microtops Design Corp., Solid State	N/A	N/A	N/A	NIL

Title	Nationality or Registered Place	Name	Gender Age	Date of election (appointment)	Term	Date of first election	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominees		Experience (education)	Other position concurrently held at the company and other companies	Executives, Directors or Supervisors who are spouses or within the second degree of kinship			Remarks Note 1
							Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)			Title	Name	Relationship	
																System Co., Ltd				
															The University of Electro-Communications, Bachelor Toshiba Corporation, Director & General Manager of Intellectual Property Division Toshiba Corporation, R&D Technology Division, Chief Fellow	Toshiba Materials Corporation, Party-time employee Kioxia Corporation, Part-time employee Toshiba Electronic Devices & Storage Corporation, Party-time employee Meiko Electronics Co. Ltd., Audit & Supervisory Board Member (outside)				
		Representative: Hiroshi Miyauchi	Male 61-70	2023.05.31	3years	2020.11.13	0	0.00	0	0.00	0	0.00	0	0.00			N/A	N/A	N/A	NIL
Independent Director	Taiwan	Huei Ming Wang	Male 61-70	2023.05.31	3years	2023.05.31	0	0.00	0	0.00	0	0.00	0	0.00	Master of Industrial Management from Chung Hua University Director of Moores Rowland CPAs	Independent director of GIGA-BYTE TECHNOLOGY CO., LTD., Certified Public Accountant			N/A	NIL
Independent Director	Taiwan	Chen Wei Wang	Male 61-70	2023.05.31	3years	2014.06.17	0	0.00	0	0.00	0	0.00	0	0.00	Department of Electronics Engineering, National Yang Ming Chiao Tung University CEO of Quanta Computer Inc. President of Quanta Computer Inc.	Independent director of Simplo Technology Co. Ltd. Independent director of Pegatron Corporation			N/A	NIL
Independent Director	Taiwan	Yu Lun Huang	Female 51-60	2023.05.31	3years	2020.06.03	0	0.00	0	0.00	0	0.00	0	0.00	Ph.D., Department of Computer Science, National Yang Ming Chiao Tung University	Dean of school hire Vice Academic Affairs, National Yang Ming Chiao Tung University Associate Professor, Department of Electrical Engineering,			N/A	NIL

Title	Nationality or Registered Place	Name	Gender Age	Date of election (appointment)	Term	Date of first election	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding by nominees		Experience (education)	Other position concurrently held at the company and other companies	Executives, Directors or Supervisors who are spouses or within the second degree of kinship			Remarks Note 1
							Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)	Number of Shares	Shareholding Ratio(%)			Title	Name	Relationship	
																National Yang Ming Chiao Tung University Consultant of Taiwan Open Course and Education Consortium				

Note 1: The chairman of the board of directors and the general manager or equivalent (top manager) who are the same person, spouse or within the first degree of kinship should state the reason, reasonableness, necessity and response measures.

3.2.1.2 Major shareholders of the institutional shareholders

March 29, 2024

Name of institutional shareholders	Major shareholders of the institutional shareholders
Kioxia Corporation	Kioxia Holdings Corporation : 100%
Chenghe Investment Co., Ltd.	Khein Seng Pua: 99.38% ; Chiang Han Hsu: 0.62%
Cheng Shuo Investment Limited	Khein Seng Pua: 100.00%

3.2.1.3 Major Shareholders of Institutional Shareholders with Corporations as Their Major Shareholders

March 22, 2024

Name of institutional shareholder	Major shareholders
Kioxia Holdings Corporation	Toshiba Corporation : 40.64%
	BCPE Pangea Cayman, L.P. : 25.92%
	BCPE Pangea Cayman2, Ltd. : 14.96%
	BCPE Pangea Cayman 1A, L.P. : 9.37%
	BCPE Pangea Cayman 1B, L.P. : 5.99%
	HOYA Corporation : 3.13%

3.2.1.4 Disclosure of Directors' Professional Qualifications and Independent Directors'

Independence Information:

Criteria Name	Professional Qualification and Work Experience	Independence Situation	Number of Other Public Companies in Which the Individual Is Concurrently Serving as An Independent Director
Representative of Cheng He Investment Co., Ltd. Wee Kuan Gan	Mr. Wee Kuan Gan, now Vice President of Phison Electronics Corp., has relevant work experience in industry research and development, process, production management, etc., and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Tzung Horng Kuang	Mr. Tzung Horng Kuang, with relevant work experience required for the Company's business, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Representative of Cheng Shuo Investment Limited Chiu An Chuang	Mr. Chiu An Chuang, with relevant work experience required for the Company's management and international trade, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Jiunn Yeong Yang	Mr. Jiunn Yeong Yang, as one of the founders of Phison Electronics Corp., has relevant work experience such as research, development, and innovation required by the industry, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Representative of KIOXIA Corporation Hiroshi Miyauchi	Mr. Hiroshi Miyauchi, with relevant work experience required for the Company's business, and declares that he does not have any of the provisions of Article 30 of the Company Law.	Not an independent director.	N/A
Huei Ming Wang	Mr. Huei Ming Wang, who is a graduate of the Master of Industrial Management from Chung Hua University, has practiced in an accounting firm and has extensive knowledge of finance, accounting and taxation. He is now the convener of the Company's Audit Committee and the Remuneration Committee. He is a member of the Risk Management Committee and the Corporate Sustainability Management Committee, and declares that she does not have any provisions of Article 30 of the Company Law.	<ol style="list-style-type: none"> Whether independent directors themselves, their spouses, their relatives within the second degree of kinship act as directors, supervisors or employees of the Company or its affiliated enterprises: None. Number and proportion of shares of the 	1

Criteria Name	Professional Qualification and Work Experience	Independence Situation	Number of Other Public Companies in Which the Individual Is Concurrently Serving as An Independent Director
Chen Wei Wang	Mr. Chen Wei Wang, graduated from the Department of Electronic Engineering of Yang Ming Chiao Tung University, served as the CEO and General Manager of Taiwan Quanta Computer inc., is a pioneer in the electronic technology industry, and is now an independent director of Simplo Technology Co., Ltd. and Pegatron Corporation. He has a unique view of the overall economic and industrial direction of the trend, and is currently a member of the Audit Committee and the Compensation and Remuneration Committee of the Company, declares that he does not have any of the provisions of Article 30 of the Company Law.	Company held by the independent directors themselves, their spouses, their relatives within the second degree of kinship within the company (or in the name of others): None. 3. Whether the Independent Director is a director, supervisor or employee of a company with a specific relationship to the Company (see Article 3, paragraphs 1 to 8 of the Instructions for the Establishment of Independent Directors of Public Offering Companies and the Requirements to be Followed) : None.	2
Yu Lun Huang	Ms. Yu Lun Huang holds a Ph.D. in the Department of Computer Science of National Yang Ming Chiao Tung University and serve as Vice Chancellor of the University and Taiwan Open Curriculum League Consultant. She currently holds the position of Associate Professor in the Electrical Engineering Department of Jiaotong University and has rich industrial knowledge and experience. She is currently a member of the Audit Committee, the Remuneration Committee, the Risk Management Committee, and the Corporate Sustainable Development Committee of the Company, and declares that she does not have any of the provisions of Article 30 of the Company Law.	4. The amount of remuneration obtained in the last 2 years by providing business, legal, financial, accounting and other services of the Company or its affiliates: None.	N/A

3.2.1.5 Board Diversity and Independence:

The Company clearly stipulates in the "Corporate Governance Best Practice Principles" that the composition of the board of directors should take into account diversity and not restrict gender, race and nationality. The composition of the board of directors shall be determined by taking diversity into consideration. All members of the board shall have the knowledge, skills, and experience necessary to perform their duties. To achieve the ideal goal of corporate governance, the capabilities that the entire board of directors should possess include: 1. Ability to make operational judgments. 2. Ability to perform accounting and financial analysis. 3. Ability to conduct management administration. 4. Ability to conduct crisis management. 5. Knowledge of the industry. 6. An international market perspective. 7. Ability to lead. 8. Ability to make policy decisions. As of the publication date of the annual report, there are a total of 8 directors, including 3 independent directors (accounting for 37.5% of all directors); among the 8 directors, one is a female director (accounting for 12.5% of all directors) and 2 employee directors (accounting for 25% of all directors). The company will target 20% of female directors.

Diversified Core Competences		Basic Composition						Industrial Experience/Expertise							
		Nationality	Gender	Director as Employee	Independent Directors Term of office (years)			Operational judgment capability	Accounting and financial analysis capabilities	Operations management capacity	Crisis management capability	Industrial knowledge	Global market viewpoint	Leadership skills	Decision-making capability
					Less than 3 years	3 to 9 years	More than 9 years								
Name of Directors															
Chairman	Wee Kuan Gan (Representative of Cheng He Investment Co., Ltd.)	Malaysia	Male	✓				✓		✓	✓	✓	✓	✓	✓
Director	Tzung Horng Kuang	Taiwan	Male	✓				✓		✓	✓	✓	✓	✓	✓
Director	Chiu An Chuang (Representative of Cheng Shuo Investment Limited)	Taiwan	Male					✓	✓	✓	✓		✓	✓	✓
Director	Jiunn Yeong Yang	Taiwan	Male					✓				✓	✓		✓
Director	Hiroshi Miyauchi (Representative of KIOXIA Corporation)	Japan	Male					✓		✓		✓	✓	✓	✓
Independent Director	Huei Ming Wang	Taiwan	Male		✓			✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Chen Wei Wang	Taiwan	Male				✓	✓	✓	✓	✓	✓	✓	✓	✓
Independent Director	Yu Lun Huang	Taiwan	Female			✓				✓	✓	✓		✓	✓

3.2.2 Information of the general manager, deputy general manager, associate, and directors of various departments and branches

March 29, 2024; Unit: shares

Title	Nationality	Name	Gender	Election (appointment) Date:	Shareholding		Spouse, minor children Shareholding		Held under the names of other parties Shareholding		Primary Experience (Education)	Other Position Concurrently Held at the Company and Other Companies	Managers who are Spouses or Within Two Degrees of Kinship			Remarks Note 1
					Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholdin g ratio(%)	Number of Shares	Shareholding ratio(%)			Title	Name	Relationship	
CEO	Malaysia	Khein Seng Pua	Male	2008.10.01	6,013,972	2.94	806,262	0.39	4,854,144	2.37	Master's Degree in Motor and Control Engineering, National Yang Ming Chiao Tung University Founder of Phison Electronics Corporation	Note 2	N/A	N/A	N/A	NIL Circumstances
President	Taiwan	Chung Hsun Ma	Male	2023.08.04	110,000	0.05	0	0.00	0	0.00	Master's Degree, Department of Physics, National Central University Deputy General Manager of Ji Yuan Technology Corp.	Note 3	N/A	N/A	N/A	NIL Circumstances
Vice Technology President	Taiwan	Chih Jen Hsu	Male	2012.08.01	1,040,301	0.51	0	0.00	0	0.00	Department of Information and Computer Engineering, Chung Yuan Christian University Winbond Electronics Corporation Assistant Manager Founder of Phison Electronics Corporation	N/A	N/A	N/A	N/A	NIL Circumstances
Vice President	Malaysia	Wee Kuan Gan	Male	2012.02.24	144,052	0.07	5,451	0.00	0	0.00	Department of Electronics and Electrical Engineering, National Yang Ming Chiao Tung University	Note 4	N/A	N/A	N/A	NIL Circumstances

Title	Nationality	Name	Gender	Election (appointment) Date:	Shareholding		Spouse, minor children Shareholding		Held under the names of other parties Shareholding		Primary Experience (Education)	Other Position Concurrently Held at the Company and Other Companies	Managers who are Spouses or Within Two Degrees of Kinship			Remarks Note 1
					Number of Shares	Shareholding ratio(%)	Number of Shares	Shareholdin g ratio(%)	Number of Shares	Shareholding ratio(%)			Title	Name	Relationship	
Vice President	Taiwan	Kuo Yi Cheng	Male	2022.03.01	106,134	0.05	1,558	0.00	0	0.00	Master's Degree, Department of Electrical Engineering, Taiwan University of Science and Technology ALi Corporation Engineer Faraday Technology Corporation Engineer	Note 5	N/A	N/A	N/A	NIL Circumstances
Head of Finance and Accounting Department (Director)	Taiwan	Pao Feng Chen	Female	2020.03.27	34,000	0.02	0	0.00	0	0.00	University of Wales Master's Degree in E- commerce Management	N/A	N/A	N/A	N/A	NIL Circumstances
Senior Special Asst. & COO	Taiwan	Zhi Chyang Yu	Male	2021.02.06	105,000	0.05	0	0.00	0	0.00	M.S. of Risk Management, National Chengchi University National Union Electronics Legal Director	Note 6	N/A	N/A	N/A	NIL Circumstances

Note 1: The chairman of the board of directors and the general manager or equivalent (top manager) who are the same person, spouse or within the second degree of kinship should state the reason, reasonableness, necessity and response measures.

Note 2: Legal Representative Director and Chairman of Lianxudong Investment Co., Osteck Corp., Phisontech Electronics Taiwan Corp.; Chairman of Global Flash Limited, Core Storage Electronic (Samoa) Limited, Cheng Shuo Investment Limited, Mascot Investment Management Limited, Fleche Technology Limited.
Representative Director of Emptops Electronics Corp.; Director of Lianxudong Investment Co. and Osteck Corp.

Note 3: Supervisor of Microtops Design Corp.; Director of the Legal Representative of Emptops Electronics Corp.

Note 4: Director of Core Storage Electronic (Samoa) Limited, Global Flash Limited; Legal Representative Director and Chairman of Super Storage Technology Corp.; Representative Supervisor of Phisontech Taiwan Electronics Co.; Representative Director of Lianxudong Investment Co. and Osteck Corp.

Note 5: Legal Representative of Hefei Ruhan Electronic Technology Co.; Director of EpoStar Electronics (BVI) Corporation.

Note 6: Legal Representative Supervisor of Emptops Electronics Corp..

3.3.3 Remuneration paid to directors, supervisors, general manager and deputy general manager in the most recent year

[illegible]

Title	Name	Remuneration Paid to Directors						Total amount of A, B, C and D and percentage of net income after tax (Note 2)		Relevant Remuneration Received by Directors as Employees						Total amount of seven items A, B, C, D, E, F and G and the proportion to net income after tax (Note 2)		Remuneration from Invested Companies Other than Subsidiaries or the Parent Company	
		Base Compensation (A)		Severance and Retirement Pension (B)		Directors' Compensation (C) (Note 1)		Business Execution Expenses (D)		Salaries, Bonuses and Special Expenses, etc. (E) (Note 4)		Severance and Retirement Pension (F) (Note 3)		Employee Compensation (G) (Note 1)					
		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 Amount	Stock Amount	Cash Amount	Stock Amount		
Independent Director	Huei Ming Wang																		
Independent Director	Chen Wei Wang																		
Independent Director	Wen Chiu Chung (Note 6)	0	0	0	0	7,808	7,808	0	0	0	0	0	0	0	0	0	7,808 0.22%	7,808 0.22%	N/A
Independent Director	Yu Lun Huang																		
1. Please clarify the remuneration payment policy, system, standards and structure of independent directors, and state the correlation with the amount of compensation paid based on the responsibilities, risks and time commitment: The remuneration of the Company's Director shall be set forth in accordance with the provisions of Article 19 of the Articles of Incorporation, with reference to the regular rate of pay in the same industry, taking into account the time invested and responsibilities undertaken by individuals, and shall be paid after the resolution of the Remuneration Committee and the Board of Directors.																			
2. In addition to the disclosures in the table above, the remuneration received for services rendered by directors of the Company in the most recent year (e.g. acting as consultants to non-employees of the parent company/all companies in the financial statements/reinvestment business, etc.): None.																			

Note 1: On March 8, 2024, the Board of Directors resolved to allocate a total of NT \$930,000 thousand in employee remuneration and NT \$23,000 thousand in directors' remuneration.

Note 2: Net income after tax refers to the net income after tax in individual financial statements of NT \$3,624,428 thousand in the 2023 annual financial report.

Note 3: This is a retirement pension paid in accordance with the law.

Note 4: Refers to the actual provision of salaries, job premiums, severance pay, various bonuses, incentives, travel expenses, special expenses, special expenses, dormitories, vehicles and other in-kind received by directors as employees, plus the certified remuneration for employee stock options recognized under IFRS 2 share-based payments.

Note 5: Director Chee Kong Aw Yong resigned on November 7, 2023.

Note 6: The term of directors of the Company expired and comprehensive re-election on May 31, 2023. The Independent Director Wen Chiu Chung stepped down, the representative of director Cheng Shuo Investment Limited was reassigned from Chih Jen Hsu to Chiu An Chuang.

Table of Remuneration Range

Remuneration Range of Board of directors	Name of Directors				
	Total Remuneration (A+B+C+D)		Total Remuneration (A+B+C+D+E+F+G)		
	The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	Companies in the consolidated financial statements
Less than NT\$1,000,000	0	0	0	0	0
NT\$1,000,000 (inclusive) to 2,000,000 (not inclusive)	Cheng Shuo Investment Limited. Representative: Chih Jen Hsu, Cheng Shuo Investment Limited. Representative: Chiu An Chuang, Wen Chiu Chung, Hwei Ming Wang	Cheng Shuo Investment Limited. Representative: Chiu An Chuang, Wen Chiu Chung, Hwei Ming Wang	Cheng Shuo Investment Limited. Representative: Chiu An Chuang, Wen Chiu Chung, Hwei Ming Wang	Cheng Shuo Investment Limited. Representative: Chiu An Chuang, Wen Chiu Chung, Hwei Ming Wang	
NT\$2,000,000 (inclusive) to 3,500,000 (not inclusive)		Jium Yeong Yang, KIOXIA Corporation, Chen Wei Wang, Yu Lun Huang		Jium-Yeong Yang, KIOXIA Corporation, Chen Wei Wang, Yu Lun Huang	
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	0	0	0	Cheng Shuo Investment Limited. Representative: Chih Jen Hsu	
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	0	0		Tzung Horng Kuang	
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	0	0	0	0	0
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	0	0	0	Cheng He Investment Co., Ltd Representative: Wee Kuan Gan, Chee Kong Aw Yong	
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	0	0	0	0	0
NT\$50,000,000 (inclusive) to 100,000,000 (not inclusive)	0	0	0	0	0
More than NT\$100,000,000	0	0	0	0	0
Total	11	11	11	11	11

3.3.2 Remuneration of the President and Vice Presidents

Unit: Thousands

NTD

Title	Name	Salary (A)		Severance and Retirement Pension (B) (Note 3)		Bonus and Extraordinary expenses, etc. (C) (Note 4)		Employee Compensation (D) (Note 1)				Total amount of A, B, C and D and percentage of net income after tax (Note 2)		Remuneration from Invested Companies Other than Subsidiaries or the Parent Company
		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	Cash Amount	Stock Amount	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements	
CEO	Khein Seng Pua													
President	Chee Kong Aw Yong (Note 5)													
Vice President	Wee Kuan Gan	22,650	22,650	746	746	75,803	75,803		39,500	0		138,699 3.83%	138,699 3.83%	N/A
Vice Technical President	Chih Jen Hsu													
Vice President	Kuo Yi Cheng													
President	Chung Hsun Ma (Note 5)													

Note 1: On March 8, 2024, the Board of Directors resolved to allocate a total of NT \$930,000 thousand in employee remuneration.

Note 2: Net income after tax refers to the net income after tax in individual financial statements of NT \$3,624,428 thousand in the 2023 annual financial report.

Note 3: This is a retirement pension paid in accordance with the law.

Note 4: Refer to the salary, salary increment, severance pay, bonuses, incentive payments, travel disbursement, special disbursement, allowances, dormitory, car and other compensation expenses received by the President and Vice President, plus the employee stock option premiums recognized in accordance with the IFRS2 share base.

Note 5: Mr. Chee Kong Aw Yong resigned as president on August 4, 2023, and was replaced by Mr. Chung Hsun Ma.

Table of Remuneration Range

Remuneration Range of President and Vice Presidents	Name of President and Vice President	
	The Company	Companies in the consolidated financial statements
Less than NT\$1,000,000	0	0
NT\$1,000,000 (inclusive) to 2,000,000 (not inclusive)	0	0
NT\$2,000,000 (inclusive) to 3,500,000 (not inclusive)	0	0
NT\$3,500,000 (inclusive) to 5,000,000 (not inclusive)	0	0
NT\$500,000,000 (inclusive) to 10,000,000 (not inclusive)	Chih Jen Hsu	
NT\$10,000,000 (inclusive) to 15,000,000 (not inclusive)	0	0
NT\$15,000,000 (inclusive) to 30,000,000 (not inclusive)	Chee Kong Aw Yong, Wee Kuan Gan, Chung Hsun Ma, Kuo Yi Cheng	
NT\$30,000,000 (inclusive) to 50,000,000 (not inclusive)	0	0
NT\$50,000,000 (inclusive) to 100,000,000 (not inclusive)	Khein Seng Pua	
More than NT\$100,000,000	0	0
Total	6	6

3.3.3 Remuneration of Management Team

Unit: Thousands NTD

Title		Name	Stock	Cash	Total	Percentage of total compensations to NIAT (%)
Manager	CEO	Khein Seng Pua	-	46,500	46,500	1.28
	President	Chee Kong Aw Yong (Note 1)				
	Vice Technical President	Chih Jen Hsu				
	Vice President	Wee Kuan Gan				
	Vice President	Kuo Yi Cheng				
	President	Chung Hsun Ma (Note 1)				
	Senior Special Asst. & COO	Zhi Chyang Yu				
	Head of Finance and Accounting Department (Director)	Pao Feng Chen				

Note 1: Mr. Chee Kong Aw Yong resigned as president on August 4, 2023, and was replaced by Mr. Chung Hsun Ma.

3.3.4 Comparison of the analysis of the ratio of total remuneration paid to directors, supervisors, general manager and deputy general manager of the Company in the last two years to the net income after tax of individual or individual financial statements, and the relationship between the policies, standards and combinations for the payment of remuneration, the procedures for determining remuneration, and the operational performance and future risks of the Company and all consolidated reports, respectively

3.3.4.1 The analysis and comparison of the percentage of total remuneration for Directors, Supervisors, Presidents and Vice Presidents to the net profits after tax of individual or individual financial statements in the most recent two fiscal years is listed in this section.

Unit: %

Title \ Items		Ratio of Total Remuneration to Net Income After Tax of Individual Financial Statement (%)				Increasing (Decreasing) Percentage% The Company (%)	Increasing (Decreasing) Percentage% Companies in the consolidated financial statements (%)
		2022		2023			
		The Company	Companies in the consolidated financial statements	The Company	Companies in the consolidated financial statements		
Director		3.18	3.18	1.89	1.89	(1.29)	(1.29)
President and Vice President		5.88	5.88	3.83	3.83	(2.05)	(2.05)

(1) The Company's Articles of Incorporation regulate the following matters:

- A. According to Article 19 of the Articles of Incorporation of the Company, "If the Company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors and compensations." However, the Company shall reserve a portion of profit to make up for accumulated losses, if any.
Employee's remuneration may be distributed in shares or cash, and compensation of directors shall be paid in cash.
The term "profit" as "pre-tax profits before deducting the distributed employees and directors' remuneration."
Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of the attending directors approve. The remuneration resolution shall be reported in the shareholders' meeting.
- B. The Company earned a profit of NT \$4,992,965,109 in 2023 years (profit refers to profit before profit before tax deducting employee remuneration and directors' remuneration). On March 8, 2024, the Board of Directors resolved that the remuneration of employees who had been profitably distributed since 2023 years was NT \$930,000,000 (accounting for about 18.63% of the profit

earned in 2023 years) and the remuneration of directors amounted to NT \$23,000,000 (accounting for about 0.46% of the profit earned in 2023 years), all in cash.

- (2) Analysis of the ratio of the total remuneration paid to directors of the Company in the last two years to the net income after tax of individual or individual financial statements of the Company and all companies in the consolidated report
- A. The analysis and comparison of the percentage of total remuneration for Directors to the net profits after tax in the individual financial reports in the most recent two fiscal years is listed in this section.
- a. In accordance with Article 19 of the Company's Articles of Incorporation, the remuneration paid to directors by the Company in 2023 years shall be 8% to 19% of the annual profit of the Company shall be allocated to the remuneration of employees and not more than 1.5% to the remuneration of directors. However, when the Company has accumulated losses, the amount of compensation should be retained in advance.” Regulation handling.
- b. The ratio of the total remuneration paid to directors of the Company in 2023 to the net income after tax of individual or individual financial statements of the Company and all the companies in the consolidated statements decrease as compared with that of 2022, mainly due to the decrease in the Company earned a profit in 2023 years.
- B. Analysis of the ratio of the total remuneration paid to the President and Vice President of the Company in the last two years to the net income after tax of individual or individual financial statements of the Company and all companies in the consolidated report
- a. The remuneration paid by the Company to the President and Vice President in 2023 years shall be handled by the Remuneration Committee after being reported to the Board of Directors for resolution.
- b. The ratio of total remuneration paid to the President and Vice President of the Company in 2023 of the Company and all companies in the consolidated statements to the net profit after tax of the individual or individual financial statements decreased as compared with 2023, mainly due to the decrease in the Company earned a profit in 2023 years. Therefore, the floating bonus is relatively reduced, the scope of authority and responsibility of the position within the Company, and the remuneration for the contribution to the overall operating objectives and industry’s future operating risks and development trends of the Company, including the fluctuating bonus adjusted according to the operating result.

3.3.4.2 Remuneration payment policy, standard and combination, establishment procedure of remuneration, relevance between performance and the future risk

- (1) The policy of remuneration payment to Directors standard and combination, establishment procedure of remuneration, relevance between performance and the future risk

The director remuneration policy of the Company is based on Article 16 of the Company's Articles of Incorporation, which states that the remuneration of the Chairman and directors of the Company shall be authorized by the Board of Directors based on the degree of their involvement in the Company's operations and their contribution value, as well as the usual industry standards. It is also based on Article 19, which stipulates that if the Company makes a profit in a fiscal year, it shall allocate up to 1.5% for director remuneration. Apart from receiving director remuneration as stipulated in the company's Articles of Incorporation, our directors do not receive any other forms of compensation. The establishment procedure of remuneration involves referencing the Methods to Evaluate the Performance of the Board of Directors as the evaluation indicator. Along with the results of the directors' performance evaluations, data such as attendance at board meetings and directors' continuing education are considered to assess director performance. After reviewing by the Remuneration Committee individually, the proposal will be submitted to the Board of Directors and the remuneration system shall be inspected according to operation status and relevant laws at any time to achieve the balance of sustainable operation and risk control.

- (2) Policy of remuneration payment to president and vice presidents, standard and combination, establishment procedure of remuneration, relevance between performance and the future risk

The Company pays remuneration to the CEO, General Manager, Deputy General Manager and other managers in accordance with the achievement rate of earnings per share (EPS) + return on equity (ROE) + achievement rate of operating income and other indicators, which is the financial indicator of the annual plan, as a performance appraisal, and links the relevant remuneration; and according to the Remuneration Committee Charter of the Company, the remuneration is paid in accordance with the remuneration paid at the usual level for the position in the same industry, the scope of authority of the position within the Company and the contribution to the overall operational objectives and industry's future operating risks and development trends of the Company. For the establishment procedure, apart from referring to the entire operation performance of the Company, the individual input time, assumed responsibility, personal goal achievement,

performance for assuming other posts, salary paid to equivalent positions in recent years by the Company, In recent years, the Company has provided reasonable remuneration to employees in similar positions, and the related performance evaluation (achievement of goals and contribution) and the reasonableness of the remuneration have been discussed and approved by the Remuneration Committee and the Board of Directors, and the remuneration system is reviewed from time to time in light of the actual operating conditions and the relevant laws and regulations. Therefore, the Company's policy on the payment of remuneration to the CEO, General Manager and Deputy General Manager and the procedures for setting remuneration have taken into consideration the operational risks faced by the Company in the future and the positive correlation with the operational performance in order to strike a balance between sustainable operation and risk control.

3.4 Implementation of Corporate Governance

3.4.1 Board of Directors

The Board of Directors held a total of 10 meetings in 2023, and the attendance of directors was as follows:

Title	Name (Note 1)	Actual Attendance	Attendance by proxy	Percentage of Actual Attendance (%) (Note 2)	Remarks
Chairman	Cheng He Investment Co., Ltd. Representative: Wee Kuan Gan	9	1	90.00	Re-elected
Director	Chee Kong Aw Yong	8	1	88.89	Resigned on November 7, 2023
Director	Tzung Horng Kuang	10	0	100.00	Re-elected
Director	Cheng Shuo Investment Limited Represented by: Chih Jen Hsu	5	0	100.00	Former term
Director	Cheng Shuo Investment Limited Represented by: Chiu An Chuang	5	0	100.00	Newly appointed
Director	Jiunn Yeong Yang	9	0	900.00	Re-elected
Director	KIOXIA Corporation Representative: Hiroshi Miyauchi	9	1	90.00	Re-elected
Independent Director	Huei Ming Wang	5	0	100.00	Newly appointed
Independent Director	Wen Chiu Chung	5	0	100.00	Former term
Independent Director	Chen Wei Wang	9	1	100.00	Re-elected
Independent Director	Yu Lun Huang	10	0	100.00	Re-elected

Note 1: The term of directors of the Company expired and comprehensive re-election on May 31, 2023. The Independent Director Huei Ming Wang assumed, Wen Chiu Chung stepped down, the representative of director Cheng Shuo Investment Limited was reassigned from Chih Jen Hsu to Chiu An Chuang.

Note 2: The percentage of actual attendance is calculated based on the number of board of directors meetings and the number of actual attendances during the director's tenure.

Status of attendance by independent directors of various boards of directors in 2023 years

◎:Attendance in person ☆: Entrusted attendance *: Not attended

2023	2023.01.12 Ninth Session Thirty-first Time	2023.03.15 Ninth Session Thirty- second Time	2023.04.20 Ninth Session Thirty- third Time	2023.05.05 Ninth Session Thirty- fourth Time	2023.05.18 Ninth Session Thirty- fifth Time
Wen Chiu Chung	◎	◎	◎	◎	◎
Chen Wei Wang	◎	☆	◎	◎	◎
Yu Lun Huang	◎	◎	◎	◎	◎

2023	2023.05.31 Tenth Session First Time	2023.07.05 Tenth Session Second Time	2023.07.28 Tenth Session Third Time	2023.08.04 Tenth Session Fourth Time	2023.11.07 Tenth Session Fifth Time
Huei Ming Wang	◎	◎	◎	◎	◎
Chen Wei Wang	◎	◎	◎	◎	◎
Yu Lun Huang	◎	◎	◎	◎	◎

Other items to be recorded:

- If the board of directors operates under any of the following circumstances, it shall specify the date of the board of directors, the period, the content of the proposal, the opinions of all independent directors, and the handling of the company's opinions on independent directors:
 - Matters referred to in Article 14-3 of the Securities and Exchange Act: The Company has established an Audit Committee, which is not subject to Article 14.3 of the Securities and Exchange Act.
 - 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.
- 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 the Meeting	Content of motion	Name of Directors	Recusal Causes for Avoidance	Participation in voting
2023.01.12	Reviewing the 2023 Target-setting Proposal of the CEO and General Manager of the Company	Chee Kong Aw Yong	According to Article 206 of the Company Act, directors with recusal of interest regarding a proposal shall abstain from exercising their voting rights.	Proposals involving conflicts of interest with directors have been discussed and voted on separately with the abstention of directors who have conflicts of interest.
	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers	Wee Kuan Gan, Chee Kong Aw Yong, Tzung Horng Kuang, Chih Jen Hsu		
2023.05.05	Review of the annual fixed salary adjustment and payment plan for managers of the Company	Wee Kuan Gan		
	The proposal for setting 2023 performance indicators and linking rewards for certain senior executives of the Company.	Wee Kuan Gan, Chee Kong Aw Yong		
2023.07.28	Reviewed the periodic performance evaluation and performance incentive bonus for directors and managers of the Company and the payment of remuneration for directors' remuneration as well as employees' remuneration for 2022.	Wee Kuan Gan, Chee Kong Aw Yong, Tzung Horng Kuang, Jiunn Yeong Yang, Hiroshi Miyauchi, ChenWei Wang, Yu Lun Huang		
2023.08.04	Proposed changes in the position of the Company's President	Chee Kong Aw Yong		
2023.11.07	It is hereby submitted to the Board's resolution associated with Phison's planning to enter into Prepayment Agreement with the supplier Kioxia Taiwan Corporation that, Phison fulfills One Hundred and Twenty Million United States Dollars ("Prepayment") to secure Kioxia	Hiroshi Miyauchi		

	Taiwan's supplying required volume of NAND flash memory in 2024			
3. TWSE/TPEX Listed Companies shall disclose information including the evaluation period and duration, evaluation scope, method and evaluation content of self (or peer) evaluation of the Board of Directors:				
Method	Appointing external professional organizations and experts to conduct performance evaluations	Board of Directors Internal Evaluation, Directors' Self-Evaluation		
Frequency	Every three years, an external professional independent organization or a team of external expert scholars is commissioned to conduct an evaluation once	Once a year		
Period	From October 1, 2022 to September 30, 2023	From January 1, 2023 to December 31, 2023		
Scope	Evaluate the performance of the overall Board of Directors, individual board members, and functional committees (Audit Committee and Remuneration Committee)	Overall Board of Directors, individual board member, and functional committees (Audit Committee and Remuneration Committee).		
Content	Appoint the Taiwan Investor Relations Institute (TIRI), an external professional and independent organization, to conduct a performance evaluation of the operations of the Company's Board of Directors, individual members of the Board of Directors, and functional committees (Audit Committee and Remuneration Committee). TIRI's evaluation process was based on a combination of documents provided by the Company, self-assessment questionnaires, and on-site visits, and a report was issued based on the results. A performance evaluation report was issued based on the results of the evaluation	<ol style="list-style-type: none"> 1. The performance evaluation of the Board of Directors includes the following five aspects: (1) the level of participation in company operations, (2) the enhancement of the quality of board decision-making, (3) the composition and structure of the board, (4) the selection and continuous education of directors, and (5) internal control 2. The performance evaluation of the individual board members includes the following six aspects: (1) mastery of the company's objectives and tasks (2) awareness of directors' responsibilities (3) degree of participation in the company's operations (4) internal relationship management and communication (5) professionalism and continuing education of directors (6) internal control 		

		<p>3. The performance evaluation of the Audit Committee includes the following five aspects: (1) the degree of participation in the Company's operations (2) awareness of the Audit Committee's responsibilities (3) enhancement of the quality of the Audit Committee's decision-making (4) composition of the Audit Committee and selection of its members (5) internal control</p> <p>4. The performance evaluation of the Remuneration Committee includes the following five aspects: (1) the degree of participation in the Company's operations (2) awareness of the Remuneration Committee's responsibilities (3) enhancement of the quality of the Remuneration Committee's decision-making (4) composition of the Remuneration Committee and selection of its members (5) internal control</p>
Rating	<p>TIRI issued a board performance evaluation report on October 30, 2023, and the Company presented the board performance evaluation results to the Board of Directors for reporting on November 7, 2023. TIRI issued the board performance evaluation report based on the minutes of the Board of Directors' meetings provided by the Company, the existing internal policies, other supporting documents and public information, combined with the results of the self-assessment questionnaire and the on-site interviews, and summarized the evaluation conclusions and recommendations.</p> <p>Conclusion and suggestions</p> <p>1. Consider adopting the Taiwan Intellectual Property Management System (TIPS), ISO 56005, or similar</p>	<p>The performance evaluation of the Board of Directors (including functional committees) for 2023 was conducted via questionnaires. The results were submitted to the board for review and improvement on March 8, 2024.</p> <p>1. The results of the Board of Directors' performance evaluation show that the efficiency and effectiveness of the Board's operation in various indicators have been positively evaluated.</p> <p>2. The results of the Board member's performance evaluation show that the efficiency and effectiveness of the director's operation in various indicators have been positively evaluated.</p> <p>3. The results of the Audit Committee's performance evaluation show that the efficiency and effectiveness of the Audit</p>

	<p>standards for intellectual property management systems, and verify them through third-party verification</p> <p><u>Company future improvement plan</u></p> <p>The Company is committed to the protection of intellectual property rights and has established a comprehensive intellectual property management system, which is overseen by dedicated personnel. In terms of both planning and execution of the system, we have strived for perfection and have achieved commendable results. In terms of the number of patent acquisitions, as of the third quarter of 2023, the Company has more than 1,988 patents worldwide, 718 in Taiwan, 617 in the United States, 623 in China, and 30 in other countries. The Company has a patent approval rate of over 90% regarding the patent quality. The Company has recognized the benefits of the TIPS or ISO 56005. However, implementing this new system will require significant additional investment of manpower, time, and resources from various departments within the company. Considering the comprehensive benefits that system implementation brings to investors and the Company, we are currently evaluating the system and have decided not to implement it at this time. However, we will continue to monitor the system's subsequent development.</p> <p>2. Appointing a dedicated corporate governance officer</p> <p><u>Company future improvement plan</u></p> <p>We will continuously assess the necessity of sustainable business practices and the establishment of a dedicated corporate governance officer based on regulatory</p>	<p>Committee's operation in various indicators have been positively evaluated.</p> <p>4. The results of the Remuneration Committee's performance evaluation show that the efficiency and effectiveness of the Remuneration Committee's operation in various indicators have been positively evaluated.</p>
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	<p>requirements and domestic and international sustainability trends. This approach will facilitate the fulfillment of directors' duties of care, loyalty, and good faith, ultimately achieving positive outcomes.</p> <p>3. The annual financial report, verified by an auditor's certification, will be disclosed within two months after the end of the accounting year.</p> <p><u>Company future improvement plan</u></p> <p>We will continue to communicate with the equity investment company and optimize the workforce arrangement to shorten the closing schedule, with the aim of publishing the annual financial report verified by the accountant within the recommended timeframe.</p>	
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4. 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 "Rules of Procedure for Board of Directors Meetings" of the Company.
- B. On November 12, 2020, the Company established the "Board of Directors' Performance Evaluation Method" to conduct annual performance evaluation of the Board of Directors. The evaluation of the Board of Directors' performance for the year 2023 was completed and the results were reported to the Board of Directors on March 8, 2024.
- C. Directors' ongoing pursuit of corporate governance-related courses: The Company arranges annual directors' corporate governance or current affairs-related refresher courses to facilitate directors' access to relevant information in order to maintain their core values and professional strengths and abilities.
- D. The Company encourages each director to actively participate in any relevant events to the operation of the Board, and the annual attendance rate of each director at the Board of Directors' meetings (excluding proxy attendance) should not be less than 80% and included in the director's performance appraisal project.

(2) Evaluation of the implementation:

- A. The Company reveals its finance and business information on the Taiwan Stock Exchange Market Observation Post System and the Company's website to ensure the information disclosure; the attendance of Directors to Board of Directors and the advanced training of directors were also disclosed on the Taiwan Stock Exchange Market Observation Post System or the Company's website, as well as the communication summary of Independent Director and accountant, and meetings between the Independent Director and audit officer to disclose the information and improve the governance of the Company.
- B. The Company is composed of all independent directors including the Audit Committee, the Remuneration Committee, and has established the Risk Management Committee, the Corporate Sustainable Development Committee to assist the Board of Directors in the performance of its supervisory duties, improve the Company's corporate governance and strengthen management functions.

3.4.2 Audit Committee Operations

The most recent year of the Audit Committee was held 8 times.

The attendance of the Independent Director is as follows:

Title	Name (Note 1)	Actual Attendance	Attendance by proxy	Percentage of Actual Attendance (%) (Note 2)	Remarks
Independent Director (Convener)	Wen Chiu Chung	5	0	100.00	Former term
Independent Director (Convener)	Huei Ming Wang	3	0	100.00	Newly appointed
Independent Director	Chen Wei Wang	7	1	87.50	Re-elected
Independent Director	Yu Lun Huang	8	0	100.00	Re-elected

Note 1: The term of directors of the Company expired and comprehensive re-election on May 31, 2023. The Independent Director Huei Ming Wang assumed, Wen Chiu Chung stepped down.

Note 2: The percentage of actual attendance is calculated based on the number of Audit Committee meetings and the number of actual attendances during the number of Audit Committee's tenure.

Other items to be recorded:

1. Annual Work Focus and Functional Authorities of the Audit Committee:

(1) The primary function of the Audit Committee is the supervision of the items listed below

- A. Fair presentation of the financial reports of the Company.
- B. The hiring (and dismissal), independence, and performance of certificated public accountants of the Company.
- C. The effective implementation of the internal control system of the Company.
- D. Compliance with relevant laws and regulations by the Company.
- E. Management of the existing or potential risks of the Company.

(2) The duties of the Audit Committee are as follows:

- A. The adoption of or amendments to the internal control system pursuant to Article 14-1 of the Securities and Exchange Act.
- B. Assessment of the effectiveness of the internal control system.
- C. Adoption or amendment, pursuant to Article 36-1 of the Securities and Exchange Act, of handling procedures for financial or operational actions of material significance, such as 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.

D. Matters in which a director is an interested party.

E. Asset transactions or derivatives trading of a material nature.

F. Loans of funds, endorsements, or provision of guarantees of a material nature.

G. The offering, issuance, or private placement of any equity-type securities.

H. The hiring or dismissal of a certified public accountant, or their compensation.

I. The appointment or discharge of a financial, accounting, or internal audit officer.

J. Annual financial reports signed by Chairman, Managerial Officer and Accounting Officer.

K. Other significant matters as stipulated by the Company or the competent authority.

2. If the Audit Committee operates under any of the following circumstances, it shall specify the date of convening of the Audit Committee, the period, the content of the proposal, the content of the objections, reservations or major recommendations of the independent directors, the results of the resolutions of the Audit Committee and the handling of the opinions of the Company on the Audit Committee.

(1) Matters referred to in Article 14-5 of the Securities and Exchange Act:

Convening Date (by period)	Content of motion	Contents of objections, reservations or major recommendations by independent directors, results of the resolution of the Audit Committee and the Company's response
2023.01.12 (1st Session, 27th time)	For the matter regarding the exercised second of FY2019 and first of FY2020 employee stock options to be registered to new common shares	The Audit Committee unanimously passed all resolutions, and the Board of Directors approved all resolutions based on the recommendations
	The credit line of banks for the Company	
	The credit line of foreign exchange and derivatives for the Comp	
2023.03.15 (1st Session, 28th time)	The Company's remuneration distribution plan of 2022 for employees and directors	
	The Company's business report and financial statements of 2022	
	The Company's earnings distribution statement of 2022	
	The Company's statements of distributed cash dividends from earnings for the second half of 2022	
	The Company's operation plan for 2023	

	<p>The hiring of the attesting CPA and the compensation given thereto of the year of 2023 and 2024, and the evaluate the CPA independence and suitability for the year of 2023</p> <p>The Company's Statement of Internal Control System for 2022</p> <p>Partial amendment to the Company's "Production Cycle" and "Approval Authority Table"</p> <p>The Company propose to resolve not to continue the private placement of 18,000,000 common shares approved by 2022 annual shareholders' meeting</p> <p>The Company propose to conduct the private placement of common shares</p> <p>Amendment to the "Regulations Governing Procedure for Board of Directors Meetings"</p>	of the Audit Committee.
2023.04.20 (1st Session, 29th time)	<p>Adoption of the revised Proposal for Profits Distribution of the year 2022</p> <p>Review the revised articles of "Rules of Share Repurchase and Transferring to the Employees"</p>	
2023.05.05 (1st Session, 30th time)	<p>The Company's 2023 1st quarter financial statements</p> <p>The credit line of banks for the Company</p> <p>The credit line of foreign exchange and derivatives for the Company</p> <p>For the matter regarding the exercised FY2019 and FY2020 employee stock options to be registered to new common shares</p>	
2023.05.18 (1st Session, 31th time)	The company intends to lease part of the land and buildings on No. 620, Section 6, Zhonghua Road, Hsinchu City	
2023.07.05 (2nd Session, first time)	<p>For the matter regarding the exercised FY2019 and FY2020 employee stock options to be registered to new common shares</p> <p>The company proposes the third round of buyback its shares for transferring to its employees</p>	
2023.08.04 (2nd Session, second time)	<p>Financial Statements and Business Report of the Company for the Second Quarter (First Half of the Year) of 2023</p> <p>Earnings Distribution Table for the first half of 2023</p> <p>Adoption of the Proposal for second cash dividend distribution of Six Months Ended June 30, 2023</p> <p>Review the Company's operation plan for 2023</p> <p>The credit line of banks for the Company</p> <p>The credit line of foreign exchange and derivatives for the Company</p>	
2023.11.07	The Company's financial statements for the 3rd quarter of 2023	

(2nd Session, third time)	The company proposed to issue the 2nd domestic unsecured convertible bonds	
	The credit line of banks for the Company	
	The credit line of foreign exchange and derivatives for the Company	
	The Company proposed to engage in exchange SWAP transactions	
	For the matter regarding the exercised FY2019 and FY2020 employee stock options to be registered to new common shares	
	The company proposes to issue “Regulation of the 2023 Employee Stock Option Plan”	
	Review the revised articles of “Rules of Share Repurchase and Transferring to the Employees”	
	It is hereby submitted to the Board’s resolution associated with Phison’s planning to enter into Prepayment Agreement with the supplier Kioxia Taiwan Corporation that, Phison fulfills One Hundred and Twenty Million United States Dollars (“Prepayment”) to secure Kioxia Taiwan’s supplying required volume of NAND flash memory in 2024.	

(2) Except as otherwise disclosed above, any other proposals which failed to obtain the approval of the Audit Committee, but were approved by two-thirds of the directors: there is no such case.

3. If there were independent directors who abstained from voting due to conflict of interest, the independent directors' names, contents of the proposal, and causes of abstention should be specified: there is no such case.

4. Communication between independent directors and internal audit and certified accountants:

(1) Communication between independent directors and internal audit

The nature of the meetings between independent directors and internal audit: separate meetings

Frequency of communication between independent directors and internal audit (without the presence of general directors and management): in principle, once a year

The Audit Office has conducted the “Communication Meeting between Independent Directors and internal Audit” on November 7, 2023, and tracked and improved upon the recommendations of the Independent Directors.

(2) Communication between independent directors and certified accountants (at least 4 separate meetings per year without management participation)

Date	Communication Points	Communication Results
2023.03.15	<ol style="list-style-type: none"> 1. The CPA state they and the firm have follow the rule of CPA independences. 2. The CPA explains the responsibilities of the CPA firm, the BODs and the Audit Committee to governance the Company. 3. The CPA explains their audited results of the Company's financial statements of 2022; including the scope and method of the audit, key audit matters and the company's governing situation, of related parties. 4. The CPA explains the recently rules or Interpretations issued by competent authorities. 5. The CPA responds and discusses the questions Independent Directors rise. 	The CPA issued "unqualified audited reports" to the company's 2022 financial reports. The Independent Directors have understood the accountant's explanations and has no opinion on the audit matter and the audit conclusion.
2023.05.05	<ol style="list-style-type: none"> 1. The CPA state they and the firm have follow the rule of CPA independences. 2. The CPA explains the responsibilities of the CPA firm 、 the BODs and the Audit Committee to governance the Company. 3. The CPA explains their reviewed results of the Company's financial statements of 1Q/2023; including the scope and method of the review, key review matters and the company's governing situation, of related parties. 4. The CPA explains the recently rules or Interpretations issued by competent authorities. 	The CPA issued "qualified audited reports" to the company's 1Q/2023 financial reports. The Independent Directors have understood the accountant's explanations and has no opinion on the audit matter and the audit conclusion.

	2023.08.04	<ol style="list-style-type: none"> 1. The CPA state they and the firm have follow the rule of CPA independences. 2. The CPA explains the responsibilities of the CPA firm 、 the BODs and the Audit Committee to governance the Company. 3. The CPA explains their reviewed results of the Company's financial statements of 2Q/2023; including the scope and method of the review, key review matters and the company's governing situation, of related parties. 4. The CPA explains the recently rules or Interpretations issued by competent authorities. 	<p>The CPA issued "qualified audited reports" to the company's 2Q/2023 financial reports. The Independent Directors have understood the accountant's explanations and has no opinion on the audit matter and the audit conclusion.</p>	
	2023.11.07	<ol style="list-style-type: none"> 1. The CPA state they and the firm have follow the rule of CPA independences. 2. The CPA explains the responsibilities of the CPA firm 、 the BODs and the Audit Committee to governance the Company. 3. The CPA explains their reviewed results of the Company's financial statements of 3Q/2023; including the scope and method of the review, key review matters and the company's governing situation, of related parties. 4. The CPA explains their audit plan of the Company's financial statement of 2023. 	<ol style="list-style-type: none"> 1. The CPA issued "qualified audited reports" to the company's 3Q/2023 financial reports. The Independent Directors have understood the accountant's explanations and has no opinion on the audit matter and the audit conclusion. 2. The Independent Directors and CPA will have a communication after the audited of 2023 financial reports finished. 	

3.4.3 Corporate Governance Operations and Circumstances and Reasons for Differences from the Code of Practice for Corporate Governance of Listed Companies

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
1. Is the company established and disclosed in accordance with the Code of Practice on Corporate Governance of Listed Companies?	V		The Company has established the Corporate Governance Best-Practice Principles in accordance with the Corporate Governance Best-Practice Principles for Listed Companies, which has been disclosed on the Company's website at www.phison.com/Investors/Corporate Governance/Corporate Regulations/ Corporate Governance Best-Practice Principles.	No significant differences
2. Company's shareholding structure and shareholders' equity				
(1) Has the company established internal operating procedures for handling shareholder advice, doubts, disputes and litigation matters, and implemented them in accordance with the procedures?	V		(1) The Company has not established internal operating procedures, but in order to ensure the rights and interests of shareholders, it is required to have a spokesperson, an acting spokesperson, and a specialist of shareholders' affairs and legal units to deal with shareholder advice or disputes.	(1) No significant differences
(2) Does the company have a list of the ultimate controllers of the major shareholders and major shareholders who actually control the company?	V		(2) The Company periodically grasped the shares held by the directors, managers and major shareholders holding more than 10% of the shares according to the register of shareholders provided by the Equity Agency Department on the date of the company's suspension of the transaction, and maintained	(2) No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			good communication channels at any time.	
(3) Has the company established, implemented and related enterprise risk control and firewall mechanism?	V		(3) The Company has formulated specific operational measures such as the "Operational Guidelines for Financial Business between Related Enterprises" and the internal control system, established appropriate risk control mechanisms and fire walls, audited personnel and regularly supervised the implementation.	(3) No significant differences
(4) Does the company have internal regulations that prohibit insiders from buying and selling marketable securities with undisclosed information?	V		(4) The Company has established the "Measures for the Administration of Preventing Insider Trading" and the "Code of Integrity" to regulate and prohibit any conduct that may involve insider trading, and to conduct occasional advocacy with insiders and employees to prevent insider trading from occurring.	(4) No significant differences
3. Composition and duties of the Board of Directors				
(1) Has the board of directors formulated diversification policies, specific management objectives and implement them?	V		(1) The Company's " Corporate Governance Best-Practice Principles " defines the policy of diversification of board members. For the specific management objectives and implementation of the diversification policy, please refer to pages 16-17 of this annual report.	(1) No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
(2) In addition to the Salaries and Remuneration Committee and the Audit Committee, does the company voluntarily set up other functional committees?	V		(2) In addition to the Remuneration Committee and the Audit Committee established by law, the Company currently has a Corporate Sustainable Development committee and a risk management committee, as well as various other functional committees, which will be assessed and set up in a timely manner according to the operating situation and actual needs of the Company in the future.	(2) No significant differences
(3) Does the company determine the method of performance evaluation of the board of directors and its evaluation method, conduct performance evaluation annually and periodically, and submit the results of performance evaluation to the board of directors, and use them as a reference for the remuneration of individual directors and the nomination for renewal?	V		(3) Please refer to pages 34-37 of this annual report.	(3) No significant differences
(4) Does the company regularly assess the independence of the certified public accountants?	V		(4) The Company assesses the independence and competence of certified public accountants at least once a year, and it was approved by the members of the Audit Committee and the Board of Directors. The assessment items are as follows:	(4) No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>1. Accountant's declaration of independence.</p> <p>2. Audit and non-audit services provided by accountants must be approved by the audit committee to ensure that non-audit services comply with independence standards.</p> <p>3. The same accountant has not performed visa services for more than five consecutive years.</p> <p>4. Each year, with reference to the Audit Quality Indicators (AQIs), we compile and evaluate the independence and competency of accountants based on five major aspects and thirteen indicators including accountants' professionalism, quality control, independence, supervision, and innovation capabilities.</p>	
4. Does the listed company has a qualified and appropriate number of corporate governance personnel and designate a director of corporate governance who is responsible for matters related to corporate governance (including but not limited to providing information necessary for directors and supervisors to execute their business, assisting directors and supervisors to	V		<p>The following departments are responsible for the implementation of the Company's corporate governance-related affairs:</p> <p><u>1. Handle the matters related to the meetings of the Board of Directors and the Shareholders' meeting in accordance with the law, and assist the Company to comply with the relevant decrees of the Board of Directors and the Shareholders' meeting prepare the minutes of the</u></p>	No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
comply with laws and regulations, handling matters related to meetings of the board of directors and shareholders' meetings in accordance with law, making minutes of meetings of the board of directors and shareholders' meetings, etc.)?			<p><u>meetings of the Board of Directors and the Shareholders' meeting, and provide the information necessary for the directors to execute their business:</u></p> <p>In accordance with the provisions of Article 4 of the Rules of Procedure of the Board of Directors of the Company, the "Board of Directors shall designate the working unit of the Board of Directors ". Therefore, the Company shall be represented by the Shareholders Service Dept., which shall act as the Shareholders Service Dept. of the Board of Directors and summarize the proposals put forward by various departments for discussion by the Board of Directors upon the resolution of the Board of Directors. The Company appointed a professional shareholding agency, the "Horizon Securities Corp. Sharing Agency Department" to plan and handle the matters related to the shareholders' meeting with the Company's Shareholders Service Dept.</p> <p><u>2. The latest legislations related to company operations:</u></p> <p>In accordance with the contents of the latest regulations, the chairman of the Board of Directors of the</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>Company shall designate the relevant departments together with the Legal Division to be responsible for understanding the changes and impacts of the latest regulations on the company operations.</p> <p><u>3. Assist the directors in complying with the laws and regulations:</u></p> <p>In the year of re-election, the Company provided the newly appointed directors (including independent directors) with the Regulatory Advocacy Manual and arranged at least six hours of practical directors' refresher courses per year, and provided decree advocacy information and competent authority advocacy information by e-mail from time to time, etc., in accordance with the law, so as to make the directors of the Company aware of the content of the regulations.</p> <p><u>4. Affairs relating to investor relations:</u></p> <p>In order to ensure the rights and interests of the shareholders, the Company also has a spokesperson, an acting spokesperson and Shareholders Service Dept. and legal units to deal with shareholder advice or disputes, etc., the Company has set up IR department personnel to liaise with investors to solve</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>problems, and can provide valuable opinions and suggestions of the shareholders through the "Stakeholders Section" set up on the Company's website.</p> <p><u>5. Corporate Governance Officer</u></p> <p>By the resolution of the Board of Directors adopted on August 6, 2021, the Company appointed Zhi Chyang Yu Senior Special Assistant and Chief Operating Officer as the first Corporate Governance Officer to safeguard the rights and interests of shareholders and strengthen the functions of the Board of Directors.</p>	
5. Has the company established the communication channels with stakeholders (including but not limited to shareholders, employees, customers and suppliers), set up stakeholder sections on the company's website, and respond appropriately to important corporate social responsibility issues of concern to stakeholders?	V		<p>The Company has clear communication channels with employees, clients and suppliers, shareholders, government agencies and local communities, and respects their legitimate rights and interests. The Company has a spokesperson and relevant business departments contact information on its website. In addition, a stakeholder area is set up to provide contact information and questionnaires to respond appropriately to important corporate social responsibility issues of stakeholders. The following communication channels are also provided for all stakeholders:</p> <p><u>1. For the employees` side:</u></p>	No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>There are chairman's mailboxes, employee opinion mailboxes, quarterly labor-management meetings, occasional symposiums, quarterly new employee opinion surveys, cross-departmental communication meetings, hold irregular communication meetings with employees and various occasional company events.</p> <p><u>2. For the customers` side:</u> Communication channels such as daily phone calls and emails, annual customer satisfaction surveys, and customer service lines.</p> <p><u>3. For the Suppliers` side:</u> Provider online platform, semi-annual vendor assessment, annual sustainability risk assessment questionnaire and periodic vendor RBA audits.</p> <p><u>4. For the shareholders` side:</u> The Company also has a spokesperson to deal with matters related to the annual shareholders' meeting, the investor's mailbox, the occasional shareholders' meeting and the institutional investors conference.</p> <p><u>5. Government agencies:</u> Irregular regulations and public hearings, correspondence, industry policy questionnaires.</p> <p><u>6. For the local communities` side:</u> Receive complaints from the</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			community at any time, participate in community events from time to time, and hold charitable events.	
6. Has the company appointed a professional shareholding agency to handle the shareholders' affairs?	V		The Company appointed a professional shareholding agency, the "Horizon Securities Corp. Sharing Agency Department" to plan and handle the matters related to the shareholders' meeting with the Company's Shareholders Service Dept.	No significant differences
7. Information Disclosure				
(1) Has the company set up a website to disclose financial business and corporate governance information?	V		(1) The Company shall regularly and irregularly declare financial and business information at the Public Information Observatory in accordance with the regulations, and set up the website www.phison.com to disclose relevant information at any time.	(1) No significant differences
(2) Has the company adopted other methods of information disclosure (such as setting up an website in English language, designating a person responsible for the collection and disclosure of company information, spokesperson system execution, and placing the process of corporate information session, etc. on the company's website)?	V		(2) A. The Company has set up Chinese, English, Japanese and Simplified Chinese web pages. B. Designate specialists to collect and update the website contents periodically. C. Contact information for spokesperson system, etc.: antonioyu@phison.com kuoting_lu@phison.com D. Information inquiries such as corporate information session, etc. Inquiry about the Public Information	(2) No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			Observatory/Glossary/Corporate information session List.	
(3) Has the company announced and submitted the annual financial report within two months duration after the end of the fiscal year, and announced and reported the financial report for the first, second as well as third quarters and the operations status of each month before the regulatory period?	V		(3) On March 8, 2024, the Company announced the annual financial report for the year 2023, which is more than 15 days ahead of the time stipulated in the Decree, and completed the financial report for the first, second and third quarters and the operating status for each month before the regulatory period.	(3) No significant differences
8. Has the company got any other important information (including but not limited to employee rights, employee care, investor relations, supplier relationships, stakeholder rights, directors and supervisors' on the job training, implementation of risk management policies and risk measurement standards, implementation of customer policies, purchase of liability insurance for directors and supervisors, etc.) that will be helpful to understand the operation of corporate governance?	V		<u>(1) Employee rights and employee care:</u> The Company provides employees with a healthy, safe and humane working environment in accordance with laws and regulations and relevant internal management methods. In terms of appointments, promotions, awards, benefits, salaries, training and other aspects, the Company follows certain principles and provides fair opportunities and codes of conduct. The Company has also established the Employee Welfare Committee, the Sexual Harassment Complaints Processing Committee, the Labor Resources Council, the Labor Pension Committee, etc., to safeguard the rights of employees, avoid accidents and injuries, and seek the welfare of employees; the Company has also	No significant differences

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>entrusted the "Hsinchu City Life Line Association/Employee Assistance Programs Service Center" from October 2011 to October 2018, and changed to entrust "Newmind EAP consultant Co., Ltd." from November 2018 to provide the "Employee Life Service Plan" to solve all kinds of problems in employee life and work.</p> <p><u>(2) Investor Relations:</u></p> <p>The Company has a specially assigned person to deal with investor-related issues, and regularly or irregularly hold corporate information session to explain the Company's operations status, investors can also contact the IR department personnel of the Company to resolve investor issues by telephone or e-mail.</p> <p><u>(3) Supplier relations:</u></p> <p>The Company has always maintained a good cooperative relationship with the Supplier and has established the relevant policies and regulations of the Supplier to understand the feature of the Supplier's products and services through the communication process with the Suppliers. In cooperation with the main suppliers, we will conclude relevant cooperation contracts or entrusted agency contracts to protect the rights and obligations of both parties.</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p><u>(4) Rights of interested parties:</u> The Company has established the "Operational Guidelines for Financial Business between Related Enterprises" and "Management Operations of Related Party Transactions" to protect the rights of the Company and stakeholders, and has signed relevant cooperation contracts or entrusted agency contracts with major suppliers to safeguard the legal rights and obligations of both parties.</p> <p>In addition, a stakeholder questionnaire and contact information are set up in the social responsibility section of the official website to compile and respond to stakeholders' concerns.</p> <p><u>(5) Directors' further training affairs:</u> Please refer to pages 103-104 of this annual report for the status of directors' further training in the 2023 year of the Company. The directors of the Company have certain professional background and practical experience in their personal areas of expertise. The Company also arranges relevant courses for the directors in accordance with the current trends of Taiwan's laws and regulations.</p> <p><u>(6) Implementation of risk management policies and risk measurement standards:</u></p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>There are methods and evaluation standards within the Company that serve as the basis for risk management and measurement.</p> <p>A. Financial Risk (Finance Division)</p> <p>a. Evaluate the impact of interest rates, exchange rate movements, and inflation on profit or loss.</p> <p>b. To evaluate the policies of engaging in high-risk, high-yield investments, lending of funds to others, endorsement guarantees and derivative financial instruments and to evaluate the main causes of profit or loss for the Company.</p> <p>B. Legal Risk (Legal Division)</p> <p>a. The main risk topics are litigation and contract disputes, which reduce the risk of disputes or litigations through the contract review.</p> <p>b. At the time of the incident occurs, an attempt was made to reach a settlement with the other party by analyzing the causes of the dispute and seeking the assistance of an outside professional lawyer to resolve the dispute.</p> <p>C. Intellectual Property Risk (IP Office)</p> <p>a. Through a strict patent layout, the rights and interests of the enterprise itself and its customers can be better safeguarded.</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>b. Apply, maintain and, in due course, assert intellectual property rights to protect them in accordance with the law relating to intellectual property rights.</p> <p>D. Information Risk (IT Division)</p> <p>a. Establish the information security policies and information security safeguards and measures to reduce information security risks.</p> <p>b. In order to ensure the effective operation of information security mechanisms, implement information security education and training and social engineering drills for employees every year, and conduct information security announcements and promotions every quarter, striving to enhance colleagues' information security awareness and reduce the information security risks faced by the Company's operations.</p> <p>E. Environmental Risk (Environmental Safety and Health Risk Management Department)</p> <p>a. Evaluate the risks to employees, the company and the natural environment posed by environmental shocks and health and safety hazards.</p> <p>b. Pursue environmental and safety Zero Disaster objectives by continuously identifying hazards, evaluating risks, and implementing the</p>	

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
			<p>necessary controls to keep risks below the tolerable levels.</p> <p><u>(7) Implementation of customer policy:</u> The Company's website provides customer service contact access and specialized areas for stakeholder, and provides access for customer complaints.</p> <p><u>(8) The company purchased liability insurance for directors, supervisors and important staff:</u> According to Article 16 (2) of the Articles of Incorporation of the Company, "The Company may, during the term of office of the Directors, purchase liability insurance for the liability of the Directors in respect of the liability to be borne in accordance with the law in the scope of their business." The Company annually purchases liability insurance for directors, supervisors and important staff. After the insurance is completed, the Company reports on the actual performance in the Board of Directors and announces it in the Public Information Observatory in accordance with the law.</p>	
9. Please explain the improved situation regarding the results of the corporate governance appraisal issued by the Taiwan Stock Exchange Co., Ltd. Corporate Governance Center in the most recent year, and propose priorities and measures for those who have not improved.				

Evaluation Items	Operating conditions			Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
	Yes	No	Summary Description	
(1) The Company has established the expected improvement indicators based on the final evaluation results of the 9th Corporate Governance Appraisal. The improvement status are as follows:				
Question No.	Subject		Status Improved	Suggesting priorities and measures of enhancement for those who have not improved
2.23	Has the company’s board of directors’ performance evaluation method been approved by the board of directors, stipulating that an external evaluation should be conducted at least once every three years, and that the evaluation should be conducted in the year of evaluation or in the past two years, and that the status of implementation and the results of the evaluation should be disclosed on the company’s website or in the annual report?		The Company appointed the Taiwan Investor Relations Institute (TIRI), an external professional and independent organization, to conduct a performance evaluation of the operations of the Company’s Board of Directors, individual members of the Board of Directors, and functional committees (Audit Committee and Remuneration Committee) from October 1, 2022 to September 30, 2023. TIRI’s evaluation process was based on a combination of documents provided by the Company, self-assessment questionnaires, and on-site visits, and a report was issued based on the results. A performance evaluation report was issued based on the results of the evaluation. TIRI issued a board performance evaluation report on October 30, 2023, and the Company presented the board performance evaluation results to the Board of Directors for reporting on November 7, 2023.	None

Evaluation Items		Operating conditions		Circumstances and Reasons for the differences from the Code of Corporate Governance for Listed Companies
		Yes	No	
				Summary Description
				TIRI issued the board performance evaluation report based on the minutes of the Board of Directors' meetings provided by the Company, the existing internal policies, other supporting documents and public information, combined with the results of the self-assessment questionnaire and the on-site interviews, and summarized the evaluation conclusions and recommendations.
4.18	Does the Company disclose information related to the Company's governance, strategies, risk management, and indicators and objectives of climate-related risks and opportunities in accordance with the framework of the Task Force on Climate-related Financial Disclosures (TCFD)?			Based on the framework of the Task Force on Climate-related Financial Disclosures (TCFD), the Company's "Corporate Sustainability Report" for the year of 2022 will disclose 11 proposed disclosures under the four information disclosure proposals, including governance, strategies, risk management, and indicators and objectives of climate-related risks and opportunities.
				None

3.4.4 Composition and operation of the Remuneration Committee

3.4.4.1 Remuneration Committee Membership Profile

Date: March 29, 2024

Identity	Criteria	Professional qualifications and experience	Independence Situation	Number of Members of Salaries Compensation Committee of Other Publicly Listed Companies
	Name			
Independent Director (Convener)	Wei Chiu Chung	Please refer to pages 11-14 and page 16-17 of this annual report.		N/A
Independent Director (Convener)	Huei Ming Wang			1
Independent Director	Chen Wei Wang			2
Independent Director	Yu Lun Huang			N/A

3.4.4.2 Remuneration Committee Operation Information

- (1) The Salaries and Remuneration Committee of the Company consists of three members.
- (2) The term of office of the members: July 5, 2023 to May 30, 2026, the latest annual Salaries and Remuneration Committee meeting was held in 4 times, the qualifications and attendance of the members are as follows:

Title	Name	Actual Attendance	Attendance by proxy	Percentage of Actual attendance (%) (Note 2)	Remarks
Convener	Wei Chiu Chung	3	0	100.00	Resigned on July 5, 2023
Convener	Huei Ming Wang	1	0	100.00	Newly appointed on July 5, 2023
Committee Member	Chen Wei Wang	3	2	75.00	Re-elected on July 5, 2023
Committee Member	Yu Lun Huang	4	0	100.00	Re-elected on July 5, 2023
<p>Note 1: The term of directors of the Company expired and comprehensive re-election on May 31, 2023. The Independent Director Huei Ming Wang assumed, Wen Chiu Chung stepped down.</p> <p>Note 2: The percentage of actual attendance is calculated based on the number of Remuneration Committee meetings and the number of actual attendances during the number of Remuneration Committee's tenure.</p>					

Other items to be recorded:

1. The Remuneration Committee of the Company has the following powers:

- (1) Regularly evaluate the organizational rules of the Remuneration Committee and propose amendments.
- (2) Define and periodically evaluate the policies, systems, standards and structure of the annual and long-term performance objectives and remuneration of the directors and managers of the Company.
- (3) Periodically evaluate the achievement of the performance objectives of the directors and managers of the Company and determine the content and amount of their individual remuneration.

In the performance of its duties, the Remuneration Committee shall apply the following criteria:

- (1) Salary management shall be in line with the Company's remuneration philosophy.
 - (2) The performance appraisal and remuneration of directors and managers should take into account the usual level of payment in the same industry and consider the reasonableness of the relationship between individual performance and the company's operating performance and future risks.
 - (3) The members of the Committee shall not participate in the discussion and vote on the decision on their remuneration.
2. If the board of directors declines to adopt or modifies a recommendation of the compensation 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: there is no such case.
3. The date, period, contents of the proposal, opinions of all members and treatment of opinions of the members of the Remuneration Committee, if any, shall be specified in the resolution of the Remuneration Committee, if there is any objection or reservation on the part of the members and if there is a record or written statement: there is no such case.

3.4.4.3 Discussion and resolution results of the Remuneration Committee, and the Company's treatment of members' opinions

Time	Subject of discussion	Results of the resolution	Treatment of members' opinions by the Company
2023.01.12 4th Session, 14th time	Review of the 2023 Goal Setting Proposal by the CEO and the President of the Company.		
	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers.		
2023.03.15 4th Session, 15th time	Review of the compensation amount from profit payment to directors, and the amount and method		

Time	Subject of discussion	Results of the resolution	Treatment of members' opinions by the Company
	rewarding employees who assume as director or manager concurrently from employee remuneration of 2022.	After being confirmed by the chairman, all attending members passed without objection and submitted to the board of directors for discussion.	No comments from members
2023.05.05 4th Session, 16th time	Reviewing revisions for the partial articles of “Payroll Management Regulation”.		
	Review of the annual fixed salary adjustment and payment plan for managers of the Company.		
	Reviewing the proposal 2023 KPIs and compensation package for partial Senior Executive.		
2023.07.28 5th Session, first time	Reviewed the 2024 work plan of the Company's Remuneration Committee.		
	Review the Performance Evaluation for directors and managerial officers as well as the proposal for the Compensation of directors during 2022 and the Performance Incentive Bonus and the Employee Compensation during 2022 for managerial officers.		
	The proposal for the Employee Stock Ownership Plan is submitted for deliberation.		

3.4.5 Implementation of the Code of Practice for the Promotion of Sustainable Development and the Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
1. Has the company established a governance structure that promotes sustainable development, and set up a dedicated (part-time) dedicated unit to promote the sustainable development, and the board of directors authorized the senior management to handle the situation, and the board of directors supervised the promotion status ?	V		<p>The Company has set up a dedicated unit, "Corporate Sustainable Development Committee", to promote sustainable development affairs. Please refer to the Company's website at www.phison.com/ Investors /Corporate Corporation Sustainable Development Committee.</p> <p>1. The Company elevated the Corporate Sustainable Committee to the Functional Committee under the Board of Directors in November 2021. It is the highest decision-making unit responsible for ESG affairs within the Company and reports on its operations affairs to the Board of Directors once a year.</p> <p>2. The execution status is as follows:</p> <p>(1) The Corporate Sustainable Development Committee is composed of three members, including Mr. Huei Ming Wang, independent director, Ms. Yu Lun Huang,</p>	No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>independent director, Mr. Zhi Chyang Yu, senior special assistant and chairman of operations (the Convener), and an Executive Secretariat has been established. Its duties are as follows:</p> <p>A.Promote and strengthen the corporate governance and integrity management system.</p> <p>B.Promote and develop the matters related to sustainable development.</p> <p>C.Supervise the other work related to sustainable development that have been resolved by the Board of Directors.</p> <p>(2) The work focus of the Corporate Sustainable Development Committee this year is conduct the "Carbon Footprint Internal Inventory" and improve the performance of various sustainability evaluations. In the future, it will continue to implement new sustainability projects</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>and optimize the content of existing projects.</p> <p>(3) Corporate Sustainable Development Committee shall report the operation to the board of directors once a year. This year, we have reported to the Board of Directors on January 18, 2024 on the implementation results of the sustainable projects in 2023 and the work plan for 2024.</p>	
2. Has the company conducted risk assessment on environmental, social and corporate governance issues related to the company's operations in accordance with the principle of materiality, and determine relevant risk management policies or strategies?	V		<p>The contents of this disclosure cover the performance of the Company's operating locations in Taiwan from January 1 to December 31, 2022, as well as the management policies and response measures for major topics.</p> <p>The Company's Corporate Sustainable Development Committee, in accordance with the principle of materiality and the results of communication with internal and external stakeholders, and in light of the domestic and foreign trends of sustainable development and the requirements of the competent authorities,</p>	No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			differentiated the major themes of sustainability, defined the supervision and risk management mechanisms, and reduced the impact of relevant risks. Please refer to the Company's website at www.phison.com/ ESG/Resource Center/2022 Corporate Sustainability Report/2.1 Material Topics Identification Procedures (P16-P17) & 3.3 Ethical Corporate Management (P28-P29) & 3.5 Legal Compliance (P31) & 3.6 Economic Performance (P40) & 4 Innovation & Service (P40) & 4 Green Products (P40) & 5 Responsible Supply Chain (P48) & 7.2 Talent Attraction and Retention (P69) & 7.3 Talent Development and Training (P79).	
3. The environmental agenda				
(1) Has the company established an appropriate environmental management system according to the characteristics of its industry?	V		(1) The Company continues to obtain ISO 14001 environmental management system certification, which covers the design and assembly of flash memory storage devices, the design of flash memory controller chips, and focuses on	(1) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>recycling resources and improving energy efficiency to minimize the impact on the environment. In accordance with our internal regulatory management process, we implement environmental protection laws and regulations, such as the Waste Disposal Act, Climate Change Response Act, Noise Control Act, Drinking Water Management Act, and the Montreal Protocol for the Control of Chemical Substances, every three months to ensure our compliance with applicable laws and regulations. We also have internal environmental safety and health management process, which covers air pollution control operations, water pollution control operations, waste control operations, chemical control operations, noise pollution control operations and so on, in order to reduce environmental pollution risk.</p> <p>Please refer to the Company's</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			website at www.phison.com/ESG/Resource Center/ 2022 Corporate Sustainability Report /6. Environmental Protection (P54-P63).	
(2) Has the company committed to improve the energy efficiency and use the renewable materials with low impact on the environment?	V		(2) The Company has formulated environmental protection policies, green procurement policies and sustainable management performance indicators, implemented energy resource management and reduction targets, and passed ISO14001 environmental management system verification and ISO14064 greenhouse gas verification. The Company will collect all of the reusable items and send them to recycling firms for reuse to protect our environment. The Company uses the concept of “density” to set reduction targets, which is volume (metric tons)/per million of revenue. The base year for each of the energy and resource indicators is 2021, and in 2022, due to the commissioning of the new plant in Phase V and the	(2) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>increase in staff, the amount of electricity, water, and waste generated increased, but due to the demand for market adjustments, revenues fell short of expectations. Therefore, the density indicators for waste, water, and greenhouse gas emissions did not meet the targets.</p> <p>Please refer to our website www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/Sustainability Management Indicators (P10-11) & 6. Environmental protection (P54-63).</p>	
(3) Has the company assessed the potential risks and opportunities of climate change for the enterprise now and in the future, and take relevant response measures?	V		<p>(3) The Company's functional committee under the Board of Directors - the Risk Management Committee is the supreme organization for climate change management. The committee is composed of three members, at least half of whom are independent directors, and reports on its operation status to the Board of Directors</p>	(3) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>once a year.</p> <p>In the current year, the Company has made reference to the Task Force on Climate-related Financial Disclosures (TCFD) to identify and disclose the following significant risks and opportunities arising from extreme climate according to the nature of the business, and formulate relevant countermeasures.</p> <p>1. Transformation Risk - Total Greenhouse Gas Control and Carbon Fee: Implementing various energy saving and carbon reduction measures in the plant, validating the environmental management system, and purchasing renewable energy certificates to mitigate the impact of carbon fee in the future.</p> <p>2. Physical Risk - Water Restriction / Disconnection: Establishing an internal water condition analysis and water shortage warning system, and utilizing two water sources to</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>back up each other in order to cope with the risk of one of the water sources being insufficient.</p> <p>3. Physical Risk - Power Restriction / Outage: UPS is used to ensure the stability of critical server rooms and machine operations, and generators are tested on a monthly basis. In the future, we will continue to evaluate the need for additional UPS in the remaining critical laboratories to minimize the impact of power shortages on the Company.</p> <p>4. Physical Risk - Heavy Rainfall / Flooding: Padding the base to reduce the chance of flooding, and purchasing flood protection equipment such as flood pumps.</p> <p>5. Significant Opportunity - Increased Market Demand for Environmentally Friendly / Energy Saving Products: Product performance has been</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>enhanced from the design stage with the use of environmentally friendly and durable materials to help end-users save energy and extend product life. Packaging materials are designed to be lightweight, and recycled materials are prioritized.</p> <p>6. Significant Opportunity - Low Carbon Production: Striving to implement low carbon production by implementing energy saving programs, replacing old equipment, and cooperating with downstream manufacturers.</p> <p>Meanwhile, the Company began to purchase the renewable energy (wind power) in 2021, initially targeting 1% of the total electricity purchased, increasing to 3% by 2023, increasing to 10% by 2025, and reaching 20% by 2030, in order to stabilize the energy transformation and reduce the greenhouse gas emissions in the operation process. Please refer to the</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			Company's website at www.phison.com/ ESG/Resource Center/2022 Corporate Sustainability Report/6.1 Climate Strategy (P54-P56).	
(4) Has the company counted the total weight of greenhouse gas emissions, water consumption and waste in the past two years, and formulated policies to reduce greenhouse gas emissions, water consumption or other waste management?	V		(4) The Company has been conducting greenhouse gas inventories every year at its operating bases in Taiwan since 2011 year. At the same time, it has been counting the use of water resources and waste generation, understanding the energy resources consumed and the greenhouse gases generated by the Company in all operating phases, and is committed to integrating the ISO management system and environmental safety and health-related regulations into its daily operations, implementing various energy conservation measures and resource recycling, etc. In 2022, the Company's overall water intake was 127,010 metric tons, with a water intake intensity (water intake/millions	(4) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>of revenue) of 2.108 metric tons/millions of revenue; Class I and Class II emitted a total of 15,560.63 metric tons of carbon dioxide equivalent, with a greenhouse gas emission intensity (greenhouse gas emissions/millions of revenue) of 0.258 metric tons of carbon dioxide equivalent/millions of revenues. In 2022, a total of 248.32 metric tons of waste (including general utility waste and household waste) and 6.17 metric tons of hazardous utility waste were generated. In 2021 and 2022, the Company has passed the third party ISO 14064-1 greenhouse gas certification.</p> <p>The Company uses the concept of “density” to set reduction targets, which is volume (metric tons)/per million of revenue.</p> <p>The base year for each of the energy and resource indicators is 2021, and in 2022, due to the commissioning of the new plant in Phase V and the increase in</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>staff, the amount of electricity, water, and waste generated increased, but due to the demand for market adjustments, revenues fell short of expectations. Therefore, the density indicators for waste, water, and greenhouse gas emissions did not meet the targets.</p> <p>In 2022, the Company launched three energy and water conservation projects, which resulted in an estimated saving of 133,962 kWh and 3,553 degrees' water, equivalent to a reduction of 68,759 kg of carbon dioxide equivalent. Please refer to our website www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/6. Environmental Protection (P54-P63).</p>	
4. social agenda				
(1) Has the company formulated relevant management policies and procedures in accordance with relevant laws and	V		(1) The Company observes and recognizes the spirit of internationally recognized human rights standards such as	(1)No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
regulations and international human rights conventions?			the International Bill of Human Rights, the International Labour Organization - Declaration on Fundamental Principles and Rights at Work, and the Ten Principles of the United Nations Global Compact. The Company has formulated a Human Rights Policy approved by the Chairman of the Board of Directors and has taken actions consistent with the Code of Conduct for Responsible Business Alliance to treat all workers in the Company's workplace with dignity and respect. The Company uses the human rights due diligence investigation procedure to implement the human rights policy. In accordance with the relevant human rights agenda, the Company conducts screening and assessment of the importance of the agenda, implements preventive and mitigation measures, and continuously mitigates human rights risks by finally amending	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			the feedback and continuous improvement process. In addition, we regularly conduct internal human rights audits once a year by our internal RBA authoritative units in accordance with the latest RBA standards, and report the results of the audits to the Corporate Sustainable Development Committee so that the operational management has a grasp of the level of compliance with human rights policies and related performance. Please refer to the Company's website at www.phison.com/ ESG/Resource Center/2022 Corporate Sustainability Report 7.2.2 Human Right Management (P74-P77).	
(2) Has the company defined and implemented reasonable employee benefits measures (including remuneration, vacation and other benefits), and appropriately reflect the operating performance or results in the employee	V		(2) The Company has formulated the internal work rules, salary management methods, employee performance management methods, incentive management methods and other relevant management methods to regulate	(2) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
remuneration?			<p>and reward employees, and the Company does implement them. The Company has established an Employee Benefits Committee that provides a number of employee benefits, such as travel assistance, employee progression assistance, paid family care leave, Employee Assistance Programs (EAPs), flexible working hours, three-section gratuity, and community assistance.</p> <p>In 2022, the proportion of female employees was 23.9%; the proportion of female supervisors was 17.9%; and the proportion of women in senior management was 15.6%.</p> <p>Please refer to the Company's website at www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/7.1 Employee Structure (P71) & 7.2.1 Pay & Benefits (P70-P73).</p>	
(3) Has the company provided a safe and healthy working environment for employees, and	V		<p>(3)</p> <p>1. The Company are committed to providing a safe and healthy</p>	(3) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
regularly implements safety and health education for employees?			<p>working environment for our employees and maintaining the safety of our contractors and visitors. We continue to obtain ISO 45001 Occupational Safety and Health Management System certification, and have been awarded the “Healthy Workplace Certification” by the Health Promotion Administration of the Ministry of Health and Welfare and the “Sports Workplace Certification” by the Sports Administration. In addition, we have a wide range of sports clubs, occasional health seminars, and provide Employee Assistance Programs (EAPs).</p> <p>2. The Company continues to identify all applicable occupational safety and health laws and regulations at all of its operating locations, conduct standardized management procedures and education and training, and follow the principles of formulating safety regulations, conducting regular risk assessments, and auditing to</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>confirm the effectiveness of implementation and continuous improvement in order to strengthen the existing occupational safety and health management system.</p> <p>3. Every year, we provide all new employees (3 hours) and current employees (1 hour) with safety and health education and training programs, and the completion rate is 100%.</p> <p>4. In 2022, there were no fires or major occupational accidents in the Company. The total number of occupational injuries to employees was 22, of which 21 were traffic accidents involving employees commuting to work, and only one was a fall of an employee stepping on a flight of stairs (accounting for 0.003% of the total number of employees as of the end of 2022), and the relevant units have already strengthened the traffic safety promotion for employees.</p> <p>5. Please refer to the Company's website at www.phison.com/</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			ESG/Resource Center/2022 Corporate Sustainability Report/7.4 Occupational Safety and Health (P82-P87).	
(4) Has the company established effective career development training programs for its employees?	V		(4) The Company continues to invest in the education and training of human resources. The human resources department plans annual training programs and the main training targets according to the Company's development strategy and the professional function requirements of each department. In addition, the human resources department will send out a staff needs survey form from August to September each year for employees to evaluate their own skills that need to be upgraded. The human resources department will then compile the staff survey form and provide it to the supervisors of each department for their reference, and after collecting the supervisors' opinions, they will compile the education and training plan for the next year and ask the CEO to	(4) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>sign the plan. The Company develops annual plans for seven major training programs (newcomer education training, on-the-job/professional training, quality training, auxiliary skills training, safety and health-related training, hierarchical training, and vehicle system training), and also provides self-inspired training and license subsidies in accordance with the needs of the individual's career. All full-time employees of the Company can apply for annual subsidies for external training according to their years of experience, and for obtaining certificates and degrees related to job skills. The annual subsidy for those with less than three years of experience is NT\$20,000, for those with three to five years of experience is NT\$30,000, and for those with five years of experience or more is NT\$40,000. In order to confirm the effectiveness of the training, the Company evaluates the four</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			stages of the Kirkpatrick Model: response, learning, behavior, and results. The effectiveness of the training course is judged by the response (satisfaction survey) of the trainees. Please refer to the Company's website at www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/7.3 Talent Development and Training (P79-P81).	
(5) Does the company comply with relevant laws, regulations and international standards, and formulate relevant consumer or customer rights protection policies and appeal procedures for issues such as customer health and safety, customer privacy, marketing and labeling of products and services?	V		(5) The labeling information of the Company's products and services is indicated on the product packaging back card and the instruction manual, and the labeling content includes "brand name", "RoHS logo", "CE safety mark" and "WEEE recycling mark" to declare the safety of the products or services and the compliance with the relevant regulations on the quality of harmful substances. The Company has a Personal Data Protection Management Policy and Privacy Policy, and	(5) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>stakeholders who discover a violation, suspected violation or potential violation of privacy or personal data protection by the Company may contact the Company's Security and Resource Integration Department via a dedicated email address: privacy@phison.com. Please refer to the Company's website at www.phison.com/ ESG/ Resource Center/ Policies/Personal Data Protection Policy & the Company's Website/Privacy Policy.</p> <p>In 2022, the Company did not receive any complaints for leakage of customer information or infringement of customer privacy, nor did it receive any complaints and judgments for violation of marketing and labeling. Please refer to the Company's website at www.phison.com/ ESG/Resource Center/2022 Corporate Sustainability</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			Report/3.7 Information Security (P37-P39)/4.3 Customer Relationship Management (P46-P47)/6.4.2 Green Management Process (P61-P62).	
(6) Has the company established a supplier management policy that requires suppliers to comply with relevant regulations and their implementation on environmental protection, occupational safety and health or labor rights?	V		(6) The Company upholds the spirit of accountability to build a responsible supply chain, and implements responsible supply chain management in accordance with the four implementation steps of supply chain management: compliance with standards, risk assessment, participation in audit, and continuous improvement. The Company specified in the procurement contract signed with the supplier that the supplier must abide by the "Code of Conduct for RBA Responsible Business Alliance", and subsequently required the supplier to sign the Code of Conduct for Suppliers. Each year, all existing Tier 1 suppliers are required to fill in the "Sustainability Risk Assessment Questionnaire", which covers	(6) No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			<p>the five major aspects of labor, occupational safety and health, environmental protection, supply chain management, and sustainability and risk management. The Company's personnel will conduct a re-assessment and classify the sustainability risk level of suppliers according to their scores, and subsequently manage and optimize the supply chain according to the long-term sustainability performance of suppliers. New suppliers are also required to meet the basic sustainability assessment and can only start business cooperation with the Company after passing the assessment. At the same time, the Company uses key material suppliers for its main products as a benchmark, and screens out key suppliers based on risk identification results, and conducts RBA audits by our professional staff every year.</p>	

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			Please refer to our website www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/5. Responsible Supply Chain (P48-P52) .	
5. Has the company referred to the internationally accepted reporting standards or guidelines to prepare reports that disclose the company's non-financial information, such as the reports related to sustainability? Has the previous reports got the confidence or assurance opinions of the third-party verification unit?	V		<p>The Company's 2022 Corporate Sustainability Report has been prepared in accordance with the "Rules Governing the Preparation and Filing of Sustainability Reports by TPEX Listed Companies", the GRI Standards 2021 issued by the Global Reporting Initiative (the industry standard for the semiconductor industry has not yet been issued), the Sustainability Accounting Standards Board's standards for Semiconductors Sustainability Accounting Standard 2018, and the TCFD, and has been verified by the BSI Taiwan, in accordance with the AA1000AS v3 Assurance Standard and the GRI Standards</p> <p>Please refer to our website www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/About this</p>	No significant differences

Promoted Items	Status of Execution			Circumstances and Reasons for Differences from the Code of Practice for the Sustainable Development of Listed Counter Companies
	Yes	No	Summary Description	
			report (P2) and appendix (P96-P103).	
<p>6. If a company has its own rules for the sustainable development in accordance with the Code of Practice for the Sustainable Development of Listed Counter Companies, please clarify the difference between its operation and the rules:</p> <p>In 2021, the Company established the Code of Practice on Corporate Social Responsibility, which covers the implementation of corporate governance, the development of a sustainable environment, the maintenance of social welfare, and the enhancement of corporate social responsibility information disclosure.</p>				
<p>7. Other important information assists to understand what drives sustainable development execution:</p> <p><u>(1) Environmental protection and climate risk management:</u></p> <p>For details on the Company's execution of its environmental responsibilities, please refer to the Company's website at www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/6. Environmental Protection (P54-P63).</p> <p><u>(2) Employee wages, benefits, education and training, human rights, occupational safety and health, and labor-management communication:</u></p> <p>For details of the Company's employee care, please refer to the Company's website at www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/7. Employee Care (P64-P89).</p> <p><u>(3) Community participation, social contribution, social services, social welfare and other social responsibility activities:</u></p> <p>For details of the Company's continuous delivery of kindness, please refer to the Company's website at www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/8. Social Participation (P90-P95).</p> <p><u>(4) Consumer rights:</u></p> <p>For more information on the Company's customer relationship management, please refer to the Company's website at www.phison.com/ESG/Resource Center/2022 Corporate Sustainability Report/4. Innovation & Service (P46-P47).</p>				

3.4.5.1 Climate-Related Information of Listed Counter Companies
3.4.5.1.1 Status of Execution of Climate-Related Information

Item	Status of Execution
<p>1. Describe the board's and management's oversight and governance of climate-related risks and opportunities.</p>	<p>1. The Risk Management Committee, a functional committee under the Board of Directors, is responsible for managing climate change. It has three members, more than half of whom are independent directors, and regularly reports to the Board of Directors on the progress of climate risk management every year.</p> <p>2. The executive team under the Risk Management Committee is responsible for the identification, assessment and monitoring of climate-related risks and opportunities, and reports important climate-related risk information to the Risk Management Committee on a quarterly basis.</p> <p>3. The Board of Directors is the unit to supervise the Risk Management Committee. The Risk Management Committee regularly reports to the Board of Directors on the results of risk identification and the effectiveness of control implementation, and the Board of Directors makes relevant recommendations based on its own authority, responsibility, and professionalism to supervise the direction of the project and improve the success rate of the project.</p>
<p>2. Describe how the identified climate risks and opportunities will affect the business, strategy, and finances of the enterprise (short, medium, and long term).</p>	<p>Based on the TCFD framework, the Company analyzed the impact and contribution of climate change risks and opportunities on operations, and identified major risk factors such as total greenhouse gas control and carbon cost, insufficient water and electricity supply, rainstorm/flood; opportunity factors include increased market demand for environmentally friendly/energy-saving products, low-carbon production. In the short term, the purchase of large quantities of emergency equipment and the replacement of old plant equipment will increase the operating costs, but in the long term, it can minimize the financial losses brought about by climate risks and</p>

Item	Status of Execution
	climate-related regulations. If the energy efficiency optimization of new products is obvious, it will contribute to revenue. In addition, the Company can reduce operating costs by reducing the consumption of energy resources.
3. Describe the financial impact of extreme weather events and transition actions.	<ol style="list-style-type: none"> 1. Carbon-related policies and regulations at home and abroad have been introduced one after another, and enterprises must pay corresponding fees (carbon rights or purchase of renewable energy vouchers) for compliance, or invest resources to reduce carbon emissions, which will increase operating costs. 2. Extreme weather will lead to a higher probability of occurrence of water storms and floods, and the concentration of rainstorms will easily cause floods, which will lead to delays in material scheduling and failure to produce and ship products on schedule. It increases operating costs and risk of default. 3. The resilience of Taiwan Power Company is relatively insufficient. At present, the generators in the plant of the Company are only used for life support equipment such as firefighting, MIS machine room, elevator and lighting. Therefore, in case of power failure, except for the important machine room, the work of other personnel will be forced to end ahead of schedule, which will lead to the loss of production capacity. 4. The Company actively develops low-carbon products, continuously optimizes product performance through design, enhances user convenience and indirectly reduces carbon emissions of end users. Low-carbon products also contribute to market promotion and increase of product revenue.
4. Describe how climate risk identification, assessment, and	Through the participation of relevant departments in the discussion, the overall assessment results will be

Item	Status of Execution
management processes are integrated into the overall risk management system.	submitted to the Risk Management Committee and the Board of Directors for planning, adjustment and mitigation strategies for major risks.
5. If scenario analysis is used to assess resilience to climate change risk, the scenarios, parameters, assumptions, analytical factors, and major financial impacts used shall be described.	The Company conducts climate risk analysis based on different scenarios, including physical scenarios such as RCP 2.6, RCP 4.5, RCP 6.0 and RCP 8.5.
6. If there is a transformation plan to manage climate-related risks, describe the content of the plan and the indicators and objectives used to identify and manage physical risks and transformation risks.	<ol style="list-style-type: none"> 1. The Company has established the climate-related risk and opportunity assessment management indicators, such as water consumption, greenhouse gas emissions and the proportion of renewable energy use. 2. The Company carries out ISO 14064-1 carbon inventory every year and commissions a third party to carry out data verification if necessary. In the future, the Company will gradually expand the inventory types of category III to grasp complete carbon emission information.
7. If internal carbon pricing is used as a planning tool, the basis for pricing should be described.	There is currently no internal carbon pricing.
8. If a climate-related goal is set, the activities covered, the scope of greenhouse gas emissions, the planning period, and the annual progress of achieving the goal shall be described. If carbon offsets or renewable energy certificates (RECs) are used to achieve the goal, the source and quantity of carbon reduction credits offset or the quantity of renewable energy certificates (RECs) shall be described.	KPIs for key climate targets such as greenhouse gases, renewable energy and water in 2025 have been set.

Item	Status of Execution
9. Greenhouse gas inventory and confidence situation and Reduction Targets, Strategies and Specific Action Plans	The Company carries out ISO14064-1 self-inspection every year, and carries out third-party verification if necessary, please refer to as below table 3.4.5.1.1.1 and 3.4.5.1.1.2.

3.4.5.1.1.1 Greenhouse Gas Inventory and Confirmation Situation of the Company in the Last Two Years

3.4.5.1.1.1.1 Greenhouse Gas Inventory Information

In 2022, Category 1 and Category 2 emitted a total of 15,560.63 metric tons of carbon dioxide equivalent, and the greenhouse gas emission intensity (greenhouse gas emissions/million revenue) was 0.258. The data covers the use of all factories and leased offices of the Company, but excludes facilities and locations that have not been officially operated for one year and are unused.

In 2023, Category 1 and Category 2 emitted a total of 15,707.57 metric tons of carbon dioxide equivalent, and the greenhouse gas emission intensity (greenhouse gas emissions/million revenue) was 0.326. The data covers the use of all factories and leased offices of the Company, but excludes unused facilities and bases that have not been officially operated for one year and the scope of outsourced management.

3.4.5.1.1.1.2 Greenhouse Gas Verification Information

Year	Confidence Range	Confidence Agency	Confidence Criteria	Confidence Opinion
2022	Covers the use of all factories and leased offices of the Company, but excludes facilities and locations that have not been officially operated for one year and are unused.	UCS	ISO 14064-1	A statement of confidence in the situation
2023	Covers the use of all factories and leased offices of the Company, but excludes unused facilities and locations that have not been officially operated for one year and the scope of outsourced management.	UCS	ISO 14064-1	Complete and confident information will be disclosed in the Corporate Sustainability Report

3.4.5.1.1.2 Greenhouse Gas Reduction Targets, Strategies and Specific Action Plans

Category 1 and Category 2 emitted a total of 15,707.57 metric tons of carbon dioxide equivalent in 2012. The base year for reduction is 2012. The reduction target for 2012 is greenhouse gas emission intensity ≤ 0.190 metric tons/million of revenue. However, due to market adjustment demand, revenue has been reduced. It did not meet expectations, so this reduction target was not achieved. The company's specific carbon reduction strategies and actions include implementing energy-saving measures within the factory, evaluating and replacing old equipment, and purchasing renewable energy.

3.4.6 Ethical Corporate Management and Deviations from “The Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies” and Reasons

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) Has the Company established the ethical corporate management policies approved by the Board of Directors and specified in its rules and external documents the ethical corporate management policies and practices and the commitment of the board of directors and senior management to rigorous and thorough implementation of such policies?	V		(1) In 2020, the Company established the “Ethical Corporate Management Best Practice Principles”, which is disclosed on the Company's website and the Market Observation Post System. The 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. The Company signs confidential agreements with its directors and managers illustrates the rules which should be followed.	(1) No major deviation
(2) Has the Company established a risk assessment mechanism against unethical conduct, analyze and assess on a regular basis business activities within its business scope which are at a higher risk of being involved in unethical conduct, and	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 the Company in case of conflict of interest, we also set up an email for reporting such behavior (whistleblower@phison.com).	(2) No major deviation

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
establish prevention programs accordingly, which shall at least include the preventive measures specified in Paragraph 2, Article 7 of the "Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies"?				
(3) Has the Company specified in its prevention programs the operating procedures, guidelines, punishments for violations, and a grievance system and implemented them and review the prevention programs on a regular basis?	V		(3) The Company asks suppliers, contractors and other affiliates to sign documents for guaranteeing no illegal business activities and no bribes.	(3) No major deviation
2. Fulfillment of Ethical Corporate Management				
(1) Does the Company evaluate business partners' ethical records and include ethics-related clauses in business contracts?	V		(1) The Company has the internal code of work and the regulation of reward/punishment to avoid unethical behaviors. The Company selects the suppliers based on the principles of ethical corporate management and fairness to find the most competitive companies which are ethical. It is strictly prohibited to take a commission or other improper rewards.	(1) No major deviation

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
(2) Does the Company establish an exclusively (or concurrently) dedicated unit supervised by the Board to be in charge of corporate integrity and regularly report the implementation of the ethical corporate management policies and prevention programs against unethical conduct to it?	V		(2) Integrity is one of the five core values of the Company and is always the basis of the operation of the 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. The Company has set up a dedicated unit "Corporate Sustainable Development Committee" to promote corporate social responsibility and has reported on the implementation of ethical corporate management in the Board of Directors' Meetings respectively on January 18, 2024.	(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) The Company has code of Corporate Social Responsibility Best Practice Principles work, code of conduct and regulations of reward/punishment to regulate its employees. It is prohibited for employees to endanger the rights of the 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,	V		(4) To ensure the ethical operation, the 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

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
based on the results of assessment of the risk of involvement in unethical conduct, devise relevant audit plans and audit the compliance with the prevention programs accordingly or entrusted a CPA to conduct the audit?				
(5) Does the Company regularly hold internal and external educational trainings on operational integrity?	V		(5) Integrity is one of the five core values of this company and has been in our culture. We also stress this in all meetings to enforce this core value.	(5) No major deviation
3. Operation of the tip-off system				
(1) Has the Company set up a specific tip-off and rewarding system, established a convenient tip-off channel, and appointed adequate staff to communicate with the one who reports?	V		(1) The Company has regulations of integrity, regulations of reward/punishment, code of work and code of conduct 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 letter.	(1) No major deviation
(2) Has the Company established the standard operating procedures for investigating reported misconduct, follow-up measures to be adopted after	V		(2) In the communication protocol of the Company, all personnel should keep the informant data confidential.	(2) No major deviation

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
the investigation, and related confidentiality mechanisms?				
(3) Has the Company taken measures for protecting the whistle blower from improper treatment because of the tip-off?	V		(3) The Company has regulations that the data of the whistle blower should be kept confidential for protection whistle blower from unfair revenge or treatment.	(3) No major deviation
4. Strengthening information disclosure				
Does the Company disclose its ethical corporate management policies and the results of its implementation on the Company’s website and the market observation post system (MOPS)?	V		The Company has a website for investors to review the relevant information. The information is posted on the MOPS for investors to understand governance.	No major deviation
<p>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:</p> <p>The Company has established the "Ethical Corporate Management Best Practice Principles" in 2020, which is disclosed on the Company's website and the Market Observation Post System. There was no major difference between its implementation and "Ethical Corporate Management Best-Practice Principles for TWSE/TPEX Listed Companies". On January 18, 2024, the Board of Directors reported on the performance of ethic corporate management as follows.</p> <p>(1) Code of Conduct with Integrity</p> <p>A. Recusal of interest: When the Company convenes the Audit Committee, the Remuneration Committee, and the Board of Directors' Meeting, the Company provides explanations in accordance with Article 206 of the Company Act when the directors have their own interests in the motion, and the directors who have their own interests will be recused from the discussion and voting on the motion.</p>				

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
<p>B. Prohibition of insider trading and confidentiality agreements: The Company has established The Procedures of Measures to Prevent Insider Trading to prevent insider trading and signed employment contracts for all employees, and from time to time, the directors, managers and employees are informed of the latest legal information in writing and by e-mail and are regularly informed. In addition to the aforementioned method, the Company hold the online courses to directors, managers and employees of the Company on a regular basis every year as a mandatory annual training course.</p> <p>(2) Education Training</p> <p>A. The implementation of ethics, human rights, and anti-corruption training for managers / employees/new recruits is as follows:</p> <p>In 2023, the Company organized internal and external education and training on ethical corporate management topics (including courses on compliance with regulations on ethical corporate management, anti-capitalist corruption, insider trading, accounting system and internal control) for a total of 7,560 participants and a total of 3,991 hours.</p> <p>B. The implementation of Directors' ethnics training is as follows:</p> <p>The Company organized a course on Implement honest management (including prevention of insider trading promotion) for directors on November 7, 2023.</p> <p>(3) 2023 Projected Implementation of Integrity Business Policy Report:</p> <p>A. Continue to amend the measures related with the integrity management policy according to the actual needs of the company and in line with the revision of laws and regulations.</p> <p>B. Continue to publicize relevant laws and regulations such as “Prevention of Insider Trading” and “Insider Equity Trading” to directors.</p> <p>C. Continue to strengthen ethical training for employees and ask employees to continue to sign the Phison Electronic Business Conduct and Ethical Code of Conduct Commitment Statement.</p> <p>(4) Establishing a whistle-blowing mechanism: The tip-off system and whistle blower protection</p> <p>The Company has established a specific tip-off system in the "Corporate Governance Best Practice Principles", "Ethical Corporate Management Best Practice Principles ", "Code of Conduct" and "Ethical Corporate Management Best Practice Principles" to actively prevent dishonest behavior and encourage internal and external personnel to report dishonest behavior or misconduct. The Stakeholder Zone on the Company's website provides an effective means of communication among employees, shareholders, stakeholders, and outsiders. If a report involves a director or senior</p>				

Evaluation Item	Implementation Status			Deviations from “the Ethical Corporate Management Best- Practice Principles for TWSE/TPEX Listed Companies” and Reasons
	Yes	No	Abstract Illustration	
executive, it will be reported to the Board of Directors, and a whistle blower protection system has been established to keep the identity and content of the whistle blower confidential and to protect the whistle blower from improper treatment as a result of the report. The Company has not received any prosecution cases in 2022 and up to date.				
6. Other important information to facilitate a better understanding of the company’s ethical corporate management policies (e.g., review and amend its policies). The Company has established the "The Procedures of Measures to Prevent Insider Trading" and "The Audit Procedures of Measures to Prevent Insider Trading". In the "Management Operation of Avoiding Insider Trading", there are provisions for "How to Define the Internal Critical Information Affecting Stock Price" and "Confidential Operation and Trading Prohibition Before the Internal Critical Information is Announced", etc. From time to time, the Company will educate its directors, managers and employees on the management procedures for prevention of insider trading and related laws and regulations in writing, by e-mail or by relaying the latest legal information.				

3.4.7 If the Company has established the regulations of corporate governance and relevant regulations, the inquiry access shall be disclosed :

The Company has established the regulations of corporate governance and relevant regulations. For inquiries, please visit the Company’s website: www.phison.com Investors／Corporate Governance／Major internal rule.

3.4.8 Other Important Information Regarding Corporate Governance

Advanced Training of Directors in 2023

Title	Name	Date of Assumed	Date of Further Training		Sponsoring Organization Course	Course Training Hours	Training Hours Training Hours in 2023	Training Hours in 2023 Title
			From	To				
Legal person Representative director	Wee Kuan Gan	2023/05/31	2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Legal Compliance Regarding Mergers	3.0	6
			2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Pension of Insider Trading	3.0	
Director	Tzung Horng Kuang	2023/05/31	2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Legal Compliance Regarding Mergers	3.0	6
			2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Pension of Insider Trading	3.0	
Director	Jiunn Yeong Yang	2023/05/31	2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Legal Compliance Regarding Mergers	3.0	6
			2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Pension of Insider Trading	3.0	
Legal person Representative director	Chiu An Chuang	2023/5/31	2023/8/23	2023/8/23	Taipei Exchange	Seminar on the Shareholding of Listed/Registered Companies	3.0	18
			2023/9/28	2023/9/28	Securities and Futures Institute	Financial technology and supervision technology trends and practices	3.0	
			2023/9/28	2023/9/28	Securities and Futures Institute	Practical discussion on money laundering prevention and combating terrorism financing	3.0	
			2023/9/28	2023/9/28	Securities and Futures Institute	Fair Hospitality and Financial Consumer Protection	3.0	

Title	Name	Date of Assumed	Date of Further Training		Sponsoring Organization Course	Course Training Hours	Training Hours Training Hours in 2023	Training Hours in 2023 Title
			From	To			in 2023	
			2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Legal Compliance Regarding Mergers	3.0	
			2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Pension of Insider Trading	3.0	
Legal person Representative director	Hiroshi Miyauchi	2023/05/31	2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Legal Compliance Regarding Mergers	3.0	6
			2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Pension of Insider Trading	3.0	
Independent Director	Huei Ming Wang	2023/05/31	2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Legal Compliance Regarding Mergers	3.0	6
			2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Pension of Insider Trading	3.0	
Independent Director	Chen Wei Wang	2023/05/31	2023/7/18	2023/7/18	Accounting Research and Development Foundation	2023 Transformation Finance and Sustainability Disclosure Seminar	3.0	6
			2023/9/21	2023/9/21	Taiwan Corporate Governance Association	Current status of global carbon rights development and carbon trading	3.0	
Independent Director	Yu Lun Huang	2023/05/31	2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Legal Compliance Regarding Mergers	3.0	6
			2023/11/7	2023/11/7	Taiwan Corporate Governance Association	Pension of Insider Trading	3.0	

3.4.9 Implementation of Internal Control

1. Statement of Internal Control

PHISON ELECTRONICS CORPORATION Internal Control System Statement

Date: March 8, 2024

The Company states the following with regard to its internal control system during fiscal year 2023, 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 (herein below, 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, 2023 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 8, 2024, where none of the eight attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

PHISON ELECTRONICS CORPORATION

Wee Kuan Gan, Chairman

Chung Hsun Ma, President

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

3.4.10 Punishment by laws or publication by internal control system in recent years and as of the date of publication of this annual report, and punishment, major deficiencies and improvements shall be listed where the punishment may have significant impact on shareholders' equity or securities price: None.

3.4.11 Major Resolutions of Shareholders' Meeting and Board of Directors in Recent Years and as of the Date of Publication of this Annual Report

3.4.11.1 Major Resolutions of Shareholders' Meeting

Date	Major Resolutions of Shareholders' Meeting	Implementation
2023.05.31	Approval of the Company's 2022 Business Report and Financial Statements	The resolution outcome has been adhered to.
	Approval of the Company's 2022 earning distribution	The record dates for the ex-dividend date for shareholders' cash dividend for the first half of 2022 and the second half of 2022 have been set as December 19, 2022 and July 4, 2023, respectively, and will be distributed on January 6, 2023 and July 31, 2023. (Cash dividends per share of NT\$10.27746561 and NT\$4.45090808.)
	Election of nine directors (including three independent directors) for the tenth term <u>List of Directors Elected:</u> Director: Cheng He Investment Co., Ltd. Representative: Wee Kuan Gan Director: Chee Kong Aw Yong Director: Tzung Horng Kuang Director: Cheng Shuo Investment Limited Representative: Chiu An Chuang Director: Jiunn Yeong Yang Director: Trusted Investment Account of KIOXIA Corp. by First Bank (KIOXIA Corporation) Representative: Hiroshi Miyauchi <u>List of Independent Directors Elected:</u> Independent Director: Chen Wei Wang Independent Director: Yu Lun Huang Independent Director: Huei Ming Wang	The tenth term of office of the Directors was assumed on May 31, 2023, for a period of three years commencing from May 31, 2023 to May 30, 2026, totaling three years. Registered on June 14, 2023, as approved by the Ministry of Economic Affairs.
	Approval of the Company propose to conduct the private placement of common shares	The Company has been resolved not to continue the private placement common shares approved by 2023 annual shareholders' meeting on March 8, 2024 in the Board of Directors and will be reported to the 2024 shareholders' meeting.
	Approval of release the non-compete restrictions on the Company's Directors	Non-compete restrictions on newly appointed Directors have been released.

3.4.11.2 Important Resolutions by Board Meetings

Date of the Meeting	Resolution
2023.05.18	Plan to lease a portion of land and the above-ground buildings at No. 620, Section 6, Zhonghua Road, Hsinchu City
2023.05.31	To elect a new chairman of the Tenth Term Board of Directors of the Company
2023.07.05	For the matter regarding the exercised FY2019 and FY2020 employee stock options to be registered to new common shares
	The company proposes the third round of buyback its shares for transferring to its employees
	Appointment of members of the 5th Remuneration Committee of the Company
2023.07.28	Regular performance evaluation of the Company's Directors and Managers, Managerial performance incentive bonus, and remuneration to Directors and Managers for 2022
	Deliberation on the employee stock trust plan proposed by the Company
2023.08.04	The Company's 2023 Six Months Financial Statements and the business operation report
	Adoption of the Proposal for Profits Distribution of Six Months Ended June 30, 2023
	Adoption of the Proposal for second cash dividend distribution of Six Months Ended June 30, 2023
	To discuss and approve the Revision of Company's 2023 business plan
	The credit line of banks for the Company
	The trading line of foreign exchange and derivatives for the Company
	The appointment of new president of the Company
2023.11.07	The Company's 2023 Nine Months Financial Statements
	The company proposed to issue the 2 nd domestic unsecured convertible bonds
	The credit line of banks for the Company
	The trading line of foreign exchange and derivatives for the Company
	The Company proposed to engage in exchange SWAP transactions
	For the matter regarding the exercised FY2019 and FY2020 employee stock options to be registered to new common shares
	The company proposes to issue "Regulation of the 2023 Employee Stock Option Plan"
	Review the revised articles of "Rules of Share Repurchase and Transferring to the Employees"
	It is hereby submitted to the Board's resolution associated with Phison's planning to enter into Prepayment Agreement with the supplier Kioxia Taiwan

Date of the Meeting	Resolution
	Corporation that, Phison fulfills One Hundred and Twenty Million United States Dollars (“Prepayment”) to secure Kioxia Taiwan’s supplying required volume of NAND flash memory in 2024
	Proposal of the 2024 Annual Audit Plan
	Second-term members list of the Corporate Sustainable Development Committee
	Second-term members list of the Risk Management Committee
2024.01.18	Amendment to certain articles of the Company's “Risk Management Policy and Procedure”
	The performance evaluation for managerial officers as well as the proposal for the Year-End and Performance Incentive Bonus for managerial officers
	Review of the amendment of certain articles of the Regulation of the 2023 Employee Stock Option Plan
	The appointment of new internal audit officer of the Company
	Amendment to part of the “Authorizing Table”
	For the matter regarding the exercised FY2019 and FY2020 employee stock options to be registered to new common shares
	The Company proposes to increase the investment in the subsidiary of the Company, Power Flash (Samoa) Limited, and through the subsidiary Power Flash (Samoa) to set up a new subsidiary Power Storage Electronic (Xiamen) Limited in Xiamen, Fujian Province, China
	The Company evaluated the appointed CPAs independence and suitability
	The Company changes the CPA in accordance with the internal business adjustment of KPMG Taiwan
2024.03.08	The employees’ compensation and directors’ compensation of the year of 2023
	The Company’s Business Report and Financial Statements for the year of 2023
	The Earnings Distribution Proposal of the year of 2023
	The Proposal for second cash dividend distribution of the year of 2023
	The Company’s Business Plan for the year of 2024
	To amend the Accounting System Regulations
	The credit line of banks for the Company
	The trading line of foreign exchange and derivatives for the Company
	To amend the partial articles of “Regulations Governing Procedure for Board of Directors Meetings” of the Company
	To amend the partial articles of “Procedures for Applications for Halt and Resumption of Trading” of the Company

Date of the Meeting	Resolution
	To amend the partial articles of “Standard Operating Procedures for handling requests made by Directors” of the Company
	The Company propose to resolve not to continue the private placement common shares approved by 2023 annual shareholders’ meeting
	The Company propose to resolve not to continue the private placement of 18,000,000 common shares approved by 2023 annual shareholders’ meeting
	The Company proposes to donate and construct a new building on the designated site at the National Yang Ming Chiao Tung University Tainan Branch
	The 2023 Statement on Internal Control
	Reviewing the remuneration of board of directors and the employee compensation for managerial officers during 2023
	The company proposes the second transfer for the third round of buyback its shares for transferring to its managerial officers
	The company proposes the second transfer for the third round of buyback its shares for transferring to its employees
	Proposal of by-election of one director of the Company
	The agenda of the Company’s 2024 Annual Shareholders’ Meeting
2024.04.10	For the matter regarding the Domestic Unsecured Convertible Corporate Bonds to be registered to new common shares
	Amendment to part of the "Management of the Use of seal " of the Company
	Early termination of the lease agreement with sub-subsidiary, Super Storage Technology Corporation, for the building on the 4th floor
	The company proposes intends to discuss the construction of a new building project on the campus of National Yang Ming Chiao Tung University in Tainan Branch
	The company proposes to donate and construct a new building on the designated site at the National Yang Ming Chiao Tung University Zhubei Liujia Campus Branch
	The Company’s Board of Directors propose to nominate and review the list of candidates for the by-election of one director at the 2024 annual shareholders’ meeting
	To release the non-compete restrictions on the Company’s Directors

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

3.4.13 Resignation or Dismissal of the Company's Key Individuals, Including the Chairman, CEO, and Heads of Accounting, Finance, Internal Audit and R&D:

Position	Name	Date of Assumption of Duty	Date of Dismissal	Reasons for Resignation or Dismissal
President	Chee Kong Aw Yong	2008.10.01	2023.08.04	Personal career development
Deputy Manager (Internal Audit Officer)	Cheng Ping Huang	2016.01.30	2023.11.30	Personal career development

3.5 Information Regarding the Company's CPA fees

Unit: NT\$ thousand

Accounting Firm	Name of CPA	Audit Period	Audit fee	Non-audit fee	Total	Note
KPMG	Chien Hui Lu An Chih Cheng	2023.01.01~ 2023.12.31	7,300	2,158	9,458	[Note]

[Note] Non audit expenses are mainly used to pay: Tax certificate, order transfer pricing reports, country-by-country reports and other consulting service costs etc.

3.5.1 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.

3.5.2 The audit fee is less than that of the previous year by 10%, 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 Where the former CPA holds different opinions about the sending of letter of stipulated matters in 10.6.1 and 10.6.2.3 in the Regulations Governing Information to be Published in Annual Reports of Public Companies to the former CPA, and notification of CPAs, the reply shall be made within ten days. The Company shall disclose the reply of the former CPA: Not applicable.

3.7 The Company's chairman, 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, Management Team and Major Shareholders Who Own 10% of the Stock in the Most Recent Year and as of the Publication Date of the Annual Report

3.8.1 Equity transfer or changes to equity pledge of directors, managerial officers, or shareholders holding more than 10% of company shares

Title	Name	2023		As of April 30, 2024	
		Current shareholding Increase (Decrease)	Pledged Shareholding Increase (Decrease)	Current shareholding Increase (Decrease)	Pledged Shareholding Increase (Decrease)
Chairman/Representative of Director Chenghe Investment Co., Ltd. /Vice President	Wee Kuan Gan	25,000	-	30,000	-
Director	Cheng He Investment Co., Ltd.	20,000	-	-	-
Director/ President	Chee Kong Aw Yong (Note 1)	1,000,000	-	N/A	N/A
Director	Tzung Horng Kuang	10,000	-	6,000	-
Director	Jiunn Yeong Yang	-	-	-	-
Director	Cheng Shuo Investment Limited	30,000	-	50,000	-
Representative of Cheng Shuo Investment Limited	Chiu An Chuang (Note 2)	-	-	-	-
Representative of Cheng Shuo Investment Limited /Vice Technical President	Chih Jen Hsu (Note 2)	10,000	-	10,000	-
Director	KIOXIA Corporation	-	-	-	-
Representative of KIOXIA Corporation, a director	Hiroshi Miyauchi	-	-	-	-
Independent Director	Chen Wei Wang	-	-	-	-
Independent Director	Wen Chiu Chung (Note 2)	-	-	-	-
Independent Director	Yu Lun Huang	-	-	-	-
Independent Director	Huei Ming Wang (Note 2)	-	-	-	-
President	Chung Hsu Ma (Note 1)	55,000	-	55,000	-
CEO	Khein Seng Pua	615,500	-	225,000	-
Vice President	Kuo Yi Cheng	55,000	-	32,000	-
Head of Finance and Accounting Department (Director)	Pao Feng Chen	18,000	-	8,000	-
Senior Special Asst. & COO	Zhi Chyang Yu	65,000	-	40,000	-

Note 1: Mr. Chee Kong Aw Yong resigned as president on August 4, 2023, and was replaced by Mr. Chung Hsun Ma; Mr. Chee Kong Aw Yong was resigned the directorship on November 7, 2023.

Note 2: The term of directors of the Company expired and comprehensive re-election on May 31, 2023. The representative of director Cheng Shuo Investment Limited was reassigned from Chih Jen Hsu to Chiu An Chuang, the Independent Director Wen Chiu Chung stepped down, Independent Director Huei Ming Wang is newly appointed.

3.8.2 Shares Trading with Related Parties: None.

3.9 Relationship among the Top Ten Shareholders

March 29, 2024

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 of Kinship		Remark
	Number of Shares (Shares)	Shareholding (%)	Number of Shares (Shares)	Shareholding (%)	Number of Shares (Shares)	Shareholding (%)	Description (or Name)	Relation	
Trusted Investment Account of KIOXIA Corp. by First Bank Representative: Hiroshi Miyauchi	19,821,112	9.68	N/A	N/A	1,000	0.00	None	None	None
	0	0.00	0	0.00	0	0.00	None	None	None
Norges Bank-fund mgr Blackrock Investment Management (Taiwan) Limited	6,744,504	3.29	N/A	N/A	N/A	N/A	None	None	None
Khein Seng Pua	6,013,972	2.94	806,262	0.39	4,854,144	2.37	None	None	None
New Labor Pension Fund	5,176,150	2.53	N/A	N/A	N/A	N/A	None	None	None
Jiunn Yeong Yang	4,549,114	2.22	0	0.00	0	0.00	None	None	None
Chee Kong Aw Yong	4,402,000	2.15	No information accessible						
Government of Singapore	3,889,000	1.90	N/A	N/A	N/A	N/A	None	None	None
Fubon Life Insurance Co., Ltd. Chairman: Fook Sing Lin	3,577,000	1.75	N/A	N/A	N/A	N/A	None	None	None
	No information accessible								
Morgan Stanley & Co. International Plc	2,679,172	1.31	N/A	N/A	N/A	N/A	None	None	None
Mizuho Securities Co., Ltd.	2,553,090	1.25	N/A	N/A	N/A	N/A	None	None	None

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

December 31, 2023, Unit: share, %

Name of the Investment Company	Name of be Reinvested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by the Company		Consolidated Investment	
		Number of Shares	Shareholding (%)	Number of Shares	Shareholding (%)	Number of Shares	Shareholding (%)
The Company	Emtops Electronics Corporation	38,000,000	100.00	0	0.00	38,000,000	100.00
The Company	Lian Xu Dong Investment Corporation	65,000,000	100.00	0	0.00	65,000,000	100.00
The Company	Microtops Design Corporation	2,263,800	49.00	2,356,200	51.00	4,620,000	100.00
The Company	Phison Electronics Japan Corp.	2,000	100.00	0	0.00	2,000	100.00
The Company	Global Flash Limited	22,100,000	100.00	0	0.00	22,100,000	100.00
The Company	EpoStar Electronics (BVI) Corporation	6,288,523	30.51	0	0.00	6,288,523	30.51
The Company	Phisontech Electronics Taiwan Corp.	55,000,000	100.00	0	0.00	55,000,000	100.00
The Company	Power Flash (Samoa) Limited	4,800,000	100.00	0	0.00	4,800,000	100.00
The Company	Regis Investment (Samoa) Limited	21,900,000	100.00	0	0.00	21,900,000	100.00
The Company	ProGrade Digital Inc.	2,785,000	28.71	0	0.00	2,785,000	28.71
The Company	Nextorage Corporation	12,000	100.00	0	0.00	12,000	100.00
The Company	Phison Technology India Private Limited	2,299,990	100.00	0	0.00	2,299,990	100.00
Lian Xu Dong Investment Corporation	Ostek Corporation	900,000	100.00	0	0.00	900,000	100.00
Emtops Electronics	Phison Technology Inc.	3,000,000	100.00	0	0.00	3,000,000	100.00

Name of the Investment Company	Name of be Reinvested Company	By Company		By Company, Directors, Supervisors, Management Team and Businesses Controlled Directly or Indirectly by the Company		Consolidated Investment	
		Number of Shares	Shareholding (%)	Number of Shares	Shareholding (%)	Number of Shares	Shareholding (%)
Corporation							
Emtops Electronics Corporation	Phison Technology India Private Limited	10	0.00	0	0.00	10	0.00
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	34,842,595	100.00	0	0.00	34,842,595	100.00
Global Flash Limited	Core Storage Electronic (Samoa) Limited	19,150,000	100.00	0	0.00	19,150,000	100.00
Power Flash (Samoa) Limited	Power Flash (HK) Limited	3,000,000	100.00	0	0.00	3,000,000	100.00
Power Flash (Samoa) Limited	Power Storage Technology (Shenzhen) Limited	[Note 1]	100.00	0	0.00	[Note 1]	100.00
Regis Investment (Samoa) Limited	RealYou Investment Limited	21,850,000	100.00	0	0.00	21,850,000	100.00
RealYou Investment Limited	Hefei Ruhan Electronic Technology Limited	[Note 2]	100.00	0	0.00	[Note 2]	100.00
Hefei Ruhan Electronic Technology Limited	Hefei Xinpeng Technology Co., Ltd.	[Note 3]	24.23	0	0.00	[Note 3]	24.23
RealYou Investment Limited	HOSIN Global Electronics Co., Ltd. (SZ)	50,000,000	11.30	0	0.00	50,000,000	11.30
Core Storage Electronic (Samoa) Limited	HOSIN Global Electronics Co., Ltd. (SZ)	108,594,900	24.53	1,000,000	0.23	109,594,900	24.76

[Note 1] Investment of CNY 10,000 thousand /NT\$ 43,520 thousand.

[Note 2] Investment of CNY 40,800 thousand /NT\$ 182,825 thousand.

[Note 3] Investment of CNY 40,000 thousand /NT\$175,460 thousand.

Chapter 4

Capital Overview



Chapter 4 Capital Overview

4.1 Capital and Shares

4.1.1 Source of capital

4.1.1.1 Issued Shares

Unit: NT\$, shares

Year and month	Issue price	Authorized capital		Paid-in capital		Remarks		
		Number of Shares	Amount	Number of Shares	Amount	Source of capital	Capital increased by assets other than cash	Other (Verification date and Letter No.)
2023.02	10	300,000,000	3,000,000,000	198,658,493	1,986,584,930	Capital increased by employee stock option: NT\$15,845,000	None	This capital increase was approved by the Ministry of Economic Affairs on February 2, 2023 with Letter No. Shan 11230013150
2023.05	10	300,000,000	3,000,000,000	199,609,493	1,996,094,930	Capital increased by employee stock option: NT\$9,510,000	None	This capital increase was approved by the Ministry of Economic Affairs on May 17, 2023 with Letter No. Shan 11230081850
2023.07	10	300,000,000	3,000,000,000	201,418,493	2,014,184,930	Capital increased by employee stock option: NT\$18,090,000	None	This capital increase was approved by the Ministry of Economic Affairs on July 24, 2023 with Letter No. Shan 11230134760
2023.11	10	300,000,000	3,000,000,000	204,468,993	2,044,689,930	Capital increased by employee stock option: NT\$30,505,000	None	This capital increase was approved by the Ministry of Economic Affairs on November 27, 2023 with Letter No. Shan 11230218260
2024.02	10	300,000,000	3,000,000,000	204,768,993	2,047,689,930	Capital increased by employee stock option: NT\$3,000,000	None	This capital increase was approved by the Ministry of Economic Affairs on February 20, 2024 with Letter No. Shan 11330018110
2024.04	10	300,000,000	3,000,000,000	204,779,768	2,047,797,680	Capital increased by domestic unsecured convertible corporate bonds: NT\$107,750	None	This capital increase was approved by the Ministry of Economic Affairs on April 30, 2024 with Letter No. Shan 11330065500

4.1.1.2 Stock class

March 29, 2024; Unit: shares

Stock class	Authorized capital			Remark
	Outstanding shares	Unissued shares	Total	
Common stock	204,779,768	95,220,232	300,000,000	TPEX shares

4.1.1.3 Information for Shelf Registration: None.

4.1.2 Shareholder Structure

March 29, 2024

Number \ Shareholder Structure	Government agencies	Financial institutions	Other institutional shareholders	Domestic natural persons	Foreign institutions & natural persons	Total
Number of shareholders	5	43	392	35,117	573	36,130
Current shareholding (shares)	8,755,210	9,989,539	22,130,871	61,351,908	102,552,240	204,779,768
Shareholding (%)	4.28	4.88	10.81	29.96	50.07	100.00

4.1.3 Shareholding Distribution Status

March 29, 2024

Shareholding range	Number of shareholders	Current shareholding (shares)	Percentage (%)
1 to 999	24,192	1,841,865	0.90
1,000 to 5,000	9,761	17,426,408	8.51
5,001 to 10,000	886	6,834,079	3.34
10,001 to 15,000	316	4,039,743	1.97
15,001 to 20,000	202	3,615,664	1.77
20,001 to 30,000	210	5,305,193	2.59
30,001 to 40,000	106	3,731,353	1.82
40,001 to 50,000	67	3,083,075	1.51
50,001 to 100,000	159	11,279,453	5.51
100,001 to 200,000	103	14,654,117	7.16
200,001 to 400,000	55	15,725,076	7.68
400,001 to 600,000	27	13,644,898	6.66
600,001 to 800,000	7	4,908,997	2.40
800,001 to 1,000,000	8	7,066,262	3.45
> 1,000,001	31	91,623,585	44.74
Total	36,130	204,779,768	100.00

[Note1] All the shares of the Company are common stocks, no preferred stock is issued.

4.1.4 List of Major Shareholders

March 29, 2024

Major shareholder's name	Stock	Current shareholding (shares)	Percentage (%)
Trusted Investment Account of KIOXIA Corp. by First Bank		19,821,112	9.68
Norges Bank-fund mgr Blackrock Investment Management (Taiwan) Limited		6,744,504	3.29
Khein Seng Pua		6,013,972	2.94
New Labor Pension Fund		5,176,150	2.53
Jiunn Yeong Yang		4,549,114	2.22
Chee Kong Aw Yong		4,402,000	2.15
Government of Singapore		3,889,000	1.90
Fubon Life Insurance Co., Ltd		3,577,000	1.75
Morgan Stanley & Co. International Plc		2,679,172	1.31
Mizuho Securities Co., Ltd		2,553,090	1.25

4.1.5 Market Price, Net Worth, Earnings, Dividend and Related Information over the Last Two Years

Unit: NT\$

Item			Year	2022	2023	As of April 30, 2024
Market price per share	Highest			545.00	549.00	785.00
	Lowest			248.00	312.00	480.00
	Average			390.05	426.28	624.98
Net worth per share	Before distribution			196.19	213.32	-
	After distribution			191.67	204.48 (Note)	-
Earnings per share	Weighted average shares (thousand shares)			194,935	196,176	-
	EPS	Before adjustment		27.71	18.48	-
		After adjustment		27.71	18.48	-
Dividends per share	Cash dividends (Note 2)			14.72837369	13.26484464	-
	Free allotment	Dividends from retained earnings		-	-	-
		Dividends from capital surplus		-	-	-
	Cumulative unpaid dividends			-	-	-
Investment Compensation Analysis	Price/Earnings ratio (Note 3)			14.08	23.07	-
	Price/Dividends ratio (Note 4)			26.48	32.14	-
	Cash Dividend Yield Rate (Note 5)			3.78	3.11	-

Note 1: Book value per share = Shareholders' equity / Total number of shares outstanding. Shareholders' equity is calculated by deducting the cash dividends of NT\$1,773,262 thousand from the Company's earnings distribution for the second half of 2023, approved by the Board of Directors on March 8, 2024.

Note 2: The Company's earnings distribution for the second half of 2023, approved by the Board of Directors on March 8, 2024, the proposed cash dividend per share is NT\$8.84. The actual amount of cash dividends to be distributed per share will be calculated based on the actual total number of shares in circulation on the ex-dividend date. The Company's cash dividends from the second half of 2023 earnings have not yet been distributed, and the Chairman is authorized to set the ex-dividend date, the payment date, and related matter.

Note 3: P/E Ratio = Current average closing price per share/earnings per share

Note 4: Price/dividend ratio = Current average closing price per share/cash dividends per share

Note 5: Cash dividend yield rate = Cash dividends per share/average market price

4.1.6 Dividend Policy and Implementation Status

4.1.6.1 Dividends Policy on the Articles of Incorporation of the Company:

Based on Article 19.1 of the Articles of Incorporation 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. In accordance with law or the competent authority, the Company shall also appropriate or reverse special reserves. The remaining earnings, together with unappropriated retained earnings would be reversed appropriately by the Board of Directors based on actual operating conditions, and then a proposal for surplus distribution will be formulated and subsequently be submitted to the meeting of shareholders for its ratification.

If the earnings, statutory surplus reserve and capital reserve mentioned in the preceding paragraph are distributed in cash, the board of directors shall be authorized to distribute the same with the resolution of more than two-thirds of the directors present and a majority of the directors present, and report to the shareholders' meeting, when such distribution is made by issuing new shares, distribution shall be made upon submission to the shareholders' meeting for resolution.

The Company's earnings distribution or loss appropriation shall be made after the end of each semi-financial year. Before distributing the earnings, the taxable contributions shall be estimated and retained to make up for the accumulated losses, and the remuneration for employees and directors shall be estimated and retained in accordance with the provisions of Paragraph 1 under Article 19, and then 10% thereof shall be appropriated as statutory surplus reserve. When the accumulated statutory surplus reserve has reached the total paid-in capital of the Company, this limit is not applicable, and special surplus reserve shall be appropriated or reversed according to laws or regulations of the competent authority. For the remained earnings, including accumulated undistributed earnings at the beginning of the same period, a proposal shall be prepared by the board of directors and distribution shall be made in cash, and the board of directors shall be authorized to distribute

the same with the resolution of more than two-thirds of the directors present and a majority of the directors present, and report to the shareholders' meeting, when such distribution is made by issuing new shares, distribution shall be made upon submission to the shareholders' meeting for resolution.

The Company's policy on distribution of dividends shall comply with the laws and regulations and the Articles of Incorporation, and is required to take into account the Company's current and future domestic and overseas industrial competition, investment environment, working capital demand and capital budget and other factors, taking into account shareholders' rights and interests, balancing dividends and the company's long-term financial situation Planning, etc., to promote sustainable operation and stable development. The dividend distributed to shareholders of the Company can be distributed in cash or shares, of which the proportion of shareholders' cash dividend distribution shall be no less than 10% of the total dividends to the shareholders.

4.1.6.2 Dividend distribution proposed by the board of directors this year:

The Company's cash dividends from earnings in 2023 is as follows:

2023	Date of the resolution of the Board (month/day/year)	Date of distribution (month/day/year)	Cash dividend per share (NT\$)	Total amount of cash dividend (NT\$)
H1	08/04/2023	01/19/2024	4.42484464 (Note 2)	887,555,219
H2	03/08/2024	Not yet decided	8.84 (Note 3)	1,773,262,169
Total				2,660,817,388

Note 1: Cash dividends were approved by the Board of Directors and to be reported at the Annual Shareholders' Meeting.

Note 2: The distribution amount per share is calculated based on the actual total number of outstanding shares adjusted for the ex-dividend date.

Note 3: Based on the Company's actual total number of 200,595,268 outstanding shares as of January 31, 2024, and the proposed cash dividend per share is NT\$4.5. The actual amount of cash dividends to be distributed per share will be calculated based on the actual total number of shares in circulation on the ex-dividend date, and will be distributed in accordance with the shares held by the shareholders listed in the shareholders' register on the ex-dividend date. The cash dividends are calculated up to NT\$1. Decimal points are rounded down and the uncounted shares in fractions of NT\$1 shall be transferred to the Company's Employee Benefits Committee.

4.1.6.3 Anticipated material changes in dividend policy: None.

4.1.7 Effects of the dividends distribution on the operation performance and EPS of the Company: Not applicable.

4.1.8 Compensation for Employees and Directors

4.1.8.1 The percentage or range of remuneration for employees and directors as stated in the Company's Articles of Incorporation

According to Article 19 of the Articles of Incorporation of the Company, "If the Company makes profits in the year, it shall appropriate 8% to 19% for employees' compensation and no more than 1.5% for directors compensations." But the Company shall reserve a portion of profit to make up for accumulated losses, if any. Employee's remuneration may be distributed in shares or cash, and compensation of directors shall be paid in cash. The term "profit" as "pre-tax profits before deducting the distributed employees and directors' remuneration." Employee and director remuneration allocation must be approved by the board of directors in a meeting attended by more than two-thirds of all board members, where half of the attending directors approve. The remuneration resolution shall be reported in the annual general meeting.

4.8.1.2 The basis for estimating the amount of employee and director, 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 2023.

(1) The basis for estimating the remuneration to employees and directors in 2023:

Remuneration to employees and directors is based on the Company's profit of NT\$4,992,965 thousand in 2023 (profit refers to the profit before tax and before deducting the remuneration payment from profit to employees, directors). Remuneration to employees amounted to NT\$930,000 thousand (accounting for 18.63% of the profit for 2023) and remuneration to directors amounted to NT\$23,000 thousand (accounting for 0.46% of the profit for 2023) was distributed, all in cash.

(2) Basis for calculating the number of shares for stock remuneration to employees:
Not applicable.

(3) Difference is Adjusted by Accounting Principles:

If difference exists between the actual allocation amount and estimated number, it shall be treated based on accounting estimation changes and adjusted and recorded in the account in the following year.

4.1.8.3 Proposed compensation approved by the Board of Directors

- (1) The amount of remuneration paid to employees and directors in cash or stocks. 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.

On March 8, 2024, the board of directors of the Company passed the resolution on the distribution of remuneration to employees and directors for 2023 to distribute NT\$930,000 thousand as remuneration to employees and NT\$23,000 thousand as remuneration to directors, all in cash. There is no material difference between the allotted remuneration to employees and directors upon resolution and the estimated amount recognized and listed as the annual expense.

- (2) The ratio of the stock remuneration distributed to employees to the total net profit after tax and total remuneration to employees for the current period: Not applicable.

4.1.8.4 Information on distribution of compensation (including the distributed number of shares, amount and share price) to employees, directors for the previous year, and, if there are any discrepancies between the actual distribution and the recognized employee, director compensation, and the discrepancy, cause, and its treatment:

The differences between the remuneration distributed by the Company to employees, directors in 2022 and the estimated and listed expenses for the year are stated as follows:

Unit: NT\$

Distribution Item	Amounts approved in Board meetings	Annual amount estimate recognition	Difference	Reasons for discrepancy and processing method
Employee Compensation-Cash	1,000,000,000	1,000,000,000	0	None
Remunerations to the Directors	35,000,000	35,000,000	0	

4.1.9 Repurchase of shares by the Company:

May 8, 2024

Sessions of share repurchase	The 3th time (first time of 2022)
Purpose of share repurchase	Transfer shares to employees
Share repurchase period	Scheduled : 2022/07/18~2022/09/16 Actual : 2022/08/01~2022/09/16
Share repurchase price range	NT\$200 to NT\$325
Scheduled repurchase quantity	10,000,000 shares of common shares
Type and actual number of shares repurchase	6,860,000 shares of common shares
Total amount of share repurchase (Note 1)	NT\$2,062,085,190
Average price per share of share repurchase (Note 1)	NT\$300.60
The ratio of repurchased quantity in scheduled repurchase quantity	68.60%
Number of shares retired and transferred	The Company has transferred 6,860,000 shares to employees at a price of NT\$300.6 per share.
Cumulative number of shares held by the Company	0 share
Percentage of cumulative number of shares held in total number of issued shares	0.00%

4.2 Status of Corporate Bonds:

Status of Corporate Bonds

Corporate Bond Class	The first domestic unsecured convertible corporate bonds	The second domestic unsecured convertible corporate bonds
Date of issuance (treatment)	December 17, 2021	January 23, 2024
Face value	NT\$ 100,000	NT\$ 100,000
Location of issuance and trading	Issued within the territory of the Republic of China	Issued within the territory of the Republic of China
Issue price	Issued at 100.5% of face value	Issued at 101% of face value
Total amount	NT\$ 3,500,000,000	NT\$ 6,000,000,000
Interest rate	Nominal interest rate 0%	Nominal interest rate 0%
Term	Three years ; Expiry date : December 17, 2024	Five years ; Expiry date : January 23, 2029
Guarantor	None	None
Trustee	Taipei Fubon Commercial Bank Co., Ltd.	Taipei Fubon Commercial Bank Co., Ltd.
Underwriter	Horizon Securities Corp.	KGI Securities Co. LTD.
Certified Lawyer	Aequitas Law Firm Lawyer Li Ru Chang Chien	Aequitas Law Firm Lawyer Li Ru Chang Chien
CPA	Deloitte & Touche Li Wen Kuo, Chen Pei De	KPMG Chien Hui Lu, Wan Yuan Yu
Repayment terms	Unless the bondholder has converted the bonds into the common stock of the Company in accordance with Article 10 of the Regulations for the Issuance and Conversion of the First Domestic Unsecured Convertible Corporate Bonds, or the Company has redeemed the bonds in advance in accordance with Article 18 of the Regulation, or the Company has repurchased and canceled the convertible corporate bonds at the business offices of securities firms, the Company shall repay the convertible corporate bonds in cash in one lump sum according to the face value of the bonds upon maturity. The payment will be made in ten business days (including the tenth business day) after the date of maturity.	Unless the bondholder has converted the bonds into the common stock of the Company in accordance with Article 10 of the Regulations for the Issuance and Conversion of the Second Domestic Unsecured Convertible Corporate Bonds, or has exercised the right to sell the bonds in accordance with Article 19 of the Regulations, or has been redeemed by the Company in advance in accordance with Article 18 of the Regulations, or has been repurchased and cancelled by the Company from securities dealers, the Company will repay the bonds in cash at face value in one lump sum within ten business days (including the tenth business day) from the day following the maturity date of the bonds. If the aforementioned date falls on a day when the Taipei Exchange is closed for business, it will be

			postponed to the next business day.
Outstanding principal	NT\$ 3,494,500,000		NT\$ 6,000,000,000
Terms on Redemption or Prepayment	Please refer to the Company's Regulations for the Issuance and Conversion of the First Domestic Unsecured Convertible Corporate Bonds		Please refer to the Company's Regulations for the Issuance and Conversion of the Second Domestic Unsecured Convertible Corporate Bonds
Restrictions	None		None
Name of the credit rating agency, rating date, corporate bond rating results	None		None
Additional rights	Amount of ordinary shares, overseas depositary receipts or other marketable securities converted (exchanged or subscribed) up to the date of publication of the Annual Report	A total of 55 convertible bonds have been accepted for conversion, amounting to NT\$5.5 million in total, which have been converted into a total of 10,775 common shares.	No conversion situation of this convertible corporate bond.
	Regulations on Issuance and Conversion (Exchange or Subscription)	Please refer to the Company's Regulations on Issuance and Conversion of First Domestic Unsecured Convertible Corporate Bond	Please refer to the Company's Regulations on Issuance and Conversion of Second Domestic Unsecured Convertible Corporate Bond
Regulations on Issuance and Conversion, Exchange or Subscription of shares, issuance conditions which may dilute the equity and impact on existing shareholders' equity		Based on the estimation of the total number of outstanding shares of the Company as of the date of publication of the Annual Report of 204,779,768 shares, where the maximum possible number of convertible ordinary shares of approximate 6,847 thousand shares (Outstanding principal NT\$3,494,500,000/NT\$510.4) are converted from convertible corporate bonds, the estimated dilution of the share capital is about 3.24%, due to the different timing to exercise the conversion	Based on the estimation of the total number of outstanding shares of the Company as of the date of publication of the Annual Report of 204,779,768 shares, where the maximum possible number of convertible ordinary shares of approximate 10,204 thousand shares (Outstanding principal NT\$6,000,000,000/NT\$588) are converted from convertible corporate bonds, the estimated dilution of the share capital is about 4.75%, due to the different timing to exercise the conversion

	right by creditors in the future, the total number of issued shares of the Company will gradually increase during the conversion period of December 17, 2021 to December 17, 2024. The increase rate is not significant and the dilution ratio of the equity interests of existing shareholders is gradual.	right by creditors in the future, the total number of issued shares of the Company will gradually increase during the conversion period of January 23, 2024 to January 23, 2029. The increase rate is not significant and the dilution ratio of the equity interests of existing shareholders is gradual.
Name of the custodian institution for the exchange subject	N/A	N/A

Information of Corporate Bond for Conversion

Corporate Bond Class		The first domestic unsecured convertible corporate bonds		The second domestic unsecured convertible corporate bonds
Year		2023	As of April 30, 2024	As of April 30, 2024
Market price of the corporate bond for conversion	Highest	NT\$ 119.90	NT\$ 153.00	NT\$ 137.00
	Lowest	NT\$ 99.00	NT\$ 113.55	NT\$ 106.15
	Average	NT\$ 111.06	NT\$ 131.89	NT\$ 113.96
Conversion price		From December 29, 2023, the Conversion price has been adjusted from NT\$515.1 to NT\$510.4.		NT\$ 588
Date of issuance and Conversion price at issuance		Date of issuance on December 17, 2021, Conversion price at issuance: NT\$ 570		Date of issuance on January 23, 2024, Conversion price at issuance: NT\$ 588
The way of performing the conversion obligations		For the common shares of the Company, the Company will perform the conversion obligations by issuing new shares. The new common shares for exchange will be transferred and delivered according to the account book, and will not be printed in physical form.		For the common shares of the Company, the Company will perform the conversion obligations by issuing new shares. The new common shares for exchange will be transferred and delivered according to the account book, and will not be printed in physical form.

4.3 Status of Preferred Stocks: None.

4.4 Status of Global Depositary Receipts: None.

4.5 Status of Employee Stock Option Plan:

4.5.1 Unexpired employee stock options shall disclose the processing situation up to the publication date of the annual report and the impact on shareholders' rights and interests:

Type of employee stock option certificate	1st of 2022 Employee stock option certificate	1st of 2023 Employee stock option certificate
Date of effective registration and Total number of units	July 27, 2022 6,000,000 units	December 12, 2023 6,000,000 units
Date of issuance	September 7, 2022	Not issued
Subscription Duration	4 years	5 years
Units Issued	6,000,000 units	0 units
Number of units still available	0 units	6,000,000 units
Ratio of subscription shares to total issued and outstanding shares (%)	2.93%	Not issued
Subscription period	September 7, 2024 ~ September 6, 2026	Not issued
Method for exercising the warrant	Issued by new stocks	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. The option is restricted when the preceding term overlaps with the book closure date.	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, 75% of the option can be traded. Five years after the employee stock option was issued, 100% of the option can be traded. The option is restricted when the preceding term overlaps with the book closure date.
Converted shares	0	Not issued
Exercised amount	0	Not issued
Number of shares yet to be converted	5,813,000 units	Not issued
Subscription price per share for unsubscribed shares	278.80	Not issued
Proportion of unexecuted subscription quantity	2.84%	Not issued

Type of employee stock option certificate	1st of 2022 Employee stock option certificate	1st of 2023 Employee stock option certificate
in total shares issued (%)		
Impact to shareholders' equity	<p>The employee stock options are exercisable after 2 years from the date of issuance, and the cumulative maximum exercise ratios are 50% after 2 years and 100% after 3 years, respectively. The stock options are exercisable in proportions after 2 years, and the total number of issued shares of the Company is gradually increased and the increase ratio is low, and the possible dilution ratio to the original shareholders' shares is gradually diluted, so the dilution effect is still limited.</p>	<p>The employee stock options are exercisable after 2 years from the date of issuance, and the cumulative maximum exercise ratios are 50% after 2 years, 75% after 3 years and 100% after 4 years, respectively. The stock options are exercisable in proportions after 2 years, and the total number of issued shares of the Company is gradually increased and the increase ratio is low, and the possible dilution ratio to the original shareholders' shares is gradually diluted, so the dilution effect is still limited.</p>

4.5.2 The names, acquisitions, and subscriptions of the managerial officers who have obtained the employee stock options and the top ten employees who have obtained the stock options evidence up to the publication date of the annual report:

Unit: NT\$

Title	Name	Number of options shares	Ratio (%) of subscription number obtained in total issued shares (Note 2)	Options exercised				Options unexercised			
				Subscription Number	Subscription Price	Subscription Amount	Ratio (%) of number of shares subscribed in total issued shares (Note 2)	Subscription Number	Subscription Price (Note 1)	Total value of shares exercised	Ratio (%) of number of shares subscribed in total issued shares (Note 2)
Manager	CEO	Khein Seng Pua	167,000	0	0	0	0.00%	167,000	278.8	0	0.08%
	Vice President	Wee Kuan Gan									
	President (Note 3)	Chung Hsun Ma									
	Vice President	Kuo Yi Cheng									
	Vice Technical President	Chih Jen Hsu									
	Senior Special Asst. & COO	Zhi Chyang Yu									
	Head of Finance and Accounting Department (Director)	Pao Feng Chen									
Employee	PHISON TECHNOLOGY INC.(USA) President	Zong Cheng Wu	499,000	0	0	0	0.00%	499,000	278.8	0	0.24%
	Senior Director & CIO	Shu Hua Chiu									
	Director	Zhi Ming Chen									
	Director	Jia Yuan Chang									
	Director	Zhi Gang Ye									
	Deputy Director	Pei Ru Lin									
	Deputy Director	Yu Wei Kuo									
	Deputy Director	Jia Bin Su									
	Deputy Director	Jian Ming Lin									
	Deputy Director	Qing Cong Chen									
	Deputy Director	Wen Long Zheng									
	Manager	Dong Yang Zhou									
	Deputy Manager	Sei Yo Sun									
	Senior Special Asst.	Yu Ming Kang									
	Special Ass.	Ning Xue Chang									

Note 1: The Company established "Measures for Issuance and Subscription of Employee Stock Option Certificate in 2022". The first issuance date of employee stock option was September 7, 2022, with the original issuance price at NT\$293.5, the subscription price upon calculation and adjustment in accordance with the issuance regulations at NT\$278.8.

Note 2: The calculation is based on the total number of issued shares of the Company as of March 29, 2024: 204,779,768 shares on March 29, 2024.

Note 3: Chung Hsun Ma assumed as president on August 4, 2023.

4.6 Status of New Restricted Employee Shares Issuance: In 2023 and as of the date of publication of the annual report, there is no issuance of new restricted employee shares.

4.7 Status of status of New Shares in Connection with Mergers and Acquisitions: In 2023 and as of the date of publication of the annual report, there is no issuance of new shares by M&A of shares of other companies.

4.8 Finance Plans and Implementation:

Finance plans and implementation of the Company's the first domestic unsecured convertible corporate bonds

(I) Content:

1. Document approval number of the competent authority: Official Letter No.1100356577 from the Financial Supervisory Commission (FSC) dated September 8, 2021.
2. Total funds required for the project: NT\$5,896,466 thousands.
3. Sources of funds: The total number of issued bonds is capped at 35,000, and the face value of each bond is NT\$100,000 only, which is issued at 100.5% of the nominal value. The total issue amount is capped at NT\$3,517,500 thousands and the coupon rate is 0%.
4. Planned projects and scheduled fund utilization progress

Unit: NT\$ thousand

Planned Project	Content	Scheduled Completion Date	Total Funds Required	Scheduled Fund Utilization Progress						
				Paid Amount in 2020 to the First Half of 2021	2021		2022			
					Q3	Q4	Q1	Q2	Q3	Q4
Acquisition of property, plant and equipment	Land acquisition	2021 Q4	607,864	60,786	91,180	455,898	-	-	-	-
	Phase V Plant & Office Building and Parking Tower Project	2022 Q2	2,401,689	1,437,000	375,500	330,494	211,248	47,447	-	-
	Acquisition of R & D equipment	2022 Q4	417,822	-	-	178,430	117,973	81,882	21,873	17,664
Repletion of working capital		2021 Q4	2,469,091	-	-	2,469,091	-	-	-	-
Total			5,896,466	1,497,786	466,680	3,433,913	329,221	129,329	21,873	17,664

5. Anticipated possible benefits

(1) Acquisition of property, plant and equipment

A. Land acquisition

Issuance of the first domestic unsecured convertible corporate bonds is expected to raise NT\$3,517,500 thousands, of which NT\$455,898 thousands will be used to

cover the balance for land acquisition. To meet the various space requirements for future growth in operation scale, the Company acquired the land at No.620, Section 6, Zhonghua Road, Hsingchu City from Tyntek Corporation, with an area of approximate 4,675.88 square meters, reserved for future operation expansion for the purpose of building plants, employee parking lots or meeting other space planning needs. The land acquired by the Company this time is adjacent to the Company's Zhunan Headquarters in Kuan Yuan Science and Technology Park, Zhunan Town, Miaoli County. It only takes about 5 minutes to drive from one to the other, which is beneficial to the Company's future operation and management, in addition, based on the monthly rental price on market of about NT\$700 per square meter for the plant & office building adjacent to the Company's Zhunan Headquarters, it's estimated that the annual cost of renting factory & office building can be saved by about NT\$ 39,277 thousand in the future.

B. Phase V Plant & Office Building and Parking Tower Project

Issuance of the first domestic unsecured convertible corporate bonds is expected to raise NT\$3,517,500 thousands, of which NT\$174,689 thousands will be used to finance the renovation of the new construction in Phase V Plant & Office Building and Auxiliary Handling and Parking Space. The Company's Zhunan Headquarters is located in Zhunan Town, Miaoli County, and its own workshops at No. 1, No.1-1, No.1-2 and No.1-3 of Qunyi Road are used as offices, R & D, experiment and various operation spaces, with a total usable floor area of approximate 20,331 square meters, including an office floor area of approximate 4,094 square meters and a total of approximate 2,299 office seats. In response to the growing operation scale and R & D needs, the Company plans to expand manpower on continuous basis. It is estimated that the number of employees in the Zhunan Headquarters will reach about 3,030 by the end of 2022. However, from the perspective of the Company's existing office space, the office space is obviously insufficient to accommodate the employees, and in order to maintain the flexibility of space allocation, Phase V Plant & Office Building and Auxiliary Handling and Parking Space is built on the self-owned land adjacent to the Company's Zhunan Headquarters and located at Kuan Yuan Section, Zhunan Town, Miaoli County for future use and to facilitate the overall use as the operating space by the Company in response to operation needs. The company plans to build a new building with a total floor area of about 13,405 square meters and plans to add 1,278 parking spaces. Based on the monthly rental price on market of about NT\$700 per square meter for the surrounding plant & office building and the monthly rental price on each existing parking space of about NT\$1,500, it's estimated that the rent cost on leasing plant & office spaces and parking lot can be saved by about NT\$135,606 thousands. In addition, deducting the related depreciation expenses of the

Company's construction of Phase V Plant & Office Building and Auxiliary Handling and Parking Space by the expected annual rental savings, it is expected to contribute approximate NT\$87,572 thousands of benefits each year in the future.

C. Acquisition of R&D equipment

Issuance of the first domestic unsecured convertible corporate bonds is expected to raise NT\$3,517,500 thousands, of which NT\$417,822 thousands will be used to purchase the test equipment, etc. necessary during R & D to meet the Company's needs for product research and development planning, expansion of research and development personnel and market expansion. The Company is an internationally renowned manufacturer in the integrated design of flash memory control chips and their application products. In response to the increasing demand for ultra-high-speed data access resulted from the vigorous development of technology applications such as data centers, artificial intelligence and the Internet of Things, and the development of 5G and automotive electronics applications, as well as the upgrading of various e-sports software and game consoles, it is necessary to purchase R & D-related equipment to increase R&D capacity on continuous basis and accelerate the development of new technologies and products to provide diversified and high-added value products for the purpose of meeting the needs of the sales customers, thereby consolidating the market standing.

(2) Repletion of working capital

Issuance of the first domestic unsecured convertible corporate bonds is expected to raise NT\$3,517,500 thousands, of which NT\$2,469,091 thousands will be used to replenish the working capital to meet the increased demand for working capital necessary to cover various operating expenses such as material purchase cost, product R & D investment, expenses related to market development and expansion, and personnel growth resulted from future growth of operating scale. In addition to reducing the Company's dependence on banks, increasing the long-term stable working capital and the flexibility of capital utilization, if based on the current interest rate for the short-term borrowings of 0.71%, it is estimated that the interest expense in 2021 can be saved by NT\$4,383 thousands ($\text{NT\$2,469,091 thousands} \times 0.71\% \times 3/12$), and the interest expense can be saved NT\$17,531 thousands ($\text{NT\$2,469,091 thousands} \times 0.71\%$) each year subsequently, and it can also moderately relieve the financial burden on the Company, improve the financial structure, and increase long-term competitiveness.

(II) Actual Implementation

Unit: NT\$ thousand

Project	Implementation			Progress ahead or behind, reasons and improvement plans
Land acquisition	Amount paid	Scheduled	607,864	The project has been executed in the fourth quarter of 2021 in accordance with the original projected capital utilization plan.
		Actual	607,864	
	Progress	Scheduled	100.00%	
		Actual	100.00%	
Phase V Plant & Office Building and Parking Tower Project	Amount paid	Scheduled	2,401,689	As of the end of the second quarter of 2022, some of the decoration works had not yet been accepted and completed, resulting in a slight delay in payment. Acceptance and payment was made during the third quarter of 2022 and the project was completed in the third quarter of 2022.
		Actual	2,401,689	
	Progress	Scheduled	100.00%	
		Actual	100.00%	
Acquisition of R & D equipment	Amount paid	Scheduled	417,822	The project has been completed in the fourth quarter of 2022 in accordance with the original capital utilization plan.
		Actual	417,822	
	Progress	Scheduled	100.00%	
		Actual	100.00%	
Repletion of working capital	Amount paid	Scheduled	2,469,091	The project has been executed in the fourth quarter of 2021 in accordance with the original projected capital utilization plan.
		Actual	2,469,091	
	Progress	Scheduled	100.00%	
		Actual	100.00%	
Total	Amount paid	Scheduled	5,896,466	In summary, the fundraising program was fully executed in the fourth quarter of 2022.
		Actual	5,896,466	
	Progress	Scheduled	100.00%	
		Actual	100.00%	

The Company completed the fund raising and issuance of the first domestic unsecured convertible corporate bonds in the fourth quarter of 2022, and has uploaded the status of fund utilization to the Market Observation Post System (MOPS) on a quarterly basis in accordance with the regulations, and there are no significant abnormalities yet.

(III) Benefits assessment

1. Acquisition of property, plant, and equipment

(1) Land acquisition

Based on the Company's long-term development and future operational expansion needs, the Company considered that it is not easy to find land near the current Zhunan plant office and therefore purchased the land located at No. 620, Sec. 6, Zhonghua Road, Hsinchu City in fiscal year 2021 and completed the registration of the property rights in the fourth quarter of fiscal year 2021, so that it can be used for the construction of factories, employee parking lots, or other types of spatial planning for the future expansion of its operations.

However, since the end of 2021, the global economy has been in recession as a result of changes in the macro-environment such as the Russo-Ukrainian War, interest rate hikes by the Fed and inflation. Taking into account the uncertainties in the overall environment, the Company has not yet commenced the relevant spatial planning for the land at Zhonghua Road. However, in order to revitalize the Company's own assets, the Company has already used part of the space for warehousing and storage of product packages instead of renting additional warehouses, which has resulted in the benefit of rental savings. In addition, the Board of Directors' meeting held on May 18, 2023 resolved to lease part of the land on Zhonghua Road to Heng Fu Industrial Co., Ltd. for warehousing purposes, with a monthly rental of NT\$700 thousand, which has provided the Company with a stable cash inflow and income. In addition, the average monthly rent of the neighboring factory and office buildings is approximately NT\$784 per ping, which is higher than that at the time of the filing, and based on the purchased land area of approximately 4,675.88 ping, it is estimated that the future monthly rental savings will amount to NT\$3,666 thousand, which will result in an annual rental savings of NT\$43,992 thousand in the future. Depending on the global economic and industrial conditions, the Company will plan for the use of the land for future expansion of the Company's operations in terms of factory construction, employee parking or other types of space planning requirements.

(2) Phase V Plant & Office Building and Parking Tower Project

In order to cope with the increasing scale of operation and research and development needs, and in accordance with the manpower and space planning required for the Company's future operation and growth, the original plant office space is no longer sufficient to be utilized, and therefore, the phase V of the plant office building and parking space was constructed. The plant office building and parking tower was completed in June 2022 and the acceptance was completed in October of the same year. In June 2022, the Company's user units were relocated to the plant office building, and in April 2022, the parking tower was opened for employees to park their vehicles. Based on the number of employees of the Company, the number

of employees was approximately 2,967 at the end of 2021 and increased to 4,398 as of the end of December 2023, and the number of employees has continued to grow. Therefore, the consolidation of some of the divisions in the phase V plant office building can effectively cope with the manpower expansion in terms of the operating space required, enhance the work efficiency of the employees, and avoid the difficulties in management due to the dispersal of the plant office space, and has already achieved the substantial benefit of improving the efficiency of operation and management.

The floor area of the Company's phase V plant office building was approximately 13,402.5 ping, which was comparable to the original estimate of 13,405 ping. In addition, the parking tower was equipped with a total of 1,229 parking spaces, which was a decrease from the original estimate of 1,278 additional parking spaces. Based on the average monthly rental rate of NT\$700 per ping for the Zhunan headquarters and NT\$1,500 per month for each parking space, the Company can actually save NT\$134,703 thousand in rental expense per year, and after deducting the depreciation of NT\$68,604 thousand per year, the Company can generate NT\$66,099 thousand in rental savings per year.

Unit: NT\$ thousand

Item	Estimated amount	Actual amount
Savings in annual rent (Note 1) (A)	135,606	134,703
Depreciation of phase V plant & office building and parking tower (B)	48,034 (Note 2)	68,604 (Note 3)
Annual contribution benefits (C=A-B)	87,572	66,099

Note 1: The annual rental savings are calculated by multiplying the total building area and the number of parking spaces by the rental quotation at the time of filing.

Note 2: The total construction cost of the new turnkey project for the plant and parking space is estimated to be NT\$2,401,689 thousand, which is depreciated on a straight-line basis over 50 years, with an annual depreciation amount of NT\$48,034 thousand.

Note 3: The construction cost of the plant and parking space is estimated to be NT\$2,401,689 thousand, however, the actual cost increased to NT\$2,410,550 thousand due to the additional renovation work, which is depreciated by the straight-line method over 50 years for the cost of the building, 20 years for the electrical and mechanical work, and 35 years for the cost of the parking towers, with an annual depreciation of approximately NT\$68,604 thousand.

(3) Acquisition of R & D equipment

The research and development equipment purchased under this capital raising project is mainly for the development of new-generation enterprise SSD modules and automotive NAND storage controllers, in order to further capture the mainstream application markets such as the data center and automotive markets, and to provide diversified and high-value-added products to satisfy customers' needs, so as to stabilize the Company's technological leadership and market position.

The research and development equipment acquired by the Company was completed and put into use from the fourth quarter of 2021 to the fourth quarter of 2022. The Company's enterprise SSD module and automotive NAND storage controller products contributed NT\$3,662,177 thousand, NT\$1,037,659 thousand, and NT\$451,711 thousand to the Company's operating revenue, gross profit, and operating profit in 2022, respectively, which contributed to the Company's operating growth. Based on the operating profit of NT\$451,711 thousand generated from the purchase of research and development equipment for enterprise SSD modules and automotive NAND storage controller in 2022, the capital of NT\$417,822 thousand from the purchase of machinery and equipment has been recovered in 2022, which is comparable to the original estimated recovery period.

In summary, the Company's acquisition of research and development equipment has positively benefited the Company's revenue and profitability and the capital invested has been fully recovered, indicating that the benefits of the Company's acquisition of machinery and equipment should have been realized.

2. Enhancement of working capital

Unit: NT\$ thousand

Item \ Year		Before fundraising	After fundraising	
		Third quarter of 2021	Fourth quarter of 2021	First quarter of 2022
Basic financial information	Current assets	39,389,797	48,124,361	46,749,731
	Current liabilities	17,356,307	21,715,897	19,630,483
	Total liabilities	17,652,835	25,449,133	25,158,463
	Operating revenue	16,925,315	16,831,612	16,978,325
	Operating profit	2,847,769	1,818,551	2,458,730
	Interest expense on bank loans	3,473	1,306	1,326
	Earnings per share (NT\$)	12.10	9.19	11.09
Financial structure (%)	Debt ratio	33.54	40.55	40.28
	Long-term capital to property, plant and equipment ratio	698.86	697.36	703.64
Solvency (%)	Current ratio	226.95	221.61	238.15
	Quick ratio	125.77	131.77	116.98

The Company raised NT\$3,517,500 thousand from its first domestic unsecured convertible bonds, of which NT\$2,469,091 thousand was used to replenish working capital in December 2021 after the funds were raised. Comparing the basic financial information before and after the fundraising, current assets grew positively after the fundraising, however, current liabilities and total liabilities increased in the fourth quarter of 2021 compared to the third quarter of 2021 before the fundraising, which was mainly due to the increase in spare parts and accounts payable after considering customers'

demand and industry conditions, as well as the increase in bonds payable as a result of the issuance of the first domestic unsecured convertible bonds, but both current liabilities and total liabilities have decreased in the first quarter of 2022 compared to the fourth quarter of 2021. In addition, operating revenues for the fourth quarter of 2021 were comparable to those of the third quarter of 2021, however, due to the decrease in gross profit in the fourth quarter of 2021 as a result of the provision for loss on decline in value of inventories and the increase in operating expenses as a result of the continuous investment in R&D, operating profit and earnings per share have not yet improved as compared to those in the third quarter of 2021 prior to the fundraising, and the benefits of the fundraising have yet to be realized because of the availability of the funds in December 2021. However, in the first quarter of 2022, due to the steady growth in shipments of PCIe SSD controller chips, operating revenue, operating profit and earnings per share have increased compared to the fourth quarter of 2021, and the interest expense on bank loans in the fourth quarter of 2021 and the first quarter of 2022 have decreased compared to the third quarter of 2021 before the capital raising. In summary, the Company's working capital plan was completed in December 2021. Although some of the benefits were not immediately apparent in the fourth quarter of 2021, after reviewing the basic financial information after the fundraising in the first quarter of 2022, the benefits should have been realized.

In terms of improving financial structure, the Company's debt ratio, which was 33.54% before the fundraising in the third quarter of 2021, increased to 40.55% in the fourth quarter of 2021 and 40.28% in the first quarter of 2022, mainly due to the increase in accounts payable resulting from the increase in purchases of raw materials and the increase in bonds payable after the issuance of convertible bonds; the ratio of long-term capital to property, plant and equipment decreased slightly from 698.86% before fundraising to 697.36% after fundraising in the fourth quarter of 2021. Although long-term capital increased after the fundraising compared to the pre-fundraising period, the Company's acquisition of the land at Zhonghua Road and the continuous investment in the construction of the phase V of the plant and office building in the fourth quarter of 2021 resulted in an increase in property, plant and equipment that was greater than the increase in long-term capital, which resulted in a slight decrease in the ratio of long-term capital to property, plant and equipment as compared to the pre-fundraising period. However, by the first quarter of 2022, the ratio of long-term capital to property, plant and equipment has increased compared to the pre-financing period. In terms of solvency, current ratio declined from 226.95% before fundraising to 221.61% after fundraising in the fourth quarter of 2021. Although current assets grew positively after fundraising at the end of 2021, due to the increase in material purchases, the increase in accounts payable was significantly higher, which resulted in a smaller increase in current assets than current liabilities, however, the current ratio increased in the first quarter of 2022

compared to the pre-fundraising period. Quick ratio increased from 125.77% before fundraising to 131.77% after fundraising in the fourth quarter of 2021. However, the quick ratio declined in the first quarter of 2022 compared to the pre-fundraising period due to the decrease in cash and cash equivalents compared to the fourth quarter of 2021 as a result of the continued purchase of raw material inventories. In summary, although some of the Company's financial ratios did not improve after the implementation of the plan as compared to the period before the fundraising, the reasons for the improvement were reasonable and did not have any adverse effect on the Company's business and financial position.

The Company issued its second domestic unsecured convertible corporate bonds in 2024, and the execution of the capital utilization plan is as follows:

(I) Content:

1. Document approval number of the competent authority: Official Letter No.1120365104 from the Financial Supervisory Commission (FSC) dated December 28, 2023.
2. Total funds required for the project: NT\$6,060,000 thousand.
3. Source of funds: Issuance of domestic unsecured convertible bonds, with each bond having a face value of NT\$100 thousand, 60,000 bonds with a total face value of NT\$6,000,000 thousand, a five-year maturity period, a coupon rate of 0%, and a 101% interest rate based on the face value of the bond, with the total amount of the bond amounting to NT\$6,060,000 thousand.
4. Projected items, projected progress and expected potential benefits

Unit: NT\$ thousand

Item	Expected completion date	Total funding requirement	Progress in the utilization of scheduled funds
			2024
			First quarter
Repletion of working capital	First quarter of 2024	6,060,000	6,060,000
Estimated potential benefits	The NT\$6,060,000 thousand expected to be raised from the issuance of the second domestic unsecured convertible corporate bonds is used to replenish working capital in order to meet the increased demand for working capital for various operating expenses, such as material purchases, product research and development, market development and personnel growth related expenses, as a result of the growth in the scale of operations in the future. In addition to reducing the Company's dependence on banks and increasing the long-term stability of working capital and flexibility of capital utilization, based on the average interest rate of 2.015% for one-year loans obtained from banks, it is estimated that the Company's interest expense will be reduced by approximately NT\$122,109 thousand (NT\$6,060,000 thousand*2.015%) annually, which can also appropriately alleviate the Company's financial burdens and strengthen its financial structure, thereby increasing its competitiveness in the long run.		

(II) Actual implementation

Unit: NT\$ thousand

Project	Implementation			Progress ahead or behind, reasons and improvement plans
Repletion of working capital	Amount paid	Scheduled	6,060,000	The project has been completed in the first quarter of 2024 in accordance with the original projected capital utilization plan.
		Actual	6,060,000	
	Progress	Scheduled	100.00%	
		Actual	100.00%	
Total	Amount paid	Scheduled	6,060,000	In summary, the fundraising program was fully executed in the first quarter of 2024.
		Actual	6,060,000	
	Progress	Scheduled	100.00%	
		Actual	100.00%	

The Company has completed the fund raising and issuance of the second domestic unsecured convertible corporate bonds in the first quarter of 2024, and has disclosed the status of fund utilization to the Market Observation Post System (MOPS) on a quarterly basis in accordance with the regulations, and there is no significant abnormality yet.

(III) Benefits assessment

Since January 2024, the Company has issued the second domestic unsecured convertible corporate bonds with proceeds of NT\$6,060,000 thousand for the purpose of increasing working capital. The above plan was fully implemented in March 2024. The plan can reduce the Company's dependence on banks, reduce the annual interest expense in the future to alleviate the Company's financial burden, and strengthen the financial structure. As of the printing date of the annual report, there is no financial value after the implementation of the plan for comparison, and it is expected that an evaluation of the related benefits will be reported in the annual report of 2024.

Chapter 5

Operation Overview

Chapter 5 Operation Overview

5.1 Business Activities

5.1.1 Business Scope

5.1.1.1 Main areas of business operations

The Company mainly focuses on the controller of flash memory and the design of the peripheral devices integration, descriptions are as follows:

- (1) The design, manufacture and sales of the controllers and modules of SSD.
- (2) The controllers and modules of embedded Flash used on portable application like smartphone and tablet, including eMMC, UFS.
- (3) The design, manufacture and sales of the controllers and modules of USB.
- (4) The design, manufacture and sales of the controllers and modules of memory card (SD/CF).

5.1.1.2 Proportion of main products in operating revenue

Unit: NT\$ thousand, %

Product item	2023	
	Net operating revenue	Proportion of operating revenue (%)
Flash memory module products	36,619,089	75.94
Controllers	8,359,636	17.34
Integrated circuit	1,090,023	2.26
Others	2,152,882	4.46
Total	48,221,630	100.00

Note: Adopting IFRS (consolidated statements).

5.1.1.3 Current Major Product (Service)

- (1) The controllers and modules of SSD.
- (2) The embedded controller used on portable application, including eMMC, UFS.
- (3) The controllers and modules of USB.
- (4) The memory card controllers and memory card: SD card, microSD card, etc.

5.1.1.4 New products (services) to be developed

- (1) Introducing the world's first PCIe 5.0 DRAM-less client SSD controller PS5031-E31T, with maximum read/write performance of up to 14GB/s. It is a PCIe 5.0 SSD storage solution that combines performance and power efficiency, ideal for high-end PC OEM applications and the mainstream SSD market.
- (2) PS5027-E27T PCIe Gen4 SSD controller, featuring a DRAM-Less design with speeds of up to 7400MB/s. It will be a low-power, high-performance PCIe 4.0 SSD

storage solution designed specifically for handheld gaming consoles (such as Steam Deck, Ally, or Legion Go), offering the compact M.2 2230 form factor.

- (3) Introducing a full range of UFS controllers, including UFS 2.2 PS8327, UFS 3.1 PS8325, UFS 3.1 PS8329, and UFS 4.0 PS8361, covering entry-level, mid-range, and flagship smartphones, to deliver ultimate performance in mobile storage.
- (4) Launching the world's first single-chip (SoC) native USB 4.0 controller PS2251-21 (U21), with maximum performance of up to 4GB/s. It will be the optimal storage solution for content creators and mobile storage applications.
- (5) Continuing the development of high-end enterprise-grade SSD storage solutions, supporting higher capacities, faster speeds, and interface fault tolerance, in collaboration with strategic partners to meet the demands of the enterprise storage market.
- (6) Continuing the development of smaller, higher-capacity, and more power-efficient controller solutions, including eMMC, UFS, and BGA SSD tailored for the automotive storage market to meet the future high-speed storage needs of mobile devices.
- (7) Continuing the development of controllers compliant with automotive specifications and enhancing certifications such as AEC-Q100, ISO26262, IATF16949, and ASPICE to meet the rising demands of automotive electronics.
- (8) Continuing to introduce Redriver/Retimer ICs tailored for PC, server, and automotive systems to provide the best signal stability solutions for high-speed transmission platforms.

5.1.2 Industry Overview

5.1.2.1 Development status of the industry

The Company focuses on the controller of flash memory and the design of the peripheral device's integration. The current status and development of flash memory and NAND Flash products in this industry are illustrated below:

(1) 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 smartphone, laptop/desktop computer and server etc.. NAND flash solution is transferring from 2D MLC to 3D TLC gradually. The 3D TLC NAND is advance on the cheap cost, but it relies on a stronger controller to help its operational efficiency and ensure data reliability. With the supporting of new controllers, 3D TLC NAND have used in embedded memories and SSDs.

With the prosperity of online commerce and services, the market's demand for data storage is increasing and it requires a faster and more reliable solution of data

streaming, which makes the penetration rate of SSD and eMMC application on computers and smartphones surge in recent years and even enter into the large data processing servers and cloud applications. In addition, the capacity in single production of memory cards 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 long-term niches and advantages for 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 controllers is critical. Most of the technologies for controllers, such as wear leveling and bad block management, are to extend the life cycle of NAND Flash.

Phison Electronics Corporation has been dedicating to the research and development of NAND Flash controllers and its related applications for over 20 years. Phison has accumulated solid managing technologies and knowledge of NAND Flash, obtained about 2,000 patents related to NAND Flash technologies, and created a unique operating model. In the line with the concept and culture of "sharing, integrity, efficiency, innovation," all employees of the Company will work together to make continuous progress to keep the Phison Electronics in the leading position of the market.

(2) Current industrial status and development in NAND FLASH application

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

Controller for USB 3.2 Drives and Products

USB 3.2 is designed for a fast transferring of audio and video data. It is 10-40 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 3.2 is greatly promoted to 5-20Gb 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 3.2, the transferring speed can be greatly promoted to over 1,800MB per second, which saves a lot of data transferring time. The Company is the first one to propose the USB 3.2 controllers for 4 channels and 8 channels alternating transferring, which improves the power consumption and the heat accumulation, as well as decreasing the PCB size and lowering the total cost. We have developed the USB 3.2 mobile drive with a reading speed of 400 MB per second and a writing speed

of 300 MB per 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 3.2 controllers and mobile drives with a high performance/price ratio to provide more customers with convenience and performance of USB 3.2.

Controller Chips and Products for SD Cards

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, smartphones, and tablets. In recent years, the need for high capacity cards has been increased. TLC with features of low cost and high capacity is widely used in consumer electronics. Because feature phones are gradually replaced by smartphones, high capacity microSD cards have become more and more popular. Phison Electronics Corporation makes efforts to develop new features, support new-generation SD 8.0 specification (SD Express), provide high capacity cards with better writing/reading performance. We also enter the niche market to provide products with higher value-added to satisfy the needs of premium memory cards. In addition, for the DVR and UAV cameras that need an uninterrupted recording feature, the 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 smartphones. Because the smartphone market 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 suppliers, such as Samsung, Kioxia, 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 smartphones, tablets, set-top boxes, and smartTVs. This built-in flash memory does not only satisfy the need of smartphones, but also has higher reliability than other storage cards. Phison Electronics Corporation has been working in this area for a long time. The NAND Flash management technology and our rich experience are the most important basis for developing this product. In addition, Phison Electronics Corporation has sufficient 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.

UFS

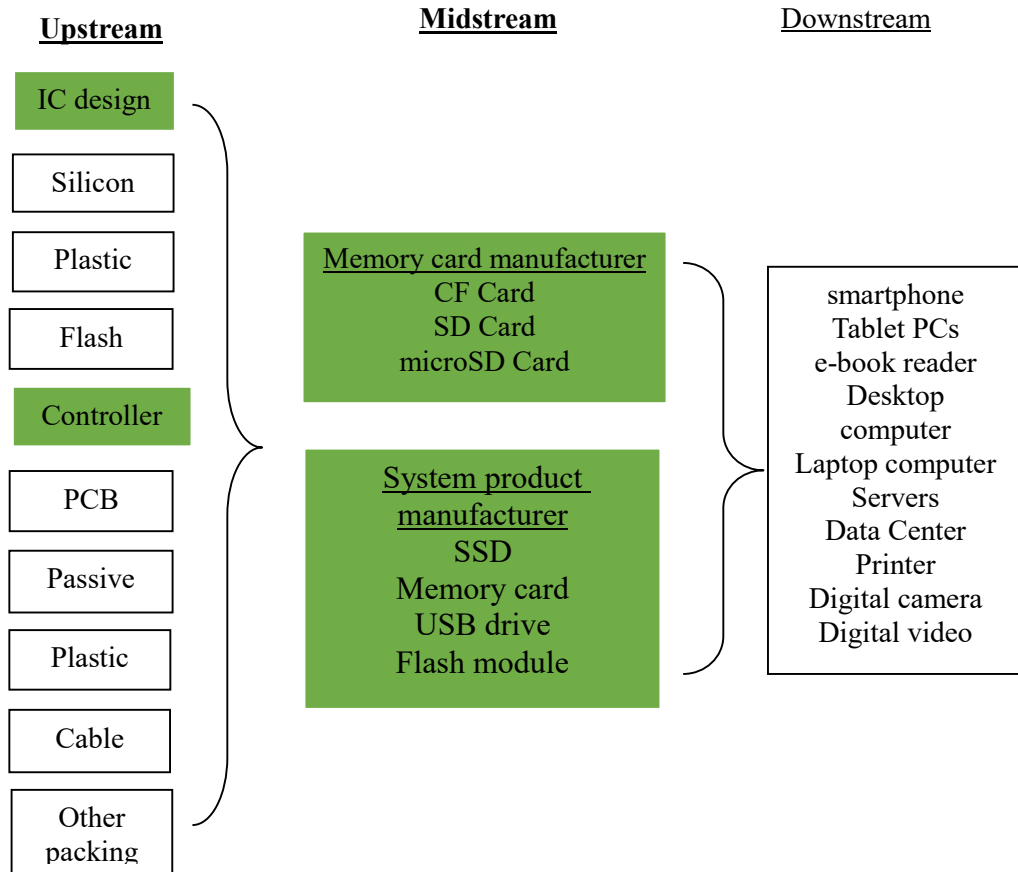
With the improvement of smartphone functions, the processors are more advanced, more applications are installed and the resolution of cameras is getting higher. All of these improvements need higher performance and higher storage capacity. eMMC is limited due to the electrical specification of the transferring interface, so the data transferring speed is very difficult to be enhanced. Therefore, the industry has established the new interface specification UFS (Universal Flash Storage). Currently, the data transferring speed of UFS3.2 is at least six times faster than that of eMMC. In the future, higher speed will be developed. In addition, UFS also includes the widely-adopted SCSI structure and supports multi-thread data access, which makes good use of the memory features. The 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, the Company will also increase the penetration rate of storage media for premium handheld devices.

SSD

All of traditional IT and electronic products used hard disks as storage media in the past, but the software and hardware in the 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 for flash memory and system products. Currently, we have all kinds of SSD chips for SATA and PCIE interfaces and comprehensive solutions to satisfy the SSD needs of the retailers, PC OEM, and data centers. 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 Upstream, Midstream and Downstream in this Industry

The Company focuses on development and sales of controllers for flash memory and flash system products, such as flash drives and memory cards. We are in the upstream and mid-stream of this industry. The upstream, midstream and downstream linkages of the relevant industries are shown below:



5.1.2.3 Product development trends and competition

(1) Product development trends

A. Controller:

- SSD, UFS, eMMC, Controllers: The design is aimed to integrate multiple functions, larger memory, faster transfer rate, random access speed, access stability, longer life cycles, supporting all specifications and transferring interfaces, low voltage, low cost, and single chip.
- Flash memory and USB for Controllers: the design is toward faster speed, access stability, supporting all flash memory specifications of major manufacturers, supporting the trend of high compatibility, smaller size, low voltage, low cost, and single chip of various 3C products.

- B. NAND Storage module products: the design is toward larger memory, faster speed, small size, data security and software platform integration.

- C. To sum up, the 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.

(2) Competitions

The trend of NAND 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 holding fewer and fewer advantages, which leads to continuous market integration or individual suppliers' transformation. 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 eMMC, UFS and SSD with advanced technical skills. 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 a strategic alliance, vertically integrate the industry and build high/middle/low levels of SSD/eMMC/UFS product line to maintain our competitiveness.

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 excellent differentiation and customized products owning high compatibility, which benefit the competitiveness in the market. The 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 storage technology solutions from controller ICs to memory modules and premium competitiveness, which benefit our future growth in the market.

5.1.3 Technology and R&D Overview

5.1.3.1 Technical level and R&D overview of the business activities

The Company mainly focuses on the R&D, design, manufacturing, and sales of controllers for flash memory, USB mobile drives, flash SD memory cards, SSDs, eMMC and UFS built-in modules, etc. The core technology of these products is the controllers and the integration of their firmware and software. The 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 benefits our future growth in the market.

5.1.3.2 R&D of the Business

The Company has an excellent R&D team of young, hard-working, creative, and experienced members. They have the experience of developing flash products and focuses on the controllers for flash memory and peripheral systems. We are the leader in the development of controllers for flash memory and provide comprehensive technology solutions. The R&D team is committed to becoming one of the world's top three designers and suppliers of flash memory controllers and peripheral systems.

5.1.3.3 R&D Expenditures of the Most Recent Year and as of the Publication Date of Annual Report

Unit: NT\$ thousand, %

Item \ Year	2023
R&D expenses(A)	10,305,558
Net operating revenue(B)	48,221,630
Percentage of R&D expenditures to net operating revenue(A/B)	21.37

Note: Adopting IFRS (consolidated statements).

5.1.3.4 Successful Technology or Products

(1) Successful R&D Projects

Year	R&D results
2022	<ul style="list-style-type: none"> ➤ The world's first mass-produced consumer PCIe 5.0 SSD controller PS5026-E26, with a maximum speed of over 12,000MB/s and a maximum capacity of 4TB, is a flagship SSD solution that can bring extreme performance to high-end gaming. ➤ The world's first SD Express solution PS5017 (SD Express specification) SD card controller that has passed SDA SVP verification, meets the high-definition resolution pluggable storage application environment, and brings better user experience to content creators. ➤ The world's first PCIe 5.0 Redriver IC PS7101 certified by the PCI-SIG Association, which solves the problems of high-speed transmission signal attenuation and compatibility. ➤ Launched a SSD storage solution equipped with a customizable enterprise PCIe 4.0 SSD controller PS5018-E18DC, which is very suitable for workstations, servers, NAS, and RAID systems. ➤ Launched the industry's most advanced enterprise PCIe 4.0 SSD solution X1, which is a high-speed, low-power, cost-effective and customizable enterprise SSD platform. ➤ The DRAM_Less version of the SATA III SSD controller PS3117-S17T has a maximum capacity of 4TB, meeting the upgrade needs of the PC DIY market. ➤ The new-generation UFS 2.2/3.1 controller equipped with 12nm process not only supports the latest NAND technology, but also provides brand-new ultra-high-speed performance for high-end portable devices and meets the trend of 5G wireless transmission. ➤ Developed a high-capacity USB3.2 Gen2x2 PS2251-18 controller that supports high-speed random writing to meet the huge data transmission needs of high-resolution video and audio markets such as content creation. ➤ For more advanced manufacturing processes, develop next-generation PCIe PHY, and continue to lay out the field of IP authorization. ➤ Developed a new generation of error correction modules to support high-level 3D TLC/QLC and next-generation PLC flash memory. ➤ Developed smaller, higher-capacity and more power-saving controller solutions, including eMMC, UFS, and BGA SSDs that meet the automotive storage market, and meet the high-speed storage needs of mobile devices. ➤ Developed controllers that meet automotive specifications, and pass various automotive certifications, including AEC-Q100, ISO26262, IATF16949, ASPICE, etc., to meet the needs of the automotive electronics market.

Year	R&D results
2023	<ul style="list-style-type: none"> ➤ PCIe 4.0 PS5022-E22T storage solution tailored for the automotive storage market, achieving read/write speeds of up to 7000MB/s and operating temperatures ranging from -40°C to 95°C, receiving the honor of the 2024 Taiwan Excellence Award. ➤ Introduction of PCIe 5.0 Redriver PS7102/PS7103 and Retimer PS7201/PS7202 ICs specifically designed for AI data computing architectures, providing excellent signal adjustment functions for high-speed computing frameworks and data centers. ➤ The world's first PCIe 4.0 DRAM-Less controller PS5027-E27T supporting 3600MT/s and 2400MT/s NAND Flash, offering outstanding performance and power efficiency ratio for PC OEMs and mobile devices. ➤ Release of the E18 pSLC PCIe 4.0 SSD storage solution, ideal for applications requiring intensive writing such as workstations, servers, NAS, and RAID systems, providing optimal durability. ➤ Introduction of the exclusive aiDAPTIV+ service solution, integrating Phison's exclusive AI computing architecture for SSDs to structurally partition large AI models and dynamically run model parameters in synergy with SSDs over time, maximizing executable AI models under limited GPU and DRAM resources, thus effectively reducing hardware construction costs for providing AI services. ➤ Launch of the world's first and only NAND controllers and storage module development resource sharing and ASIC design service platform (IMAGIN+ Platform), empowering global partners and customers to create ASIC (Application-Specific Integrated Circuit) chips and NAND storage value-added solutions for various emerging applications

(2) Technology Patents of the Company:

The Company makes great efforts to develop the technologies for the flash memory application and has been successful in some critical technologies. We have 168 patent applications pending, with 2,031 patents approved, in various countries as of March 31, 2024.

5.1.4 Long-term and Short-term Business Development Plans

5.1.4.1 Short-term Business Development Plans

(1) Marketing/Sales Strategy

- A. We will leverage strategic alliances to collaborate with large corporations in the industry and expand our market share. These measures could promote our technology status and market share of the products as well as create bigger market

demand. In parallel, we are deepening cooperation with our local strategic agency partners to leverage our strengths and deepen our local presence.

- B. We will establish different sales strategies based on the customer types and global market to satisfy market demands, strengthen customer stability, and promote global sales.
- C. We will actively explore the markets in China, emerging markets (EX: India, Southeast Asia, etc.) and European and American markets to expand our market share and accommodate various customers.

(2) R&D

- A. We will continue to improve the functions of the controllers for flash memory to support diverse specifications and integration. The Company's R&D is moving toward high performance, low power consumption, long life cycles, high capacity, and high compatibility.
- B. The products will be more diversified and their functions and specifications will be improved to meet customers' needs.
- C. The R&D will be toward data storage, embedded and data security to develop new products with single function or function integration.

(3) Production

- A. We will continuously improve the management of the balanced marketing and production and keep expanding outsourcing plants and improve their management.
- B. 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.
- C. We will improve inventory management to make use of them as much as possible.
- D. We will take the measures of strategic alliance to establish the marketing and production strategies in different regions and markets to effectively lower the production and marketing cost and serve the local customers.
- E. We will continuously improve the collaboration with the material suppliers to better manage material inventory, production and marketing.

(4) Management and Finance

- A. 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.
- B. 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.
- C. Financial structure improvement: We will continue to lower the operating cost, improve capital management, and hedge exchange rate risks. These measures can

secure the financial operations and management to maximize the profit of the Company.

- D. We will make good use of the TIPTOP GP ERP System, AgentFlow system etc to integrate resources, promote business efficiency and improve operation processes.
- E. 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.
- F. 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 and Mid-term Business Development Plans

- (1) Marketing policy: We will continue to improve the training of salespeople, collect comprehensive market information, establish the customer service network, establish agent networks, expand the global market, and enter big economies all over the world.
- (2) R&D policy: We actively recruit outstanding R&D talents and cultivate excellent R&D teams through the talents of our R&D executives in order to continue to the technologies of the 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.
- (3) Production policy: We will keep good relationships with the current material suppliers and foundries and seek new suppliers to reduce the risks of centralized manufacturing of Flash Memory and wafers, and strengthen the cooperation with these OEMs. Also, we will continue to use the advanced manufacturing process to cut down costs while improving the production and sales management and quality control procedures to enhance our competitiveness.
- (4) Business management policy: By recruiting new personnel, creating more products, expanding domestic and overseas market share, collaborating with international strategic partners, and integrating resources, By upholding the spirit of sustainable and practical operation, we will continue to boost our business and become the international leader of flash memory applications.

5.2 Market and Sales Overview

5.2.1 Market Analysis

5.2.2.1 Main Sales (Service) Region:

Unit: NT\$ thousand

Area \ Year	2022	2023
	Operating revenue	Operating revenue
Asia	47,089,940	36,138,268
America	10,588,924	10,101,826
Europe	2,474,827	1,926,058
Australia	102,224	55,229
Others	227	249
Total	60,256,142	48,221,630

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

(1) Market Share: Not applicable because there is no clear statistical data.

(2) Demand/Supply/Growth in the Future

A. Supply

The application of flash memory becomes broader and broader, and market demand is growing fast. Therefore, manufacturers without advanced technology will lose their competitiveness. The major suppliers of controller chips are Phison, Marvel, Silicon Motion, Solid State System, Alcor, ITE Tech, ASolid, Jmicron, etc. The manufacturers of Nand flash application products are Sandisk, Kingston and Micron, etc. (overseas) and Phison, Transcend, Apacer, Adata, Silicon Power, etc. (domestic).

B. Demand

The application of Nand Flash is expanding as the memory chip's price is getting reasonable and multimedia and portable products become commonly used, which leads to the growing products applied with Nand Flash. Besides the current digital and 3C products adopting USBs and SD Cards, smartphones with built-in memory are also increasing. Also, SSDs with a higher reading/writing speed are applied in PCs, notebooks, and large data centers, gradually replacing hard disks. In addition, the recent emergence of automotive electronic systems, factory automation, embedded system applications, and even gaming and server markets continue to lead to NAND storage related products. Thus, Nand flash is the most commonly applied and the most stable storage media driving increasing demands in NAND controllers with stable growth in the whole NAND storage market.

C. Growth

With the gradual realization of global 5G infrastructure and product applications, high-speed access to large amounts of data in the cloud, big data, AI and the Internet of Things and other technology applications have become more prosperous. Coupled with the increasing demand for ultra-high-speed data access due to the upgrade of various gaming software and game console specifications, it is expected that the penetration rate of ultra-high-speed solid-state drives (SSD) will continue to increase and maintain rapid growth. The company has launched different NAND Flash controllers for different application markets, including controllers that comply with PCIe Gen 4x4 NVMe NVMe specifications in mainstream market, and the PCIe Gen5x4 NVMe SSD controllers that lead the industry, to provide the most complete storage solutions with PCIe SSD controllers on the market, in the high-end application/enterprise-level SSD application market, the company's customized enterprise-level SSD solution have gradually been recognized by the market, in addition, Phison's research and development center located in Colorado, USA has started to present its development performance gradually. It works effectively with partners to develop validated products and serves Tier-1 enterprise server vendors nearby.

In terms of embedded applications, the company, as one of the few industry leaders in the world that provides eMMC and UFS controllers in its entirety, is committed to lower power consumption and lower heat generation technology, and continues to promote BGA SSD to PCIe NVMe specifications to provide embedded applications the best storage choice, and push mobile storage devices into a new generation of higher speed and more energy-saving. The company expected takes the lead in launching new controllers that support UFS4.0, especially with Phison's own technology, including StrongECC™, Advance LDPC, CoProcessor™ and RAID architecture. It not only provides low power consumption, but also demonstrates excellent error correction capabilities and provides SSD-like performance.

In terms of SD memory cards, the company released the latest SD & microSD card controller that is compatible with SD7.0 specifications and implemented mass production of them. It has the absolute advantage of high-speed random access and provides up to 1TB data storage capacity. It is the industry's highest specification and is aimed at the high resolution application market.

For USB series products, the latest USB native NAND controller compliant with USB 4.0 specification from Phison is specialized in high-capacity mobile storage applications.

5.2.2.3 Competitive Niche

(1) 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 November 2000, it has successfully developed controllers for many components, such as USB 4.0 NAND flash controllers, SD 9.0 (SD Express) controllers, eMMC 5.x controllers, UFS 4.x controllers, SATA SSD, PCIe Gen3/4/5 SSD controllers (There will also be Gen6 in the future), and security USB mobile drive, even high-speed transmission signal enhancement ICs such as redriver/retimer. In the future, we will continue to improve the training for R&D personnel, provide benefits to attract and keep the talents, and recruit new talents to promote experience inheritance and technology advancement, make our products more competitive, and create products with differentiation.

(2) Strong Shareholders and Strategic Alliance

There are only a few suppliers for NAND Flash, such as KIOXIA (former Toshiba Memory Corporation), Micron, Samsung, Hynix, controlling most of the market share. However, there are many specifications for 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, the Company made lots of efforts to develop advanced technology and new application areas. We have kept a good relationship with all Flash manufacturers and introduced strategic partner KIOXIA in 2002. KIOXIA has NAND Flash fabs, which can provide us with flash memory. KIOXIA is also the creator of Secure Digital and xD-Picture specifications and has a 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. The Company introduced strategic partners, Kingston Technology Corporation and Advantech Investment Inc., in 2014-2015 by private stock issuance. The Company participated in the private stock issuance of Apacer Technology Inc., which benefits us in obtaining stable source of flash material and expanding retailer channels. In addition, the Company established a strategic research and development center in Colorado, USA in 2020 for the Enterprise SSD market.

The Company 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.

(3) Competitive Advantages of Having Design and Retailer End

The Company has developed NAND Flash controllers and designed many products, such as SSDs, NAND flash application products. Most of the assembly and production process are outsourced to other partner companies. Application 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 industry, there will be many risks, such as decreased gross profit and increased inventory. We are different from the assembly module companies, which can only make smaller profits. We stand at the two ends of design and sales with higher added values. Our business income is higher than that of IC design companies and our profit is higher than that of the assembly companies. Therefore, our controllers are sold to Tier-1 NAND vendors such as KIOXIA, Kingston, and Micron, and our system application NAND module products are also sold to major brand customers and system integrators in the U.S., Europe, and Japan by virtue of our complete mastery of control chip technology, which demonstrates our unique market competitiveness and high product technology capability by mastering the R&D technology and sales of both controllers and system applications.

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

(1) Advantages:

A. Comprehensive Fragmentation of Production in the Semiconductor Industry

Our country has a very comprehensive fragmentation of production in the semiconductor industry. Fabs, packaging plants, and testing plants have reached an economic scale and can provide professional services. These provide companies with controllers for flash memory with excellent support.

B. Rapid Growth of SSD Market

SSDs have an 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. The 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, the Company will rapidly satisfy the needs of the market, including consumer storage applications, embedded applications, gaming market, automotive electronics, mobile devices, and server systems, and provide the market with more products to ensure the leadership of the Company.

C. Development of smartphones Promotes Growth of Small Memory Cards

As the NAND Flash manufacturing processes advance, the unit price of flash memory is getting lower and lower, which brings down the price of small memory cards. In addition, the applications of flash memory have been expanded into many home appliances, not just consumer products, such as smartphones. It is expected that the market for small memory cards will be rapidly growing in the future.

D. The application of flash memory has been used in many products, including 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 electronic systems. Its application is still growing and therefore promotes the flash memory product industry.

(2) Disadvantages and Responsive Strategy:

A. Rapid Growth and More Competitors

Responsive strategy: The Company has excellent technical design capability of NAND Flash controllers and firmware for faster product development, more added 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.

B. Flash Memory in Control of Big International Suppliers

Responsive strategy: We will keep a close partnership with big international flash memory suppliers (such as KIOXIA, Micron, Hynix, WD, etc.) and seek the opportunity of establishing strategic alliances. We will pay close attention to the specification change, market change and price change of flash memory to adjust our inventory accordingly and dedicate to optimize inventory management and maximize sales profit.

C. More Product Specifications

Responsive strategy: Since the specification of flash memory is established by big international suppliers and the specifications and interfaces of storage products are quite diverse, the Company has to pay close attention to the latest agreements of all kinds of specifications of flash memory cards and its storage applications and the development of the end markets. By speeding up the development of new technology and new products, adding more major products, and diversifying product functions, the Company can extend the product life cycles and eliminate the impacts resulting from specification changes and the disappointing product development in the end markets.

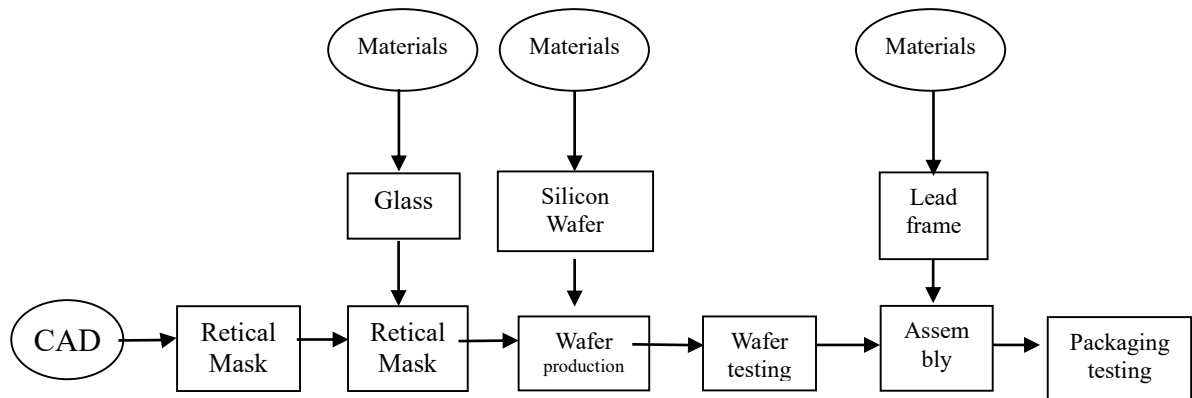
5.2.2 Important Uses of the Main Products and the Production Process

5.2.2.1 Key Applications of Main Products

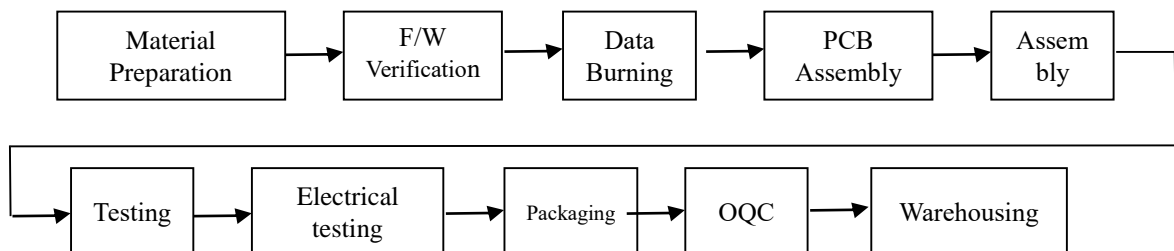
Product Category	Uses
NAND system module products	These are the storage devices with flash memory (USB drive, flash memory card, SSD, and embedded memory). Since USB interfaces, cameras, cell phones, laptop computers, industrial automation system, automotive electronics, and cloud server become more and more popular, these products are convenient for fast data access.
NAND control chip IC	These products are used as I/O interface of general system products, to control and integrate between the firmware instruction set and the flash memory applied with flash memory module product, enabling the system products and flash memory to translate instruction and transfer data.

5.2.2.2 Manufacturing Process

(1) Manufacturing Process of Controller IC



(2) Manufacturing Process of Flash Memory Reader



5.2.3 Supply of Primary Raw Materials

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

Main material	MAJOR SUPPLIERS	Supply Status
Controllers	United Microelectronics Corporation Group, Taiwan Semiconductor Manufacturing Company (TSMC)	Normal
Flash memory	Kioxia, Micron, SKHynix	Normal
Printed circuit boards	Taiwan Printed Circuit Board Techvest Co, Ltd., Tripod Technology Corporation , Cheng Mao Electronic Co., Ltd.	Normal
Connector, Case	IN POWER MINUTE CO., LTD., Yandu Technolog Co., Ltd.	Normal

5.2.4 The name and proportion of the suppliers or customers who have 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 Have Occupied More Than 10% of the Total Amount of Purchase in Any of the Past Two Years

Unit: NT\$ thousand

2022				2023			
Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer
Kioxia Taiwan Corporation	11,413,643	31.03	Yes	Kioxia Taiwan Corporation	10,032,575	33.70	Yes
Vendor A	4,983,567	13.55	None	Vendor B	5,286,595	17.76	None
Vendor C	4,198,202	11.42	None	Vendor C	3,206,872	10.77	None
Other	16,181,878	44.00	-	Other	11,247,952	37.77	-
Net purchase	36,777,290	100.00	-	Net purchase	29,773,994	100.00	-

Explanations for the increase or decrease:

- (1) KIOXIA Taiwan Corporation: The Company's purchases from KIOXIA Taiwan Corporation amounted to NT\$11,413,643 thousand and NT\$10,032,575 thousand for the years ended December 31, 2022 and 2023, respectively, accounting for 31.03% and 33.70% of the net purchases in each of these years. The decrease in the amount of purchases in 2023 as compared to 2022 was mainly due to the decrease in shipment volume and revenue of the Company for the whole year of 2023 as a result of the decrease in demand for consumer products in the first half of 2023 due to the weakening of the global economy, which resulted in the decrease in the Company's overall purchases and the decrease in the amount of purchases from KIOXIA Taiwan Corporation.

- (2) Vendor A: In 2022, the company's purchase amount from Vendor A was 4,983,567 thousand, accounting for 13.55% of the net purchase in 2023. In 2023, due to the decrease in the selling price of Vendor A's competitor, Vendor B, the purchase volume from Vendor B increased, so Vendor A increased its purchase of Vendor B in 2023. The annual purchase amount dropped, resulting in the net purchase ratio not reaching 10%.
- (3) Vendor B: In 2023, Vendor B's excess production caused product prices to fall. The company considered the demand for product material stocking and the cheap price to increase its purchases from Vendor B. Therefore, the Company's purchase amount from Vendor B was 5,286,595 thousand in 2023, accounting for the net purchase ratio. is 17.76% in 2023.
- (4) Vendor C: The Company's purchase amounts from Vendor C in 2022 and 2023 were 4,198,202 thousand and 3,206,872 thousand respectively, accounting for 11.42% and 10.77% of the net purchases in each year respectively; the purchase amount in 2023 decreased by 991,330 thousand compared with 2022, because in the first half of 2023, due to the weakening of the global economy, conservative consumption intentions of the public, and a sharp decline in the shipment of electronic consumer products, customer orders decreased and the company's purchase amount also decreased.

5.2.4.2 Major Customers who Have Occupied More Than 10% of the Total Amount of Sales in Any of the Past Two Years

Unit: NT\$ thousand

2022				2023			
Name	Amount	Percentage (%)	Relation with issuer	Name	Amount	Percentage (%)	Relation with issuer
Net sales	60,256,142	100.00	-	Net sales	48,221,630	100.00	-

Explanations for the increase or decrease:

The Company did not have any sales to customers that accounted for more than 10% of total sales in 2022 and 2023.

5.2.5 Production Volume and Value Table in the Last Two Years

Production unit: in thousand pieces; Production unit: in thousands of New Taiwan Dollars

Year Production amount Major products	2022			2023		
	Production Capacity	Production Volume	Production value	Production Capacity	Production Volume	Production Value
Flash memory module products	[Note 1]	153,554	31,954,751	[Note 1]	124,298	25,388,028
Integrated circuit	[Note 2]	22,002	1,556,171	[Note 2]	10,567	873,369
Controllers	[Note 3]	460,756	7,015,962	[Note 3]	224,938	5,310,005
Others	[Note 4]	—	472,567	[Note 4]	—	372,758
Total		636,312	40,999,451		359,803	31,944,160

[Note 1] The production capacity is not shown because after the development of the controllers, the Company entrusted the fabrication to the foundry and then entrusted the assembly to the module foundry, so the production capacity statistics are not applicable.

[Note 2] The production capacity is not shown because the Company purchased flash memory wafers from the original manufacturer, then commissioned the wafer fabrication and outsourced the sealing and packaging operations to an outsourcing company, so the production capacity statistics are not applicable.

[Note 3] The production capacity is not shown because after the development of the controllers, the Company assigns the fabrication to the wafer fab and then outsources the packaging and testing to the outsourcing company.

[Note 4] Production capacity is not shown because others refer to the material or products sold other than NAND flash application products and controllers, and the income of patent royalty and labor, hence, these things not applicable to the statistics on production capacity.

Explanations for the increase or decrease:

Due to the weak global economy in the first half of 2023 and the decline in demand for consumer products, the Company's shipments and revenue will decline in 2023. Therefore, the main products of flash memory module products, integrated circuits and controllers in 2023 Both output value and output are reduced compared with 2022.

5.2.6 Sales Volume and Value in the Last Two Years and Change Analysis

Sales Unit: In thousand pieces; sales unit: NT\$ thousand

Year Production amount Major products	2022				2023			
	Domestic		Export		Domestic		Export	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Flash memory Module products	51,654	13,146,790	104,884	29,028,070	42,862	11,789,720	81,255	24,829,369
Integrated circuit	7,458	465,883	28,757	1,584,656	4,932	606,777	5,634	483,246
Controllers	91,859	1,913,075	368,899	11,994,086	24,875	1,021,475	200,063	7,338,161
Others	Note	256,293	Note	1,867,289	Note	226,872	Note	1,926,010
Total	150,971	15,782,041	502,540	44,474,101	72,669	13,644,844	286,952	34,576,786

Note: Others refer to the material or products sold other than NAND flash application products controllers, and the income of patent royalty and labor, hence, these things not applicable to the statistics on production capacity.

Explanations for the increase or decrease:

Due to the weak global economy in the first half of 2023 and the decline in demand for consumer products, the Company's shipments and revenue will decline in 2023. Therefore, the Company's main products, flash memory module products, Integrated circuit and Controllers, will decline. Both sales volume and sales amount in 2023 decrease compared with 2022.

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

Number of Employees, Average Years of Services, Average Age and Employee Academic Background in the Previous Two Years Before the Publication of the Annual Report

Year		2022	2023	As of April 30, 2024
Number of employees	Supervisor	723	750	795
	Production line staff	319	336	357
	General employees	3,148	3,312	3,359
	Total	4,190	4,398	4,511
Average age		34.14	34.7	34.78
Average year of services		4.17	4.82	4.95
Academic distribution ratio(%)	PhD	0.62	0.66	0.62
	Master	62.20	63.07	63.38
	University	30.83	30.79	30.84
	High school	5.97	5.18	4.83
	Below high school	0.38	0.30	0.33

Note: Adopting IFRS (consolidated statements).

5.4 Environmental Protection Expenditures

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

5.4.1 The loss caused by environment pollution (including compensation and environmental protection audit results of violating environmental protection regulations, the date of punishment, the word number of punishment, violation of the provisions of the law, violation of the content of the law, the content of punishment shall also be specified) during the latest year and up to the printing date of this annual report. The Company shall also disclose the estimated amount of current and future events and the measures to be taken, and if it cannot be reasonably estimated, it shall state the fact that it cannot be reasonably estimated.

Until the publication of this annual report, there is no loss or penalty by competent authorities due to environmental pollution, so this is not applicable.

5.5 Labor Relations

5.5.1 The Company's employee benefits for studying, training, pension systems and its implementation status as well as labor agreements and measures for preserving employee rights and interests

5.5.1.1 Employee Welfare Measures:

Company:

- (1) Guaranteed salary of 12 months.
- (2) Remuneration for employees to share the profit.
- (3) Salary adjustment each year based on the work performance.
- (4) Year-end bonus of two months (Taiwan).
- (5) Incentive bonus based on the business.
- (6) No promotion barrier.
- (7) Encourage employees to make innovations and high patent bonus will be paid.
- (8) Comprehensive educational trainings and arrangement.
- (9) Encouraging employees to introduce excellent personnel and a high recruiting bonus will be paid. Labor Insurance, National Health Insurance, Pension System, Group Insurance, and Travel Insurance.
- (10) Two days off per week and flexible shift arrangement. The leave system in the Company is better than the requirement of the Labor Standards Act. Annual leave can be advanced after 3 months of service, while 8 days of annual leave will be given after one year of service.
- (11) A total of 3 days for paid family care leave, 5 days and 7 days for paid miscarriage leave.
- (12) A total of 7 days for holidays and festivals according to the Labor Standards Laws which are allowed for adjusted holidays by the government.
- (13) Nice gifts for senior employees

Providing employees with comfortable, safe and humanized working environment and rest environment:

Company:

- (1) Self-owned plants of more than 30,000 square meters and equipment.
- (2) Regular free for physical examinations every year and health seminars for our employees.
- (3) Leisure Center (with treadmills, aerobics bikes, gym bikes, mobile boxing target, hand football, etc.), yoga classrooms, and outdoor complex ballpark.
- (4) Life assistance programs for employees. (Supported by experts in different fields, including Psychology, Laws, Financial Management, Management, etc.)
- (5) Medical assistance.
- (6) Free dormitory for three months for new R&D employees.
- (7) Food Courts (restaurants, coffee bars, convenience stores, etc.) and flat parking lots, parking towers are provided.
- (8) Meal subsidy.
- (9) Premium farms to provide high quality of organic vegetables and fruits.

Welfare Committee:

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

5.5.1.2 Advanced Education and Trainings for Employees:

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

In 2022 and 2023, the total expenditures of educational training are NT\$3,766,402 and NT\$4,899,404, respectively. The training courses are classified into seven categories, and the status of each category and implementation is as follows:

Category	2022				2023			
	Times	Number of trained people-time	Accumulated hours	Total expense (NT\$)	Times	Number of trained people-time	Accumulated hours	Total expense (NT\$)
Professional Skills	207	11,911	14,509	609,042	230	15,459	16,576	1,507,449
Quality	89	2,286	3,884	482,210	49	1,445	4,484	539,560
Auxiliary Skills	5	123	628	298,000	6	329	1,408	1,054,965
Health and Security	49	3,440	4,431	135,300	88	7,363	6,870	167,040
Management	18	3,352	6,369	1,648,238	35	2,072	8,933	1,574,190
Self-inspiration	23	36,543	71,966	492,812	31	25,952	17,503.5	22,200
Language	7	52	1,320	100,800	1	1	100	34,000
Total	398	57,707	103,107	3,766,402	440	52,621	55,874.5	4,899,404

5.5.1.3 Pension System and its implementation:

The Company has pension regulations that apply to all full-time employees. It regulates the pension payment.

- (1) If the employee chooses the pension system of the Labor Standards Act, the pension will be paid as follows: Based on the years 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 maximum number of units is 45. The length below half a year is counted as half a year, the length over half a year but below one year is counted as one year. From Feb of 2001, 3% of the salary is appropriated into the employee pension fund. From Jul of 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.

- (2) 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 in one year.

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

The Company values the welfare, career, personal skill improvement and opinions of the employees, so the relationship is always good, the Company will continue to maintain a good partnership between employees and works.

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 the past two years and as of the publication date of the annual report, the Company has been fined by the competent authorities for violating the Labor Standards Act totaling NT\$60,000. The company has paid the fines in compliance with the limit. The details are as follows:

Date of disposal	Letter No. of disposal	Violation of legal provisions and content	Punishment content (Estimated amounts that may occur currently and in the future)	Countermeasures
2023.07.18	Fu Lao Zi Zi No. 1120163673	Article 32, Paragraph 2 of the Labor Standards Act, extended working hours together with normal working hours exceed twelve hours a day; extended working hours exceed forty-six hours a month.	Fined NT\$20,000.	For labor whose working hours are extended, it will be handled in accordance with relevant laws and regulations.
2023.09.14	Fu Lao Zi Zi No. 1120210273	(1) Article 24 of the Labor Standards Act, failure to calculate delayed wages in accordance with regulations. (2) Article 32, Paragraph 2 of the Labor Standards Act, the extended working hours together with the normal working hours exceed twelve hours a day; the extended working hours exceed forty-six hours a month.	Fined NT\$40,000.	For labor whose working hours are extended, it will be handled in accordance with relevant laws and regulations.

The Company's violations of the Labor Standards Act and fines imposed by the competent authorities have all been corrected, the fines paid account for a very small proportion of the Company's operating income or shareholders' equity, so have no significant impact on the Company's finances and business.

5.6 Information Security Management

5.6.1 Describe the information security risk management framework, information security policies, specific management plans and resources devoted to information security management

In 2017, the Company established an Information Security Committee with the President as the representative of information security management. The Committee holds quarterly information security meetings, regularly reports to the top management on the performance of the information security system, and reviews information security policies and objectives. In July 2022, the Company joined the TWCERT to strengthen its security protection from time to time, and to review its internal equipment and systems to update or remediate the vulnerabilities. On November 4, 2022, the Company formulated the “Procedures for Information Security Control” and submitted it to the Board of Directors for approval to ensure internal compliance with information security related standards, procedures, and regulations. In order to maintain the confidentiality, integrity and availability of the Company's information assets and to protect the privacy of users' information, it is clearly stipulated that employees should avoid unauthorized access and modification, respect intellectual property rights, and safeguard customers' and the Company's information, and that any person who discovers an information security incident or suspected security vulnerability should follow the notification mechanism to respond to the security personnel for appropriate investigation and handling. We implement information security education and training and social engineering drills for our employees every year, and conduct quarterly information security announcements and publicity to enhance the information security awareness of our employees and to reduce the information security risks faced by the Company's operations.

5.6.2 The loss, potential impact and countermeasures caused by material information security incidents during the latest year and up to the printing date of this annual report. If it cannot be reasonably estimated, the reasons for not able to estimate shall also be specified.

There are no material information security incidents occurred in the Company during recent years and up to the publication of this annual report, so this is not applicable.

5.7 Important Contract

Below form contains material contracts valid and/or expired within one year form the publication date of this annual report.

Contract Characterization	The Party	Contract Period	Content	Restriction
License Agreement	Synopsys International limited	Dated from 2003/7/16	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	ARC International (UK) Limited	Dated from 2006/11/24	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	SD-3C LLC	Dated from 2018/11/29 to 2028/11/28	License	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	SD Association	Dated from 2022/0303	License	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	4C Entity LLC	Dated from 2023/03/07 to 2033/03/06	4C CPRM/CPPM IP license	Payment of royalty and annual fees
License Agreement	Netac Technology	Dated from 2007/12/20 until patent of both parties expires	Cross-license	Compliance with the clause of permitted use, license scope and liability of confidentiality
Technical Cooperation Agreement	Intel Corporation	Dated from 2008	Cooperating to build USB 3.0 final specification	Ownership of intellectual property rights and liability of confidentiality
License Agreement	ARM limited	Dated from 2009/08/10	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	ARM limited	Dated from 2015/09/30	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	Rambus Inc.	Dated from 2018/01/07 to 2027/12/31	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	USB Implementers Forum, Inc.	Dated from 2019/10/15	USB-IF trademark license	Member responsibility and confidential liability.

Contract Characterization	The Party	Contract Period	Content	Restriction
Industry Standard Association & Membership Agreement	USB Implementers Forum, Inc.	Dated from 2019/10/4	USB-IF membership	Member responsibility and confidential liability
License Agreement	Andes Technology Corp.	Dated from 2012/5/10	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
Industry Standard Association & Membership Agreement	MIPI Alliance Inc.	Dated from 2012/04/18	Membership & related license agreement	Member responsibility and confidential liability
Industry Standard Association & Membership Agreement	Intel Corp.	Dated from 2012/08/09	Adoption of USB3.0 specification	Terms of use of USB 3.0 specification and liability of confidentiality
Industry Standard Association & Membership Agreement	Serial ATA International Organization (SATA-IO)	Dated from 2013/5/31	Authorization of certification mark	Member responsibility and confidential liability
License Agreement	Cadence Design Systems (Ire) Ltd	Dated from 2013/1/1	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
Industry Standard Association & Membership Agreement	Nvm Express, Inc	Dated from 2014/4/2	Membership & related license agreement	Member responsibility and confidential liability
License Agreement	PLDA Inc.	Dated from 2015/5/27	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	Intel Corporation	Dated from 2017/7/13	Permitted use and license of Thunderbolt trademark and IP	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	Universal Flash Storage Association, Inc.	Dated from 2018/1/18	Permitted use and license of UFSA Logo	Compliance with the terms of use of UFSA logo
Industry Standard Association & Membership Agreement	Automotive Edge Computing Consortium, Inc.(Aecc)	Dated from 2020/11/16	Membership & related license agreement	Member responsibility and confidential liability
Letter of Intent	Y Company	Dated from 2021/7/6	To Secure capacity support for the Phison's operation purpose	The terms of the Letter of Intent shall be kept in secret
Lease Agreement	Heng Fu Industrial Co., Ltd.	Dated from 2023/06/01 to	To revitalize the Phison's	Compliance with the terms and condition of

Contract Characterization	The Party	Contract Period	Content	Restriction
		2025/05/31	assets, Phison leases out a portion of its land on Zhong Hua Road	the Agreement
License Agreement	Andes Technology Corp.	Dated from 2023/02/22	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
Prepayment Agreement	Z company	Dated from 2024/01/01 to 2024/12/31	To Secure capacity support for the Phison's operation purpose	The terms of the Prepayment Agreement shall be kept in secret
Credit Loan Agreement	First Commercial Bank, Ltd.	Dated from 2013/01/14 to 2024/12/31	Subsidiary Super Storage Technology Corporation signed a long-term Credit Loan Agreement	Compliance with the terms and conditions of this Agreement
Industry Standard Association & Membership Agreement	EEMBC Corporate Benchmark License Agreement	Dated from 2021/9/26	Membership & related license agreement	Member responsibility and confidential liability
License Agreement	Rambus Inc.	Dated from 2021/9/23	Patent license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	PLDA SAS Rambus Inc.	Dated from 2023/12/20 to 2033/12/19	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	Cadence Design Systems (Ireland) Limited Taiwan Branch	Dated from 2023/11/7 to 2024/11/6	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality
License Agreement	Cadence Design Systems (Ireland) Limited Taiwan Branch	2023/11/7~2024/11/6	IP license	Compliance with the clause of permitted use, license scope and liability of confidentiality

Chapter 6

Financial Information



Chapter 6 Financial Information

6.1 Five-Year Financial Summary

6.1.1 Condensed Balance Sheet and Comprehensive Income Statement

6.1.1.1 Condensed Balance Sheet of Consolidated Financial Statement

Unit: NT\$ thousand

Item \ Year		Financial information in the most recent five years [Note 1]				
		2019	2020	2021	2022	2023
Current assets		31,959,839	37,326,925	49,696,587	45,894,585	49,819,671
Property, plant, and equipment		3,282,950	4,646,540	6,650,562	7,597,761	7,447,729
Intangible assets		268,026	313,894	314,671	375,336	234,303
Other assets [Note 2]		3,125,965	5,276,593	6,359,537	6,122,154	7,460,821
Total asset		38,636,780	47,563,952	63,021,357	59,989,836	64,962,524
Current liabilities	Before distribution	9,306,381	11,762,682	21,827,193	17,599,091	21,801,423
	After distribution	11,868,343	16,295,384	24,389,155	18,465,053	23,574,685 [Note 3]
Non-current liabilities		141,771	645,803	3,885,730	4,758,923	372,948
Total liabilities	Before distribution	9,448,152	12,408,485	25,712,923	22,358,014	22,174,371
	After distribution	12,010,114	16,941,187	28,274,885	23,223,976	23,947,633 [Note 3]
Equity attributable to shareholders of the parent company		29,162,320	35,155,467	37,308,434	37,631,822	42,788,153
Share capital		1,970,740	1,970,740	1,970,740	1,986,745	2,047,690
Capital surplus		6,724,104	6,586,173	7,238,436	8,970,438	11,552,379
Retained earnings	Before distribution	20,643,601	26,763,895	27,995,974	28,952,665	30,808,166
	After distribution	18,081,639	22,231,193	25,434,012	28,086,703	29,034,904 [Note 3]
Other equity interest		(176,125)	(165,341)	103,284	(216,810)	(362,774)
Treasury Shares		0	0	0	(2,061,216)	(1,257,308)
Non-controlling Interests		26,308	0	0	0	0
Equity	Before distribution	29,188,628	35,155,467	37,308,434	37,631,822	42,788,153
	After distribution	26,626,666	30,622,765	34,746,472	36,765,860	41,014,891 [Note 3]

[Note 1] The financial information for the preceding year has been audited by a certified public accountant.

[Note 2] Other assets are non-current assets, net of property, plant and equipment and intangible assets.

[Note 3] It is based on the amount before distribution calculated by adding or subtracting the cash dividends of NT\$1,773,262 thousand from the earnings distribution of the second half of 2023 that was approved by the board of directors on March 8, 2024.

6.1.1.2 Condensed Balance Sheet of Individual Financial Statement

Unit: NT\$ thousand

Item \ Year		Financial information in the most recent five years [Note 1]				
		2019	2020	2021	2022	2023
Current assets		29,491,045	34,003,761	48,124,361	43,633,729	47,476,141
Property, plant, and equipment		3,263,440	3,954,832	5,885,272	6,841,301	6,733,056
Intangible assets		267,339	310,269	311,911	363,191	224,236
Other assets [Note 2]		5,258,129	9,014,263	8,436,023	8,463,148	9,956,180
Total assets		38,279,953	47,283,125	62,757,567	59,301,369	64,389,613
Current liabilities	Before distribution	8,979,663	11,679,762	21,715,897	17,054,976	21,331,031
	After distribution	11,541,625	16,212,464	24,277,859	17,920,938	23,104,293 [Note 3]
Non-current liabilities		137,970	447,896	3,733,236	4,614,571	270,429
Total liabilities	Before distribution	9,117,633	12,127,658	25,449,133	21,669,547	21,601,460
	After distribution	11,679,595	16,660,360	28,011,095	22,535,509	23,374,722 [Note 3]
Equity attributable to shareholders of the parent company		29,162,320	35,155,467	37,308,434	37,631,822	42,788,153
Share capital		1,970,740	1,970,740	1,970,740	1,986,745	2,047,690
Capital surplus		6,724,104	6,586,173	7,238,436	8,970,438	11,552,379
Retained earnings	Before distribution	20,643,601	26,763,895	27,995,974	28,952,665	30,808,166
	After distribution	18,081,639	22,231,193	25,434,012	28,086,703	29,034,904 [Note 3]
Other equity interest		(176,125)	(165,341)	103,284	(216,810)	(362,774)
Treasury shares		0	0	0	(2,061,216)	(1,257,308)
Non-controlling Interests		0	0	0	0	0
Equity	Before distribution	29,162,320	35,155,467	37,308,434	37,631,822	42,788,153
	After distribution	26,600,358	30,622,765	34,746,472	36,765,860	41,014,891 [Note 3]

[Note 1] The financial information for the preceding year has been audited by a certified public accountant.

[Note 2] Other assets are non-current assets, net of property, plant and equipment and intangible assets.

[Note 3] It is based on the amount before distribution calculated by adding or subtracting the cash dividends of NT\$1,773,262 thousand from the earnings distribution of the second half of 2023 that was approved by the board of directors on March 8, 2024.

6.1.1.3 Condensed Comprehensive Income Statement of Consolidated Financial Statement

Unit: NT\$ thousands (except for Earnings Per Share: NT\$)

Item \ Year	Financial information in the most recent five years [Note 1]				
	2019	2020	2021	2022	2023
Operating revenue	44,693,441	48,496,522	62,557,192	60,256,142	48,221,630
Gross profit from operations	11,149,275	12,247,475	19,099,784	17,349,892	16,114,244
Not operating income	5,210,013	3,889,607	9,084,449	6,843,922	3,621,868
Non-operating income and expenses	140,921	5,803,822	653,165	(547,002)	477,574
Profit before tax	5,350,934	9,693,429	9,737,614	6,296,920	4,099,442
Net Profit	4,545,837	8,706,751	8,147,215	5,401,146	3,624,428
Loss from discontinued operations	0	0	0	0	0
Net Profit (loss) for the period	4,545,837	8,706,751	8,147,215	5,401,146	3,624,428
Other comprehensive income (Net value after tax)	218,500	22,503	279,914	(231,847)	(161,374)
Total comprehensive income	4,764,337	8,729,254	8,427,129	5,169,299	3,463,054
Net income attributable to shareholders of the parent company	4,543,489	8,699,044	8,147,215	5,401,146	3,624,428
Net income attributable to non-controlling interests	2,348	7,707	0	0	0
Total comprehensive income attributable to owners of the parent	4,762,958	8,721,255	8,427,129	5,169,299	3,463,054
Total comprehensive income attributable to non-controlling interests	1,379	7,999	0	0	0
EPS	23.05	44.14	41.34	27.71	18.48

[Note 1] The financial information for the preceding year has been audited by a certified public accountant

6.1.1.4 Condensed Comprehensive Income Statement of Individual Financial Statement

Unit: NT\$ thousands (except for Earnings Per Share: NT\$)

Item \ Year	Financial information in the most recent five years [Note 1]				
	2019	2020	2021	2022	2023
Operating revenue	44,479,275	48,350,427	62,552,823	59,571,015	47,513,008
Operating gross profit	11,152,581	12,154,933	18,994,163	16,910,189	15,575,969
Operating profit (loss)	5,212,694	3,849,050	9,033,557	6,644,086	3,337,824
Non-operating revenue and expenses	127,752	5,455,206	555,084	(411,462)	702,141
Net income before tax	5,340,446	9,304,256	9,588,641	6,232,624	4,039,965
Net income from continuing operations	4,543,489	8,699,044	8,147,215	5,401,146	3,624,428
Loss from discontinued operations	0	0	0	0	0
Net income (loss) for the period	4,543,489	8,699,044	8,147,215	5,401,146	3,624,428
Other comprehensive income (loss) for the period (Net value after tax)	219,469	22,211	279,914	(231,847)	(161,374)
Total comprehensive income for the period	4,762,958	8,721,255	8,427,129	5,169,299	3,463,054
EPS	23.05	44.14	41.34	27.71	18.48

[Note 1] The financial information for the preceding year has been audited by a certified public accountant.

6.1.2 Names of CPAs for the Last Five Years and Auditors' Opinions

Year	Name of the accounting firm	Names of the CPAs	Audit opinion
2019	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, Li Wen Kuo	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2020	Deloitte Touche Tohmatsu Limited	Xin Wei Dai, Li Wen Kuo	An Unmodified Opinion with a Paragraph of Other Stressed Matters
2021	KPMG	Chien Hui Lu, Wan Yuan Yu	An Unmodified Opinion with a Paragraph of Other Matters
2022	KPMG	Chien Hui Lu, Wan Yuan Yu	An Unmodified Opinion
2023	KPMG	Chien Hui Lu, An Chih Cheng	An Unmodified Opinion

6.2 Financial analysis in the most recent five years

6.2.1 Financial Analysis in the Most Recent Five Years-Consolidated Financial Statement that Adopts IFRS

Item \ Year		Financial analysis for the most recent five years [Note 1]				
		2019	2020	2021	2022	2023
Financial structure (%)	Ratio of liabilities to assets	24.45	26.09	40.80	37.27	34.13
	Ratio of long-term capital to property, plant, and equipment	889.10	760.80	619.41	557.94	579.52
Solvency (%)	Current ratio	343.42	317.33	227.68	260.78	228.52
	Quick ratio	216.46	230.49	138.25	144.52	116.02
	Times interest earned ratio	2,668.46	1,889.82	513.34	176.98	76.98
Operation performance	Receivables turnover (times)	8.00	8.12	8.48	7.55	5.72
	Average days for cash receipts	45.62	44.95	43.04	48.34	63.81
	Inventory turnover ratio (times)	3.51	3.34	2.93	2.15	1.43
	Payables turnover ratio (times)	7.94	10.21	6.95	5.64	5.05
	Average days for sale of goods	103.98	109.28	124.57	169.76	255.24
	PP&E turnover ratio (times)	14.25	12.23	11.07	8.46	6.41
	Total asset turnover ratio (times)	1.19	1.13	1.13	0.98	0.77
Profitability	Return on assets (%)	12.11	20.21	14.76	8.83	5.87
	Return on equity (%)	16.21	27.06	22.49	14.41	9.01
	Ratio of income before tax to paid-in capital (%)	271.52	491.87	494.11	316.95	200.20
	Net profit ratio (%)	10.17	17.95	13.02	8.96	7.52
	Earnings per share (NT\$)	23.05	44.14	41.34	27.71	18.48
Cash flow	Cash flow ratio (%)	0.00	56.13	23.35	20.41	0.00
	Cash flow adequacy ratio (%)	83.19	87.99	56.80	51.47	35.98
	Cash re-investment ratio (%)	(9.17)	10.94	1.33	(2.14)	(10.05)
Leverage	Degree of operating leverage (DOL)	1.09	1.15	1.09	1.15	1.35
	Degree of financial leverage (DFL)	1.00	1.00	1.00	1.01	1.02

Explanations on changes in various financial ratios in the most recent two years:

- (1) The decrease in times interest earned ratio was due to the decrease in net income before tax and the increase in interest expense due to the issuance of convertible bonds in 2023.
- (2) The decrease in receivables turnover was due to the decrease in net sales in the first three quarters of 2023 as a result of the slowdown in end-market demand. The increase in outstanding accounts receivable was due to the increase in net sales in the fourth quarter of fiscal year 2023 as a result of the reduction in production at the original plant and the increase in demand for applications.
- (3) The increase in average days for cash receipts was due to the decrease in net sales and the increase in accounts receivable at the end of the period in 2023.
- (4) The decrease in inventory turnover ratio was due to the decrease in cost of goods sold in the first three quarters of 2023 as a result of the decrease in net sales due to the slowdown in demand in the end market. In the fourth quarter of fiscal year 2023, due to the decrease in production at the original plant and the increase in demand for applications, the inventory at the end of the fiscal year increased as a result of the increase in provisioning based on the supply status of the original plant and the demand from customers.
- (5) The increase in average days of sales of goods was due to the increase in ending inventory in 2023.
- (6) The decrease in PP&E turnover ratio was mainly due to the decrease in operating revenue in fiscal year 2023 and the increase in property, plant and equipment as a result of the completion and acceptance of buildings and the purchase of land in fiscal year 2022.
- (7) The decrease in Total asset turnover ratio was due to the decrease in net sales in 2023.
- (8) The decreases in return on assets, return on equity, ratio of income before tax to paid-in capital, net profit ratio, and earnings per share were due to the decreases in gross profit and the increase in operating expenses in fiscal year 2023, which resulted in the decrease in income before tax.
- (9) The decreases in cash flow ratio, cash flow adequacy ratio and cash re-investment ratio were due to the decreases in net cash flows from operating activities as a result of the increases in accounts receivable and inventories in 2023.

[Note 1] The financial information for the preceding year has been audited by a certified public accountant.

6.2.2 Financial analysis in recent five years-Individual Financial Report that adopts IFRS

Item		Year	Financial information in the most recent five years [Note]				
			2019	2020	2021	2022	2023
Financial structure (%)	Ratio of liabilities to assets		23.82	25.65	40.55	36.54	33.55
	Ratio of long-term capital to property, plant, and equipment		893.61	888.92	697.36	617.52	639.51
Solvency (%)	Current ratio		328.42	291.13	221.61	255.84	222.57
	Quick ratio		197.85	203.98	131.77	136.54	108.48
	Times interest earned ratio		2,663.24	2,949.12	625.30	198.08	82.67
Operation performance	Receivables turnover (times)		7.99	8.12	8.48	7.52	5.67
	Average days for cash receipts		45.68	44.95	43.04	48.53	64.37
	Inventory turnover ratio (times)		3.52	3.35	2.94	2.15	1.43
	Payables turnover ratio (times)		7.90	10.14	6.89	5.65	5.13
	Average days for sale of goods		103.69	108.95	124.14	169.76	255.24
	PP&E turnover ratio (times)		14.29	13.40	12.71	9.36	7.00
	Total asset turnover ratio (times)		1.20	1.13	1.14	0.98	0.77
Profitability	Return on assets (%)		12.25	20.34	14.83	8.89	5.93
	Return on equity attributable to shareholders of parent company (%)		16.21	27.05	22.49	14.41	9.01
	Ratio of income before tax to paid-in capital (%)		270.99	472.12	486.55	313.71	197.29
	Net profit rate (%)		10.21	17.99	13.02	9.07	7.63
	Earnings per share (NT\$)		23.05	44.14	41.34	27.71	18.48
Cash flow	Cash flow ratio (%)		0.00	58.28	23.32	17.46	0
	Cash flow adequacy ratio (%)		85.39	89.79	57.76	50.77	35.25
	Cash re-investment ratio (%)		(9.10)	11.62	1.26	(3.57)	(11.17)
Leverage	Degree of operating leverage (DOL)		1.08	1.14	1.08	1.14	1.35
	Degree of financial leverage (DFL)		1.00	1.00	1.00	1.00	1.02
<p>Explanations on changes in various financial ratios in the most recent two years:</p> <p>(1) The decrease in quick ratio was due to the increase in bonds payable due within one year.</p> <p>(2) The decrease in times interest earned ratio was due to the decrease in net income before tax and the increase in interest expense due to the issuance of convertible bonds in 2023.</p> <p>(3) The decrease in receivables turnover was due to the decrease in net sales in the first three</p>							

quarters of 2023 as a result of the slowdown in end-market demand. The increase in outstanding accounts receivable was due to the increase in net sales in the fourth quarter of fiscal year 2023 as a result of the reduction in production at the original plant and the increase in demand for applications.

- (4) The increase in average days for cash receipts was due to the decrease in net sales and the increase in accounts receivable at the end of the period in 2023.
- (5) The decrease in inventory turnover rate was due to the decrease in cost of goods sold in the first three quarters of 2023 as a result of the decrease in net sales due to the slowdown in demand in the end market. In the fourth quarter of fiscal year 2023, due to the decrease in production at the original plant and the increase in demand for applications, the inventory at the end of the fiscal year increased as a result of the increase in provisioning based on the supply status of the original plant and the demand from customers.
- (6) The increase in average days for sale of goods was due to the increase in ending inventory in 2023.
- (7) The decrease in PP&E turnover ratio was mainly due to the decrease in operating revenue in fiscal year 2023 and the increase in property, plant and equipment as a result of the completion and acceptance of buildings and the purchase of land in fiscal year 2022.
- (8) The decrease in total asset turnover ratio was due to the decrease in net sales in 2023.
- (9) The decreases in return on assets, return on equity attributable to shareholders of parent company, ratio of income before tax to paid-in capital, net profit rate, and earnings per share were due to the decreases in gross profit and the increase in operating expenses in fiscal year 2023, which resulted in the decrease in income before tax.
- (10) The decreases in cash flow ratio, cash flow adequacy ratio and cash re-investment ratio were due to the decreases in net cash flows from operating activities as a result of the increases in accounts receivable and inventories in 2023.

[Note] The financial information for the preceding year has been audited by a certified public accountant and no financial information for 2024 has been audited.

****The financial ratio calculation formula is as follows:**

1. Financial structure

- (1) Liability to asset ratio = Total liabilities/total assets.
- (2) Long-term capital as a proportion of PP&E = (Total equities + non-current liabilities)/
Net value of PP&E.

2. Solvency

- (1) Current ratio = Current assets/current liabilities
- (2) Quick ratio = (Current assets - inventory - prepaid expenditures)/current liabilities.
- (3) Times interest earned ratio = Income before income tax and interest expenditure/interest expenditures for the period.

3. Operation performance

- (1) Receivables turnover rate (including notes receivable resulting from accounts receivable and business operations) = Net sales/average accounts receivable in various periods (including notes receivable resulting from accounts receivable and business operations).
- (2) Average collection days = 365/receivables turnover ratio.
- (3) Inventory turnover = Sales expense/average inventory value.
- (4) Payables turnover ratio (including notes payable resulting from accounts payable and business operations) = Cost of sales/average accounts payable in various periods (including notes payable resulting from accounts payable and business operations).
- (5) Average sales days = 365/inventory turnover ratio.
- (6) PP&E turnover ratio = Net sale/average PP&E value.
- (7) Total asset turnover ratio = Net sales/average total PP&E value.

4. Profitability

- (1) Return on assets = [Net profit after taxes + interest expense (1– Tax rate)]/average total assets.
- (2) Return on equity = Net gain (loss) after tax/average equity value.
- (3) Net profit ratio = Net gain (loss) after tax/net sales.
- (4) Earnings per share = (Gain (loss) attributable to the shareholders of the parent company - dividend for preferred shares)/weighted average of issued shares

5. Cash flow

- (1) Cash flow ratio = Net cash from business activities/current liabilities.
- (2) Net cash flow adequacy ratio = Net cash flow for business activities for the last 5 years/(Capital expenses + Additional inventory sum + Cash dividend) for the past 5 fiscal years.
- (3) Cash re-investment ratio = (Net cash flow from business activities - cash dividend)/(gross amount of PP&E + long-term investments + other non-current assets + business capital).

6. Degree of leverage:

- (1) Degree of operating leverage (DOL) = (Net sales - variable operating cost and expense)/operating income
- (2) Degree of Financial Leverage (DFL) = Operating profit/(operating profit - interest expenditures).

6.3 2023 Audit Committee's Review Report

Audit Committee's Review Report

The board of directors prepared the Company's 2023 Business Report, Financial Statements and profit distribution, etc. The CPA firm of KPMG audited the Financial Statements and have issued an audit report. Above Business Reports, Financial Statements and profit distribution were audited by Audit Committee and found no discrepancy, as reported in accordance with the Securities and Exchange Act and Company Act, please check.

To

2024 Annual General Meeting of Shareholders

Phison Electronics Corp.

Audit Committee Convener :

Huei Ming Wang

March 8, 2024

- 6.4 The most recent year (2023) Financial Statements (Including CPA Audit Report, Two-year Comparative Balance Sheet, Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Chart, and Notes or Attachments): Please refer to Page 208 to Page 295.**
- 6.5 The most recent year (2023) Audited Nonconsolidated Financial Statement: Please refer to Page 296 to Page 387.**
- 6.6 Financial Impact on the Company where the Company and its Affiliated Companies Have Incurred any Financial or Cash Flow Difficulties in the Most Recent Year and as of the Publication Date of the Annual Report: None.**

Chapter 7

Financial Status and Operating Results Review and Risk Matters



Chapter 7 Financial Status and Operating Results Review and Risk Matters

7.1 Financial Status Analysis

Consolidated Financial Statements

Unit: NT\$ thousand

Item	Year	2023.12.31	2022.12.31	Difference	
				Amount	%
Cash and cash equivalents		14,220,367	17,033,769	(2,813,402)	(16.52)
Financial assets at fair value through profit or loss-current		980,757	785,022	195,735	24.93
Accounts receivable		9,621,791	7,236,795	2,384,996	32.96
Inventories		24,410,405	20,390,375	4,020,030	19.72
Other current assets		586,351	448,624	137,727	30.70
Financial assets at fair value through profit or loss - non-current		242,257	317,347	(75,090)	(23.66)
Financial assets at fair value through other comprehensive income - non-current		457,457	431,697	25,760	5.97
Investment accounted for using equity method		4,062,871	3,693,963	368,908	9.99
Property, plant, and equipment		7,447,729	7,597,761	(150,032)	(1.97)
Other non-current assets		2,932,539	2,054,483	878,056	42.74
Total assets		64,962,524	59,989,836	4,972,688	8.29
Short-term borrowings		2,106,363	0	2,106,363	100.00
Accounts payable		6,507,593	6,178,973	328,620	5.32
Other current liabilities		13,187,467	11,420,118	1,767,349	15.48
Bonds payable		0	3,442,031	(3,442,031)	(100.00)
Other non-current liabilities		372,948	1,316,892	(943,944)	(71.68)
Total liabilities		22,174,371	22,358,014	(183,643)	(0.82)
Common Shares		2,047,690	1,986,745	60,945	3.07
Capital surplus		11,552,379	8,970,438	2,581,941	28.78
Retained earnings		30,808,166	28,952,665	1,855,501	6.41
Other equity interest		(362,774)	(216,810)	(145,964)	67.32
Treasury Shares		(1,257,308)	(2,061,216)	803,908	(39.00)
Total equity attributable to shareholders of the parent company		42,788,153	37,631,822	5,156,331	13.70
Non-controlling Interests		0	0	0	-
Total equity		42,788,153	37,631,822	5,156,331	13.70

Cause and impact of the significant differences (more than 20% and NT\$10 million) of assets, liabilities, and equities in the most recent two years:

- (1) The increase in financial assets at fair value through profit or loss - current was mainly due to the recognition of the valuation gain on publicly traded stocks.
- (2) The increase in accounts receivable was due to the increase in accounts receivable at the end of the period as a result of the increase in net sales due to the reduction in production at the original plant and the increase in demand for applications in the fourth quarter.
- (3) The increase in other current assets was due to the increase in tax refund.
- (4) The decrease in financial assets at fair value through profit or loss - non-current was due to the recognition of investment appraisal loss.

- (5) The increase in other non-current assets was due to the increase in refundable deposits.
- (6) The increase in short-term borrowings was mainly due to the increase in US dollar bank borrowings for US dollar exchange rate hedging.
- (7) The decrease in bonds payable was due to the reclassification of bonds due within one year to other current liabilities.
- (8) The decrease in other non-current liabilities was due to the decrease in long-term borrowings and Guarantee deposit received.
- (9) The increase in capital surplus was due to the changes in the net value of equity in affiliated companies recognized under the equity method, the transfer of treasury shares to employees and the exercise of stock options by employees.
- (10) The decrease in other equity interest was due to translation differences on the financial statements of foreign operations and adjustments to the valuation of investments in equity instruments measured at fair value through other comprehensive income.
- (11) The decrease in treasury shares was due to the transfer of treasury stock to employees.

7.2 Operating Results Analysis

7.2.1 Comparison Analysis of Operating Results

Consolidated Statements of Comprehensive Income

Unit: NT\$ thousand

Item \ Year	2023 (Consolidated)		2022 (Consolidated)		2022 Growth rate
	Amount	%	Amount	%	%
Operating revenue	48,221,630	100.00	60,256,142	100.00	(19.97)
Operating costs	32,107,386	66.58	42,906,250	71.21	(25.17)
Realized gross profit	16,114,244	33.42	17,349,892	28.79	(7.12)
Marketing expenses	1,277,484	2.65	1,268,136	2.10	0.74
General and Administrative expenses	959,935	1.99	1,044,298	1.73	(8.08)
R&D expenses	10,305,558	21.37	8,130,501	13.49	26.75
Expected credit loss reversal (gain)	(50,601)	(0.10)	63,035	0.10	(180.27)
Total operating expenses	12,492,376	25.91	10,505,970	17.44	18.91
Net operating income	3,621,868	7.51	6,843,922	11.36	(47.08)
Non-operating income and expenses	477,574	0.99	(547,002)	(0.91)	187.31
Profit before tax	4,099,442	8.50	6,296,920	10.45	(34.90)
Income tax expenses	475,014	0.99	895,774	1.49	(46.97)
Net profit for the year	3,624,428	7.52	5,401,146	8.96	(32.90)
Other comprehensive income	(161,374)	(0.33)	(231,847)	(0.38)	(30.40)
Total comprehensive income	3,463,054	7.18	5,169,299	8.58	(33.01)
Net profit for the period attributable to owners of the parent company	3,624,428	7.52	5,401,146	8.96	(32.90)
Comprehensive income (loss) for the period attributable to shareholders of the parent company	3,463,054	7.18	5,169,299	8.58	(33.01)
Earnings per share (NT\$)	18.48		27.71		(33.31)
Cause and impact of the significant differences (more than 20% and NT\$10 million) of assets, liabilities, and equities in the most recent two years:					
(1) The decrease in operating costs was due to the decrease in slowing end market demand reduces operating income					
(2) The change in expected credit loss was due to the increase in accounts receivable in fiscal year 2023 and the provision of expected credit impairment loss.					
(3) The increase in operating expenses was mainly due to the increase in the number of employees and the increase in research and development expenses.					
(4) The decrease in net operating income was mainly due to the decrease in operating revenues and the increase in operating expenses.					
(5) The increase in non-operating income and expenses was mainly due to the decrease in the share of loss from related parties recognized under the equity method in fiscal year 2023 as compared to fiscal year 2022.					
(6) The decrease in income tax expense was mainly due to the decrease in domestic taxable income and deferred income tax.					
(7) The increase in other comprehensive income was mainly due to the adjustment of the valuation of equity instruments measured at fair value through other comprehensive income.					

7.2.2 The Operating Gross Profit Difference Analysis

Unit: NT\$ thousand

Item	Increase (decrease) in the preceding and following periods	Reasons			
		Price difference	Cost difference	Sales combination difference	Quantity difference
Operating gross profit	(1,235,648)	6,153,800	(2,260,300)	1,282,334	(6,411,482)
Reason	1. Market price difference advantage: Mainly due to the increase in sales of high-capacity flash memory modules. 2. Cost difference advantage: Mainly caused due to the high-capacity flash memory module product cost reduction. 3. Sales combination difference advantage: Mainly caused due to the increased sales of high-capacity flash memory module products. 4. Quantity difference disadvantage: Mainly due to the increase in the total shipments.				

7.3 Analysis of Cash Flow

7.3.1 Cash Flow Analysis for Recent Year

Unit: NT\$ thousand

Item \ Year	2022	2023	Increase (Decrease) Amount	Increasing (Decreasing) Percentage%
Operating activities	3,591,441	(1,696,217)	(5,287,658)	(147.23)
Investing activities	(1,524,459)	(1,364,335)	160,124	10.50
Financing activities	(5,080,379)	258,303	5,338,682	105.08
Analysis of the reasons for changes of 20% or more in the percentage of increase or decrease: 1. Increase in net cash outflows generated from operating activities: This was mainly due to the increase in the Company's inventory in 2023. 2. Increase in net cash inflows from financing activities: This was mainly the increase in short-term borrowings and the execution of stock options by employees in 2023.				

7.3.2 Remedy Action for Estimated Cash Inadequacy: No concern for estimated cash inadequacy.

7.3.3 Analysis of the Cash Flow Difference of the Next Year:

Unit: NT\$ thousand

Cash balance amount at the beginning of the year (1)	Estimated cash flow from operating activities (2)	Estimated cash used in investing and financing activities (3)	Estimated cash balance (inadequacy) (1)+(2)-(3)	Remedy for cash inadequacy	
				Investment plan	Financing plan
14,220,367	(2,722,776)	2,446,032	9,051,559	N/A	N/A
<p>1. Analysis of the cash flow difference of the next year:</p> <p>Operating activities: Mainly resulted from the estimated inventory needs and operation status.</p> <p>Investing activities: Mainly resulted from expenses, such as the acquisition of fixed assets and intangible assets, and the increase of reinvestment plans.</p> <p>Financing activities: Mainly resulted expenses of the Company issued the second domestic unsecured convertible corporate bonds, execution of employee stock options and payment of disburse cash dividends to shareholders.</p> <p>2. Remedy action for estimated cash inadequacy: Not applicable.</p>					

7.4 2023 Major Capital Expenditures and Impact on Financial and Business:

7.4.1 Major Capital Expenditure Items and Source of Capital:

Unit: NT\$ thousand

Item	Content	Total capital amount	Estimated source of capital	Estimated purchase or construction timeline	Capital application		
					2020	2021	2022
Jhunan Phase V Plant Building Construction Project	Two floors underground and seven floors above ground of the plant building are built with a reinforced concrete (RC) structure, the total floor area is around 13,508 flat (1 flat = 3.3057 square meters)	1,398,000	Own funds	2020/03/01 - 2022/06/30	419,400	908,700	69,900
New construction of Jhunan Plant and ancillary loading and unloading parking space	Two floors underground and nine floors above ground of the parking building are built with a reinforced concrete (RC) structure, the total floor area is around 9,400 flat (1 flat = 3.3057 square meters)	829,000	Own funds	2021/02/05~ 2022/06/30	13,397	566,903	248,700
Obtained land in Datong Section, Zhunan Township, Miaoli County	Announced on January 25, 2022 to acquire the land.	346,660	Own funds	2022/01/25	0	0	346,660

7.4.2 Impact on Financial and Business:

Since the operation of the Company is in good status, the source of major capital expenditure in recent years is mainly the own operating capital. The Company has evaluated the fund necessity of purchasing land and constructing plant plans prudently and properly planned the use of operating funds, therefore, there is no major adverse impact on the Company and its subsidiaries' financial and business status.

7.4.3 Expected Benefits:

It will help the Company to increase the flexibility and effective use of business space in response to the future expansion of its operations and the expansion of its organizational staff, so as to improve the Company's operational performance and avoid the fragmentation of its operating sites, which will reduce the efficiency of its operational management, and will have positive benefits for the Company's operations.

7.5 2023 Investment Policy, Main Causes for Profits or Losses, Improvement Plans and Investment Plans for 2024

7.5.1 Investment Policy in the Most Recent Year

The investment policy of the Company is to help the Company improve the NAND Flash system integration technology. The major directions for the investment include strategic investment, diverse operation, and business scope expansion, as well as increasing the investment profit to promote shareholders' interests.

7.5.2 The main reasons for the profit or loss of the most recent investment, improvement plans, and investment plans for the coming year

Unit: NT\$ thousand

Name of be Reinvested Company	Main Business Activities	2023 Gains (losses) from investment	The Reasons for Gains or Losses	Remedy Action	Investment Plans for the Next Year
Global Flash Limited	Investment and trade	(134,528)	Recognition of investment interests in affiliated companies using the equity method	None	None
Regis Investment (Samoa) Limited	Investment	(117,244)	Recognition of investment interests in affiliated companies using the equity method	None	None
Phisontech Electronics Taiwan Corp.	Investment and trade	59,226	Recognition of investment interests in affiliated companies using the equity method	None	None
Lian Xu Dong Investment Corporation	Investment	(18,199)	Valuation gain of dividend earned and recognized financial losses	None	None

Name of be Reinvested Company	Main Business Activities	2023 Gains (losses) from investment	The Reasons for Gains or Losses	Remedy Action	Investment Plans for the Next Year
EpoStar Electronics (BVI) Corporation	Investment	(607)	Recognition of foreign currency unrealized exchange loss	None	None
Emtops Electronics Corp.	Investment	20,694	Recognition of investment interests in affiliated companies using the equity method	None	None
Nextorage Corporation	Development, design, manufacturing and sales of flash memory application products	108,939	Stable growth in operations and profitability of the business	None	None
Power Flash (Samoa) Limited	Investment and trade	6,082	Recognition of unrealized foreign currency exchange losses	None	None
ProGrade Digital Inc.	Flash memory related products and market development	21,315	Stable growth in operations and profitability of the business	None	None
Phison Electronics Japan Corp.	Sales and service office	753	Stable operations and modest profitability for the business	None	None
Phison Technology India Private Limited	Design, R&D, import and export of storage devices and electronic components	876	The establishment was completed at the end of the year, but not yet in operation	None	None
Microtops Design Corporation	Development and design of flash memory controllers and related products	479	Recognized interest income from bank deposits	None	None
Ostek Corp.	Manufacturing and trade of electronic components	N/A	-	None	None
Phison Technology Inc.	Sales of electronic products and business service office	N/A	-	None	None
Phison Technology India Private Limited	Design, R&D, import and export of storage devices and electronic components	N/A	The establishment was completed at the end of the year, but not yet in operation	None	None
Super Storage Technology Corporation	Manufacturing and trade of electronic components	N/A	-	None	None
Core Storage Electronic(Samoa) Limited	Investment and trade	N/A	-	None	None
Power Flash (HK) Limited	Sale, trade of electronic products	N/A	-	None	None
RealYou Investment Limited	Investment	N/A	-	None	None
Hefei Ruhan Electronic Technology Limited	Design R&D, sale of electronics product and technical support service and rendering of related	N/A	-	None	None

Name of be Reinvested Company	Main Business Activities	2023 Gains (losses) from investment	The Reasons for Gains or Losses	Remedy Action	Investment Plans for the Next Year
	services and investment				
Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	N/A	-	None	None
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	N/A	-	None	None
HOSIN Global Electronics Co., Ltd.	R&D and sale of electronic product and technical service and rendering of related services	N/A	-	None	None

7.6 Risk Management and Analysis

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

Interest rate: The assets and liabilities with floating interest rates held by the Company may fluctuate cash flows of the assets and liabilities in the future due to the changes in interest rates and lead to risks. Yet, the Company anticipates that the change of interest rates will not have significant impacts on the Company's cash flow in future.

The interests of the Company and its subsidiary companies in 2022 and 2023 are NT\$35,783 thousand and NT\$53,957 thousand respectively, accounting for 0.06% and 0.11% of the net operating revenue of the corresponding year. So, the change of interest rates has limited impact on the Company and subsidiaries overall operation.

By the end of 2023, the Company had long-term loans of NT\$88,513 thousand. In addition to the second domestic unsecured conversion corporate bonds issued in January 2024, there are no major long-term financing plans in the next year, so the change in interest rates has no significant impact on the net results of the Company. Yet, the Company will continually pay attention to the trend of interest rates and regularly assess the financing policies.

Foreign exchange rate: The Company and its subsidiaries engage in foreign currency-denominated sales and purchase transactions, which expose the Consolidated Company to exchange rate fluctuations. 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 are roughly offset against the gains and losses of the hedged items. Therefore, market risk is not significant.

The 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 impacts on the revenue and profit of the Company. In 2023, the foreign exchange losses is NT\$94,243 thousand, which is the profit resulted from the fluctuation of the foreign exchange rate. The finance department of the Company pays attention to the trend at all times to hedge against risks. In addition, the finance department keeps a 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 rates.

Inflation: In 2023 and as of the publication date of the annual report, 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 2023 and as of the publication date of the annual report, the Company only makes short-term transactions 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 Lending Funds to Other Parties”, “Procedures for Endorsement and Guarantee” and “Procedures for Engaging in Derivatives Trading”. The Company has never loaned money to others and never endorsed for others. The Company limits its derivative product trades only to hedge in trades. Therefore, these operations will not affect the profit or loss of the Company.

7.6.3 Future R&D Projects and Estimated Expenditures

1. Major R&D Projects in 2024:

- (1) Introducing the world's first PCIe 5.0 DRAM-less client SSD controller PS5031-E31T, with maximum read/write performance of up to 14GB/s. It is a PCIe 5.0 SSD storage solution that combines performance and power efficiency, ideal for high-end PC OEM applications and the mainstream SSD market.
- (2) PS5027-E27T PCIe Gen4 SSD controller, featuring a DRAM-Less design with speeds of up to 7400MB/s. It will be a low-power, high-performance PCIe 4.0

- SSD storage solution designed specifically for handheld gaming consoles (such as Steam Deck, Ally, or Legion Go), offering the compact M.2 2230 form factor.
- (3) Introducing a full range of UFS controllers, including UFS 2.2 PS8327, UFS 3.1 PS8325, UFS 3.1 PS8329, and UFS 4.0 PS8361, covering entry-level, mid-range, and flagship smartphones, to deliver ultimate performance in mobile storage.
 - (4) Launching the world's first single-chip (SoC) native USB 4.0 controller PS2251-21 (U21), with maximum performance of up to 4GB/s. It will be the optimal storage solution for content creators and mobile storage applications.
 - (5) Continuing the development of high-end enterprise-grade SSD storage solutions, supporting higher capacities, faster speeds, and interface fault tolerance, in collaboration with strategic partners to meet the demands of the enterprise storage market.
 - (6) Continuing the development of smaller, higher-capacity, and more power-efficient controller solutions, including eMMC, UFS, and BGA SSD tailored for the automotive storage market to meet the future high-speed storage needs of mobile devices.
 - (7) Continuing the development of controllers compliant with automotive specifications and enhancing certifications such as AEC-Q100, ISO26262, IATF16949, and ASPICE to meet the rising demands of automotive electronics.
 - (8) Continuing to introduce Redriver/Retimer ICs tailored for PC, server, and automotive systems to provide the best signal stability solutions for high-speed transmission platforms.
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 2024 is approximately NT\$ 115 hundred million, the actual R&D expenditures will be adjusted based on customer demand, product R&D and operating conditions.

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

The 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 the Company. We will continue to pay attention to domestic/overseas changes on policies and law amendments, and evaluate these changes accordingly at all times. There is no impact on the finances of the Company so far 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 the Company. We will invest more R&D resources into these products to respond to the new challenge from the new technology in the future.
2. With the advancement 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 product development. We have successfully introduced TIPTOP GP ERP System, AgentFlow system and, SAMP system 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: In 2017, the Company established an Information Security Committee with the President as the representative of information security management. The Committee holds quarterly information security meetings, regularly reports to the top management on the performance of the information security system, and reviews information security policies and objectives. In July 2022, the Company joined the TWCERT to strengthen its security protection from time to time, and to review its internal equipment and systems to update or remediate the vulnerabilities. On November 4, 2022, the Company formulated the “Procedures for Information Security Control” and submitted it to the Board of Directors for approval to ensure internal compliance with information security related standards, procedures, and regulations. In order to maintain the confidentiality, integrity and availability of the Company’s information assets and to protect the privacy of users’ information, it is clearly stipulated that employees should avoid unauthorized access and modification, respect intellectual property rights, and safeguard customers’ and the Company’s information, and that any person who discovers an information security incident or suspected security vulnerability should follow the notification mechanism to respond to the security personnel for appropriate investigation and handling. We implement information security education and training and social engineering drills for our employees every year, and conduct quarterly information security announcements and publicity to enhance the information security awareness of our employees and to reduce the information security risks faced by the Company’s operations.

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 creates the image of "youngest, fastest and strongest in the operation of this industry". So far, the Company keeps a good image and there is no significant change that endangers the Company.

7.6.7 Expected Benefits and Risks Relating to Merger and Acquisition Plans and Response Measures

The Company did not have any risk of merger and acquisition from 2023 to the printing date of the annual report.

7.6.8 Expected Benefits and Risks Relating to Plant Expansion Plans and Response Measures

In order to cope with the growth in operation scale and increase in the number of employees, the Company's Board of Directors resolved on January 17, 2020 and November 12, 2020 to construct the phase V of the plant office building and parking tower project, which has been completed in fiscal year 2022 and put into use. The main purpose of the newly constructed plant building is to increase the storage space and office area for the additional research and development team as well as the overall staff function area. In addition to effectively responding to the operational space required for the expansion of manpower and avoiding the dispersion of the operating premises that may reduce the efficiency of operation and management, it can also solve the problem of insufficient space without the need to lease a separate plant office, which will result in the benefit of rental savings and should be positively beneficial to the Company. In summary, the Company has carefully evaluated the plant expansion plan and therefore the risk should be limited.

In addition to the above-mentioned plans, the Company will continue to carefully evaluate and plan for major investment projects and needs such as the acquisition of land, buildings or the construction of plants, depending on the actual operational needs of the Group's domestic and overseas companies.

Expected Benefits and Response Measures: None.

7.6.9 Risks Relating to Excessive Concentration of Purchasing Sources and Customers and Response Measures

1. Excessive Concentration of Purchasing Sources:

The Company is focusing on the flash memory controllers and flash memory application system products (i.e. pen 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, KIOXIA in Japan, Hynix in Korea, Micron, and Sandisk in the US. The development of controllers and system products needs 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 KIOXIA Taiwan Corporation (Kioxia KITW), which is a subsidiary of KIOXIA Japan. KIOXIA Japan invested in the Company due to the capability of controller and system product design. KIOXIA Japan invested and closely collaborated with the Company to develop various products. The Company coordinates the new flash memory technologies of TLC (Triple-level Cell)、QLC (Quad-level Cells), and 3D Nand from KIOXIA Japan to design the controllers with high performance and high compatibility. We also purchase the relevant flash memory application products from the affiliates of KIOXIA Japan for our system products. The performance of the firmware in controllers by using KIOXIA flash memory is excellent and we have successfully developed many flash memory application products, our partnership with KIOXIA goes closer and smoothly. Those are the reason the company purchased flash memory from the affiliates of KIOXIA Japan in the excessive concentration of purchasing sources. Since we have been cooperating with KIOXIA Japan for several years, the supply situation is still stable, so there is no significant risk of importation.

2.Excessive Concentration of Customers:

The Company's main sales targets include global electronic distributors and brand owners, industrial application manufacturers, etc. The Company also directly or indirectly supplies storage applications to brand manufacturers of various applications such as cell phones, NBs and game consoles, and its sales territories cover the world. For the most recent year and up to the printing date of the annual report, the Company had no sales to a single customer that exceeded 10% of its net sales, so there is no risk of concentration of sales.

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:
As of the printing date of the annual report, there is no such situation.

7.6.12 Litigation or Non-Litigation Events

The Company was served two complaints from Taiwan Hsinchu District Court in November, 2019 and December, 2019 that, the Securities and Futures Investors Protection Center ("SFIPC") filed the following two civil action:

1. To ask to remove Mr. K.S. Pua from the Company's board director position ("Removal Action").
2. To claim monetary damage amounting New Taiwan Dollars \$697,389 thousand against the Company, its board of directors and other co-defendants on behalf of certain investors ("Class Action").

Said two civil actions were derivative litigations from the criminal litigation associated with the Company's financial case occurred in August, 2016. The Company has engaged attorneys to answer and ask the court to dismiss SFIPC's allegations. About the Removal Action's status, in March, 2024 Supreme Court rendered judgement that the original judgment is reversed and remanded to Taiwan High Court. Nevertheless, since Mr. K.S. Pua had resigned from the Company's chairman and board director position in November, 2021, the Removal Action's future development has no influence to the Company. With regard to the Class Action, in May, 2024 Taiwan Hsinchu District Court rendered judgment that: the plaintiff's complaint and petition for provisional attachment are both dismissed, and the litigation costs shall be borne by the plaintiff

7.6.13 Other Major Risks:

Risk Management Committee

To ensure the effectiveness, integrity and reasonableness of risk management of Phison and its subsidiaries, to protect shareholders' rights and interests, to achieve sustainable development and to implement corporate governance, the Company established the Risk Management Committee in November 2021 as a functional committee under the Board of Directors, which reports on its operations to the Board of Directors once a year.

The Risk Management Committee is a unit that integrates risk management activities and consists of at least three members with legal, accounting or technology-related professional backgrounds, with one of the members serving as the convener and at least a majority of the members being independent directors, and an executive secretariat.

Risk Management Organization Structure and Duties

1. Board of Directors

Responsible for approving the Law and monitoring the various risks that exist or are potentially present in the Company, and making reasonable resource allocation to ensure effective risk control.

2. Risk Management Committee

The Risk Management Committee is the unit that integrates risk management activities and consists of at least three members, one of whom serves as the convener, and at least a majority of the members are independent directors, and an executive secretariat is established. Its duties are as follows:

Formulate relevant risk management practices, establish risk management standards, and regularly review the implementation of the Company's risk management mechanism, risk category evaluation and operational refinement.

Execute the risk management decisions made by the Board and regularly review the development, establishment and effectiveness of the Company's overall risk management mechanism.

Approve the risk response strategy and action plan, and require each risk management unit of the Company to effectively identify, measure, monitor and control each risk.

At least one Risk Management Committee meeting will be held annually.

Review and integrate the Company's various risk management reports, at least once a year to provide timely report to the Board of Directors on the implementation of risk management.

3. Executive Secretariat

Responsible for implementing and coordinating the Company's risk management activities, including convening meetings of the Risk Management Committee, assisting the Risk Management Committee in formulating risk management policies and procedures, communicating risk information with each operating unit, and collecting and integrating risk management reports from each operating unit, and other matters assigned by the Risk Management Committee.

4. Each Operating Unit

Responsible for the actual implementation of each unit's risk plan, including risk identification, risk analysis, risk assessment, risk response and control, and self-monitoring. Each operating unit shall report the risk management execution status of each type of risk to the Risk Management Committee on a regular basis or when requested by the Risk Management Committee.

Risk Management Range

The Company shall evaluate the possibility and impact of each risk faced by its daily operation activities and take appropriate countermeasures to continuously improve and reduce corporate risks.

The Company's operational risks can be categorized as operational risks, market risks, operational risks, information security risks, environmental security risks, risks of stable supply of electricity and water resources, risks of statutory infectious diseases, and other risks related to operations. The Company shall establish aggregation and management indicators for each type of risk, which shall be regularly monitored by each operating unit, to ensure that each risk is controlled within a tolerable range.

Risk Management Committee Members

Position	Name of Directors	Experience (education):
Independent Director	Huei Ming Wang	Master of Industrial Management from Chung Hua University Director of Moores Rowland CPAs
Independent Director	Yu Lun Huang	Associate Professor, Department of Electronics Engineering, National Chiao Tung University Secretary-general, Taiwan Open Course Ware Consortium Associate Dean for Academic Affairs, National Yang Ming Chiao Tung University

Position	Name of Directors	Experience (education):
Senior Special Asst. & COO	Zhi Chyang Yu (Convener)	Master of Risk Management, National Chengchi University National Union Electronics Legal Director Legal Manager, Phison Electronics Corp. Spokesperson, Phison Electronics Corp. Senior Special Assistant, Phison Electronics Corp. Chief Operating Officer, Phison Electronics Corp.

Implementation Status of the year

The Committee held 1 meeting in 2023, 100% average attendance and reported at the meeting the results of the 2023 implementation of risk management projects on "Climate Change Risk Assessment and Response", "Supply Chain Management" and "Information Security Measures". After the annual meeting of the Risk Management Committee, the operation status and results of the year were reported to the board of directors.

7.7 Other Major Events: None.

Chapter 8

Special Disclosure



Chapter 8 Special Disclosure

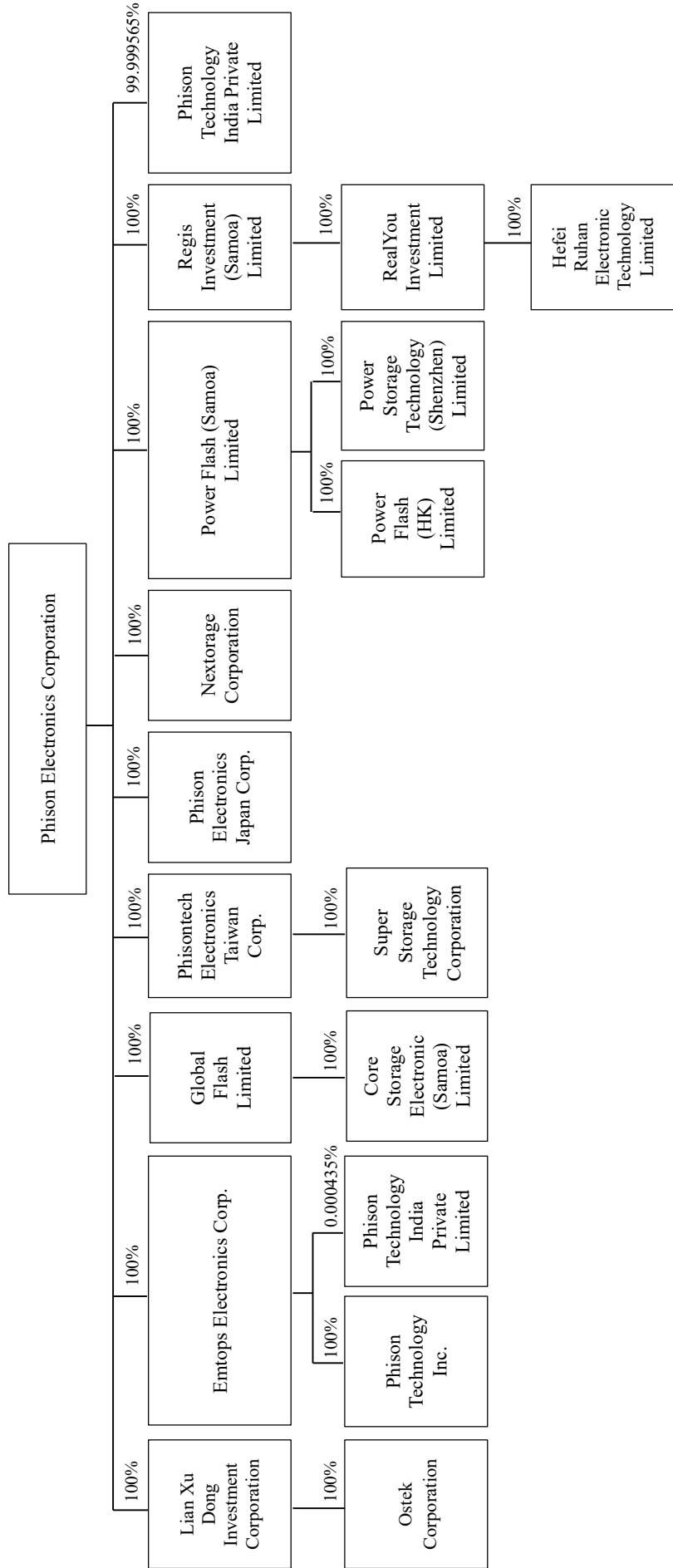
8.1 Summary of Affiliated Companies

8.1.1 Consolidated business report of affiliated companies

8.1.1.1 Overview of the affiliated companies

(1) Organizational Structure of Affiliated Companies

Date: December 31, 2023



(2) This company has no other affiliates under the inference by Article 369.3 of Company Act.

8.1.1.2 Basic information of affiliated businesses

Date: December 31, 2023, Unit: NT\$ thousand

Enterprise Name	Date of incorporation	Address	Actual paid-in capital			Main Business or Products	Remark
			Original currency		NT\$		
Lian Xu Dong Investment Corporation	2005.08	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan	NTD	650,000	650,000	Investment	Subsidiary
Global Flash Limited	2012.06	Vistra Corporate Services Centre, Ground Floor NPF Building, Beach Road, Apia, Samoa	USD	22,100	726,307	Investment and trade	Subsidiary
Phison Electronics Japan Corp.	2011.02	4th Floor, 4-5-11 Namamugi, Tsurumi-ku, Yokohama City, Kanagawa, Japan	JPY	140,000	41,655	Sales and service office	Subsidiary
Emtops Electronics Corp.	2011.03	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan	NTD	380,000	380,000	Investment	Subsidiary
Power Flash (Samoa) Limited	2015.07	Portcullis Chambers, P.O. Box 1225, Apia, Samoa	USD	4,800	150,190	Investment and trade	Subsidiary
Regis Investment (Samoa) Limited	2018.01	Portcullis Chambers, P.O. Box 1225, Apia, Samoa	USD	21,900	655,995	Investment	Subsidiary
Phisontech Electronics Taiwan Corp.	2013.05	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan	NTD	550,000	550,000	Investment and trade	Subsidiary
Nextorage Corporation	2019.10	Kawasaki-eki-mae Tower Riverk 9F, 12-1, Ekimaehoncho, Kawasaki-ku, Kawasaki City, Kanagawa 210-0007 Japan	JPY	300,000	71,850	R&D, design, manufacture and sale of flash memory application products	Subsidiary
Phison Technology India Private Limited	2022.12	LVS Arcade, Madhapur, 71, Jubilee Enclave,HITEC City, Hyderabad, Hyderabad, Telangana, India	INR	23,000	8,768	Design, R&D, import and export of storage devices and electronic components	Subsidiary
Ostek Corporation [Note 1]	2005.08	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan	NTD	9,000	9,000	Manufacture and trade of electronic components	Sub-subsidiary
Core Storage Electronic (Samoa) Limited [Note 2]	2015.04	Maystar Chambers P.O.Box 3269, Apia, Samoa	USD	19,150	636,593	Investment and trade	Sub-subsidiary
Super Storage Technology Corporation [Note 3]	2006.03	10F.-6, No.251, Fuxing 1st St., Zhubei City, Hsinchu County 302, Taiwan	NTD	348,426	348,426	Manufacture and trade of electronic components	Sub-subsidiary

Enterprise Name	Date of incorporation	Address	Actual paid-in capital			Main Business or Products	Remark
			Original currency		NT\$		
Power Flash (HK) Limited [Note 4]	2015.08	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	3,000	98,754	Sale, of electronic products	Sub-subsidiary
RealYou Investment Limited [Note 5]	2018.02	13/F, PICO TOWER, 66 GLOUCESTER ROAD, WANCHAI, HONG KONG	USD	21,850	654,726	Investment	Sub-subsidiary
Phison Technology Inc. [Note 6]	2019.7	2526 Qume Drive, Unit 28 San Jose, CA 95131	USD	3,000	90,419	Sales of electronic products and business service office	Sub-subsidiary
Hefei Ruhan Electronic Technology Limited [Note 7]	2018.05	Room 2046, Building D8, Hefei Innovation Industrial Park, 800 Wangjiang West Road, Hefei High-tech Zone	CNY	40,800	182,825	Design, R&D and sale of electronic products and technical support service and rendering of related services and investment	Sub-subsidiary
Power Storage Technology (Shenzhen) Limited [Note 8]	2021.11	30G01, Building A, Building 1, Anhongji Tianyao Square, Daling Community, Minzhi Street, Longhua District, Shenzhen City	CNY	10,000	43,520	Design, R&D, import and export of storage devices and electronic components	Sub-subsidiary

[Note 1] This company is our subsidiary of subsidiary company via Lian Xu Dong Investment Corp.

[Note 2] This company is our subsidiary of subsidiary company via Global Flash Limited.

[Note 3] This company is our subsidiary of subsidiary company via Phisontech Electronics Taiwan Corp.

[Note 4] This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.

[Note 5] This company is our subsidiary of subsidiary company via Regis Investment (Samoa) Limited.

[Note 6] This company is our subsidiary of subsidiary company via Emtops Electronics Corp.

[Note 7] This company is our subsidiary of subsidiary company via RealYou Investment Limited.

[Note 8] This company is our subsidiary of subsidiary company via Power Flash (Samoa) Limited.

8.1.1.3 Affiliated companies in a controlling and subordinate relation of the Company with shared shareholder data in compliance with Article 369-3 of Company Act: None.

8.1.1.4 Business types of the affiliated companies. If the business operation is interconnected between the affiliated companies, the mission division shall be illustrated.

(1) Business types of the Company and its affiliated companies:

- ① Investment
- ② Investment and trade
- ③ Manufacture and trade of electronic components
- ④ R&D, design, manufacture and sale of electronic product and technical support service and rendering of related services.

(2) Mission Division of the Affiliates with Interconnected Businesses:

Company	Mission division of the affiliates with interconnected businesses
Phison Electronics Japan Corp.	Customer development and service in Japan.
Ostek Corporation	Testing of the flash memory components.
Super Storage Technology Corporation	Testing of the flash memory components.
Power Storage Technology (Shenzhen) Limited	Customer development and service in Mainland.
Nextorage Corporation	Sales of flash memory peripheral application products.
Phison Technology Inc.	Sales of electronic products, customer development and service in US.
Phison Technology India Private Limited	Customer development and service in India.

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

December 31, 2023, Unit: share, %

Enterprise Name	Position	Name or Representative	Shareholding	
			Shares	Shareholding
Lian Xu Dong Investment Corporation	Director and Supervisor	Phison Electronics Corporation	65,000,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Wee Kuan Gan	0	0.00%
	Legal representative director	Boon Keat Ang	0	0.00%
	Legal representative Supervisor	Pi Ying Chiu	0	0.00%
Global Flash Limited	Parent company	Phison Electronics Corporation	22,100,000	100.00%
	Director	Khein Seng Pua	0	0.00%
	Director	Wee Kuan Gan	0	0.00%
Phison Electronics Japan Corp.	Parent company	Phison Electronics Corporation	2,000	100.00%
	Director	Tzung Horng Kuang	0	0.00%
	Director	Tanaka Motoji	0	0.00%
Emtops Electronics Corporation	Director and Supervisor	Phison Electronics Corporation	38,000,000	100.00%
	Legal representative Chairman	Tzung Horng Kuang	0	0.00%
	Legal representative director	Khein Seng Pua	0	0.00%
	Legal representative director	Chung Hsun Ma	0	0.00%
	Legal representative Supervisor	Zhi Chyang Yu	0	0.00%
Power Flash (Samoa) Limited	Parent company	Phison Electronics Corporation	4,800,000	100.00%
	Legal representative Director	Phison Electronics Corporation	4,800,000	100.00%
	Director	Tzung Horng Kuang	0	0.00%
Regis Investment (Samoa) Limited	Parent company	Phison Electronics Corporation	21,900,000	100.00%
	Legal representative Director	Phison Electronics Corporation	21,900,000	100.00%
Phisontech Electronics Taiwan Corp.	Director and Supervisor	Phison Electronics Corporation	55,000,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Chien Cheng Wei	0	0.00%

Enterprise Name	Position	Name or Representative	Shareholding	
			Shares	Shareholding
	Legal representative director	Shu Hui Tsai	0	0.00%
	Legal representative Supervisor	Wee Kuan Gan	0	0.00%
Nextorage Corporation	Parent company	Phison Electronics Corporation	12,000	100.00%
	Director	Katsuyuki Honda	0	0.00%
	Director	Tzung Horng Kuang	0	0.00%
	Director	Tanaka Motoji	0	0.00%
Phison Technology India Private Limited	Parent company	Phison Electronics Corporation	2,299,990	100.00%
	Parent company	Emtops Electronics Corporation	10	0.00%
	Director	Sounak Kumar Ray	0	0.00%
	Director	Chiang Han Hsu	0	0.00%
	Director	Ning Hsueh Chang	0	0.00%
Ostek Corporation	Director and Supervisor	Lian Xu Dong Investment Corporation	900,000	100.00%
	Legal representative Chairman	Khein Seng Pua	0	0.00%
	Legal representative director	Tzung Horng Kuang	0	0.00%
	Legal representative director	Wee Kuan Gan	0	0.00%
	Legal representative Supervisor	Hsiao Chun Peng	0	0.00%
Core Storage Electronic (Samoa) Limited	Parent company	Global Flash Limited	19,150,000	100.00%
	Director	Khein Seng Pua	0	0.00%
	Director	Wee Kuan Gan	0	0.00%
Super Storage Technology Corporation	Director and Supervisor	Phisontech Electronics Taiwan Corp.	34,842,595	100.00%
	Legal representative Chairman	Wee Kuan Gan	0	0.00%
	Legal representative director	Zheng Xin Su	0	0.00%
	Legal representative director	Te Yi Hsieh	0	0.00%
	Legal representative Supervisor	Chien Cheng Wei	0	0.00%
Power Flash (HK) Limited	Parent company	Power Flash (Samoa) Limited	3,000,000	100.00%
	Director	Shu Hui Tsai	0	0.00%
	Director	Huei Chen Tsai	0	0.00%
RealYou Investment Limited	Parent company	Regis Investment (Samoa) Limited	21,850,000	100.00%
	Director	Jia Bin Su	0	0.00%
Phison Technology Inc.	Parent company	Emtops Electronics Corporation	3,000,000	100.00%
	Director	Zong Cheng Wu	0	0.00%

Enterprise Name	Position	Name or Representative	Shareholding	
			Shares	Shareholding
Hefei Ruhan Electronic Technology Limited	Parent company	Real You Investment Limited	CNY40,800,000	100.00%
	Executive Director	Kuo Yi Cheng	0	0.00%
	Supervisor	Wan Xin Liao	0	0.00%
Power Storage Technology (Shenzhen) Limited	Parent company	Power Flash (Samoa) Limited	CNY10,000,000	100.00%
	Executive Director	Chi Wei Tsao	0	0.00%
	Supervisor	Chia Pin Su	0	0.00%

8.1.1.6 Operation Summary of the Affiliates

December 31, 2023, Unit: NT\$ thousand

Enterprise Name	Capital	Total Assets	Total liabilities	Net Worth	Operating revenue	Operating profit	Net Income (Loss) (after tax)	EPS (NT\$/ after tax)
Lian Xu Dong Investment Corporation	650,000	485,059	150	484,909	7,818	(17,573)	(18,199)	(0.28)
Global Flash Limited	726,307	2,940,172	80	2,940,092	0	(140)	(134,528)	(6.09)
Phison Electronics Japan Corp.	41,655	30,233	2,154	28,079	18,295	651	753	376.41
Emtops Electronics Corporation	380,000	418,069	237	417,832	0	(1,404)	20,694	0.54
Power Flash (Samoa) Limited	150,190	153,334	80	153,254	0	(134)	6,082	1.27
Regis Investment (Samoa) Limited	655,995	1,310,314	80	1,310,234	0	(134)	(117,244)	(5.35)
Phisontech Electronics Taiwan Corp.	550,000	766,664	2,183	764,481	0	(300)	59,213	1.08
Nextorage Corporation.	144,300	955,915	459,319	496,596	1,347,106	153,767	108,939	9,078
Phison Technology India Private Limited	8,768	10,819	1,465	9,354	7,856	1,321	876	0.38
Ostek Corporation	9,000	33,112	6,246	26,866	32,674	(418)	(253)	(0.28)
Core Storage Electronic(Samoa) Limited	636,593	2,890,791	0	2,890,791	0	(102)	(134,384)	(7.02)
Super Storage Technology Corporation	348,426	860,150	252,860	607,290	508,883	31,101	60,126	1.73
Power Flash (HK) Limited	98,754	101,350	49	101,301	0	(109)	4,239	1.41
RealYou Investment Limited	654,726	1,309,201	138	1,309,063	0	(199)	(117,129)	(5.36)
Phison Technology Inc.	90,419	438,616	287,557	151,059	884,654	11,443	18,804	6.268
Hefei Ruhan Electronic Technology Limited	182,825	124,542	0	124,542	0	(87)	(54,967)	NA
Power Storage Technology (Shenzhen) Limited	43,520	65,753	20,214	45,539	57,433	1,967	1,892	NA

8.1.2 Consolidated financial statement of affiliates: The entities that are required to be included in the combined financial statements of Phison Electronics Corp. as of and for the year ended December 31, 2023 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10, "Consolidated Financial Statements. " endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Phison Electronics Corp. and Subsidiaries do not prepare a separate set of combined financial statements.

8.1.3 Report of affiliates: The Company is not an affiliated company regulated by the Company Act, no such report is prepared.

8.2 Private Placement of Securities in the Most Recent Year and as of the Publication Date of the Annual Report: None.

8.3 Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Year and as of the Publication Date of the Annual Report: None.

8.4 Other Necessary Statements: None.

8.5 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 most recent year and as of the publication date of the annual report: None.

Representation Letter

The entities that are required to be included in the combined financial statements of Phison Electronics Corp. as of and for the year ended December 31, 2023 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports, and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standards No. 10, "Consolidated Financial Statements. " endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Phison Electronics Corp. and Subsidiaries do not prepare a separate set of combined financial statements.

Company name: Phison Electronics Corp.
Chairman: Wee-Kuan Gan
Date: March 8, 2024.

Independent Auditors’ Report

To the Board of Directors of Phison Electronics Corp.:

Opinion

We have audited the consolidated financial statements of Phison Electronics Corp. and its subsidiaries (“the Group”), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of material 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, 2023 and 2022, 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 with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), Interpretations developed by the International Financial Reporting Interpretations Committee (“IFRIC”) and the former Standing Interpretations Committee (“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 Financial Statement Audit and Attestation Engagements of Certified Public Accountants and Standards on Auditing of 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 Account of Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 of the current period. 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. Based on our judgment, the key audit matters that should be disclosed in this report are as follows:

1. Revenue recognition

Please refer to Note 4(14) “Summary of significant accounting policies—Revenue recognition” , Note 6(23)) “Description of significant accounts—Operating revenue” to the consolidated financial statements.

Description of key audit matter:

The Group engaged primarily in the sale of flash memory controllers and peripheral system applications. Revenue is recognized depending on the various trade terms agreed with customers. This exposes the Group to the risk that the sales transactions made close to the balance sheet date may not be recorded in the appropriate period. In addition, the Group operates in an industry in which sales revenue is easily influenced by various external factors such as supply and demand of the market, and this may impact the recognition of revenue. Consequently, this is one of the key areas that our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and evaluating the effectiveness of the design and performing internal controls over the timing of revenue recognition; sample testing on sales transaction that took place before and after the balance sheet date to assess the accuracy of the timing of revenue recognition; and assessing the adequacy of the Group's disclosures of its revenue recognition policy and other related disclosures.

2. Valuation of inventories

Please refer to Note 4(8) "Summary of significant accounting policies – Inventories", Note 5 "Critical Accounting Judgments and Key Sources of Estimations and Assumptions Uncertainty", and Note 6(7) "Description of significant accounts – Inventories" to the consolidated financial statements.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological innovations and highly competitive environment in the industry of the Group, the life cycles of products of the Group are short and the prices fluctuate rapidly, which could possibly result in a price decline and obsolescence of inventory, wherein the inventory cost may exceed its net realizable value. Consequently, this is one of the key areas that our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the aging report of inventory and analyzing the fluctuation of inventory aging; on a sample basis, verifying the accuracy of the net realizable value of inventories and the inventory aging report; assessing the historical reasonableness of management's estimates on inventory provisions; and evaluating whether valuation of inventories was accounted in accordance with the Group's accounting policies and assessing the adequacy of the Group's disclosures of its policy and other related disclosures.

Other Matter

Phison Electronics Corp. has prepared its parent-company-only financial statements as of and for the years ended December 31, 2023 and 2022, on which we have issued an unqualified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the IFRSs, IASs, IFRIC, and 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 audit committee) 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 Standards on Auditing of 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 Standards on Auditing of the Republic of China, we exercise professional judgment and 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 the 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 of the current period 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 Chien-Hui Lu and An-Chih Cheng.

KPMG

Taipei, Taiwan (Republic of China)

March 8, 2024

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position, financial performance and cash flows in accordance with the 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.

The independent auditors' audit report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries

Consolidated Balance Sheets

December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	December 31, 2023		December 31, 2022		December 31, 2023		December 31, 2022	
	Amount	%	Amount	%	Amount	%	Amount	%
Assets								
Current assets:								
1100 Cash and cash equivalents (note 6(1))	\$ 14,220,367	22	17,033,769	29	2100			
1110 Financial assets at fair value through profit or loss – current (note 6(2))	980,757	2	785,022	1	2130			
1136 Financial assets at amortized cost – current (notes 6(3) and 8)	40,568	-	40,499	-	2170			
1170 Accounts receivable, net (note 6(5))	7,814,027	12	6,037,722	10	2180			
1180 Accounts receivable – related parties, net (notes 6(5) and 7)	1,807,764	3	1,199,073	2	2200			
1200 Other receivables (notes 6(6) and 7)	418,775	1	333,902	1	2230			
1220 Tax assets	10,345	-	3,497	-	2280			
130X Inventories (note 6(7))	24,410,405	37	20,390,375	34	2320			
1410 Prepayments	115,036	-	69,271	-	2399			
1479 Other current assets	1,627	-	1,455	-				
	49,819,671	77	45,894,585	77				
Non-current assets:								
1510 Financial assets at fair value through profit or loss – non-current (note 6(2))	242,257	-	317,347	-	2530			
1517 Financial assets at fair value through other comprehensive income – non-current (note 6(4))	457,457	1	431,697	1	2540			
1550 Investments accounted for using the equity method (note 6(8))	4,062,871	6	3,693,963	6	2570			
1600 Property, plant and equipment (notes 6(10), 7 and 8)	7,447,729	12	7,597,761	13	2580			
1755 Right-of-use assets (note 6(11))	95,345	-	130,076	-	2640			
1780 Intangible assets (note 6(12))	234,303	-	375,336	1	2645			
1840 Deferred tax assets (note 6(19))	843,711	1	889,157	1				
1900 Other non-current assets (note 9(2))	1,759,180	3	659,914	1				
	15,142,853	23	14,095,251	23				
Total assets	\$ 64,962,524	100	59,989,836	100				
Liabilities and Equity								
Current liabilities:								
Short-term borrowings (notes 6(13) and 8)	\$ 2,106,363	3	-	-				
Contract liabilities – current	132,965	-	146,323	-				
Accounts payable	5,478,643	8	5,600,107	9				
Accounts payable – related parties (note 7)	1,028,950	2	578,866	1				
Other payables (note 6(14))	7,563,165	12	8,939,128	15				
Tax payable	499,194	1	530,960	1				
Lease liabilities – current (note 6(11))	64,400	-	46,250	-				
Long-term borrowings, current portion (notes 6(16), (17) and 8)	3,498,863	5	31,050	-				
Other current liabilities (notes 6(15), 7 and 9(3))	1,428,880	3	1,726,407	3				
	21,801,423	34	17,599,091	29				
Non-current liabilities:								
Bonds payable (note 6(17))	-	-	3,442,031	6				
Long-term borrowings (notes 6(16) and 8)	88,513	-	133,882	-				
Deferred tax liabilities (note 6(19))	76,736	-	56,206	-				
Lease liabilities – non-current (note 6(11))	83,731	-	85,526	-				
Net defined benefit liabilities (note 6(18))	118,222	-	114,798	-				
Guarantee deposits received (note 9(3))	5,746	-	926,480	2				
	372,948	-	4,758,923	8				
	22,174,371	34	22,358,014	37				
Total liabilities								
Equity (notes 6(20) and (21)):								
Common shares	2,047,690	3	1,986,745	3				
Capital surplus	11,552,379	18	8,970,438	15				
Retained earnings	30,808,166	47	28,952,665	48				
Other equity interest	(362,774)	-	(216,810)	-				
Treasury shares	(1,257,308)	(2)	(2,061,216)	(3)				
	42,788,153	66	37,631,822	63				
Total equity	\$ 64,962,524	100	59,989,836	100				
Total liabilities and equity								

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)

		2023		2022	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(23) and 7)	\$ 48,221,630	100	60,256,142	100
5000	Operating costs (notes 6(7), (24) and 7)	32,057,192	67	42,923,527	71
	Gross profit from operations	16,164,438	33	17,332,615	29
5910	Unrealized profit on transactions with associates	(50,194)	-	17,277	-
5950	Realized gross profit	16,114,244	33	17,349,892	29
	Operating expenses (notes 6(24) and 7):				
6100	Marketing expenses	1,277,484	3	1,268,136	2
6200	General and administrative expenses	959,935	2	1,044,298	2
6300	Research and development expenses	10,305,558	21	8,130,501	14
6450	Expected credit loss (reversal gain) (note 6(5))	(50,601)	-	63,035	-
	Total operating expenses	12,492,376	26	10,505,970	18
	Net operating income	3,621,868	7	6,843,922	11
	Non-operating income and expenses:				
7010	Other income (notes 6(25) and 7)	295,717	1	201,479	-
7020	Other gains and losses (notes 6(9) and (25))	258,980	1	509,327	1
7050	Finance costs (note 6(25))	(53,957)	-	(35,783)	-
7100	Interest income (note 6(25))	207,981	-	97,143	-
7060	Shares of profit (loss) of associates accounted for using the equity method (note 6(8))	(231,147)	-	(1,319,168)	(2)
		477,574	2	(547,002)	(1)
7900	Profit before tax	4,099,442	9	6,296,920	10
7950	Income tax expenses (note 6(19))	475,014	1	895,774	1
8200	Net profit for the year	3,624,428	8	5,401,146	9
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	(972)	-	(8,356)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(26))	(56,570)	-	(181,391)	-
8320	Shares of other comprehensive income of associates accounted for using the equity method	(4,775)	-	(214,605)	-
8349	Income tax related to items that will not be reclassified subsequently (note 6(19))	194	-	1,671	-
	Total items that will not be reclassified subsequently to profit or loss	(62,123)	-	(402,681)	-
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(124,063)	(1)	177,651	-
8399	Income tax related to items that may be reclassified subsequently (note 6(19))	24,812	-	(6,817)	-
	Total items that may be reclassified subsequently to profit or loss	(99,251)	(1)	170,834	-
8300	Other comprehensive income	(161,374)	(1)	(231,847)	-
8500	Total comprehensive income	<u>\$ 3,463,054</u>	<u>7</u>	<u>5,169,299</u>	<u>9</u>
	Earnings per share (New Taiwan Dollars) (note 6(22)):				
9750	Basic earnings per share	<u>\$ 18.48</u>		<u>27.71</u>	
9850	Diluted earnings per share	<u>\$ 17.57</u>		<u>26.06</u>	

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

	Share capital		Retained earnings					Total other equity interest			
	Common shares	Advance receipts for share capital	Total share capital	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on financial assets measured at fair value through other comprehensive income	Treasury shares	Total equity
Balance at January 1, 2022	\$ 1,970,740	-	1,970,740	7,238,436	5,530,308	155,568	22,310,098	(143,563)	246,847	-	37,308,434
Net profit for the year	-	-	-	-	-	-	5,401,146	-	-	-	5,401,146
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(6,685)	170,834	(395,996)	-	(231,847)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	(6,685)	170,834	(395,996)	-	(231,847)
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	817,193	-	(817,193)	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	-	(4,532,702)	-	-	-	(4,532,702)
Reversal of special reserve	-	-	-	-	-	(155,568)	155,568	-	-	-	-
Changes in equity of associates accounted for using the equity method	-	-	-	1,012,124	-	-	-	-	-	-	1,012,124
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	(2,061,216)	(2,061,216)
Share-based payments	-	-	-	360,211	-	-	-	-	-	-	360,211
Exercise of employee stock options	-	16,005	16,005	359,667	-	-	-	-	-	-	375,672
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	94,932	-	(94,932)	-	-
Balance at December 31, 2022	1,970,740	16,005	1,986,745	8,970,438	6,347,501	-	22,605,164	27,271	(244,081)	(2,061,216)	37,631,822
Net profit for the year	-	-	-	-	-	-	3,624,428	-	-	-	3,624,428
Other comprehensive income (loss) for the year	-	-	-	-	-	-	(778)	(99,251)	(61,345)	-	(161,374)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	(778)	(99,251)	(61,345)	-	(161,374)
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	-	-	216,340	-	(216,340)	-	-	-	-
Special reserve appropriated	-	-	-	-	-	222,728	(222,728)	-	-	-	-
Cash dividends of common shares	-	-	-	-	-	-	(1,753,517)	-	-	-	(1,753,517)
Changes in equity of associates accounted for using the equity method	-	-	-	746,357	-	-	-	-	-	-	746,357
The transfer of treasury share to employees	-	-	-	274,982	-	-	-	-	-	803,908	1,078,890
Disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	-	-	(14,632)	-	14,632	-	-
Share-based payments	-	-	-	241,871	-	-	-	-	-	-	241,871
Exercise of employee stock options	73,950	(13,005)	60,945	1,318,731	-	-	-	-	-	-	1,379,676
Balance at December 31, 2023	\$ 2,044,690	3,000	2,047,690	11,552,379	6,563,841	222,728	24,021,597	(71,980)	(290,794)	(1,257,308)	42,788,153

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Profit before income tax	\$ 4,099,442	6,296,920
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	685,682	650,774
Amortization expense	519,158	395,794
Expected credit loss (reversal gain)	(50,601)	63,035
Net loss (gain) on financial assets at fair value through profit or loss	(429,756)	276,636
Finance costs	53,957	35,783
Loss (profit) on disposal of property, plant and equipment	184	(136)
Interest income	(207,981)	(97,143)
Dividend income	(86,966)	(90,937)
Share-based payments	518,918	360,211
Shares of loss of associates accounted for using the equity method	231,147	1,319,168
Gain on disposal of investments accounted for using the equity method	-	(30,426)
Unrealized (realized) profit on transactions with associates	50,194	(17,277)
Unrealized foreign exchange loss (gain)	141,958	(249,124)
Inventory obsolescence loss (reversal gain)	(379,317)	1,711,889
Reversal of refund liabilities	(191,265)	(111,852)
Profit from lease modification	(30)	(191)
Gain recognized in bargain purchase transaction	-	(16,289)
Total adjustments to reconcile profit	<u>855,282</u>	<u>4,199,915</u>
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	(2,652,148)	1,786,146
Other receivables	(84,828)	332,124
Inventories	(3,640,713)	(2,497,889)
Prepayments	(45,765)	(44,304)
Other current assets	(172)	1,759
Contract liabilities	(13,358)	(56,721)
Accounts payable (including related parties)	456,891	(3,197,533)
Other payables	(291,580)	(1,041,547)
Other current liabilities	59,197	(121,388)
Net defined benefit liabilities	2,452	1,545
Total changes in operating assets and liabilities	<u>(6,210,024)</u>	<u>(4,837,808)</u>
Cash inflow (outflow) generated from operations	(1,255,300)	5,659,027
Interest paid	(18,271)	(6,980)
Income taxes paid	(422,646)	(2,060,606)
Net cash flows from (used in) operating activities	<u>(1,696,217)</u>	<u>3,591,441</u>

(Continued)

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)

Phison Electronics Corp. and subsidiaries

Consolidated Statements of Cash Flows (Continued)

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	2023	2022
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(91,330)	(95,113)
Proceeds from disposal of financial assets at fair value through other comprehensive income	9,000	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	-	16,150
Acquisition of financial assets at amortized cost	(69)	(40)
Acquisition of financial assets at fair value through profit or loss	(500,938)	(4,265)
Proceeds from disposal of financial assets at fair value through profit or loss	801,049	377,473
Proceeds from capital reduction of financial assets at fair value through profit or loss	9,000	7,245
Net cash flow from acquisition of subsidiaries	-	(24,547)
Acquisition of property, plant and equipment	(390,749)	(1,528,412)
Proceeds from disposal of property, plant and equipment	300	5,040
Increase in refundable deposits	(1,117,665)	(14,550)
Acquisition of intangible assets	(377,763)	(451,643)
Decrease in prepayments for land and equipment	-	1,177
Interest received	207,864	96,089
Dividends received	86,966	90,937
Net cash flows used in investing activities	(1,364,335)	(1,524,459)
Cash flows from financing activities:		
Increase in short-term loans	2,561,756	1,967,656
Decrease in short-term loans	(384,462)	(2,410,651)
Repayments of long-term borrowings	(48,949)	(30,704)
Increase (decrease) in guarantee deposits received	(1,150,954)	1,659,591
Payment of lease liabilities	(63,905)	(47,989)
Cash dividends paid	(2,836,702)	(4,532,738)
Exercise of employee stock options	1,379,676	375,672
Payments to acquire treasury shares	-	(2,061,216)
Treasury shares sold to employees	801,843	-
Net cash flows from (used in) financing activities	258,303	(5,080,379)
Effect of exchange rate changes on cash and cash equivalents	(11,153)	477,984
Net decrease in cash and cash equivalents	(2,813,402)	(2,535,413)
Cash and cash equivalents at beginning of period	17,033,769	19,569,182
Cash and cash equivalents at end of period	\$ 14,220,367	17,033,769

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements
For the years ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. Company history

Phison Electronics Corp. (the “Company”) was incorporated on November 8, 2000, with the approval of the Ministry of Economic Affairs, R.O.C. The major business activities of the Company and its subsidiaries (the “Group”) are the design and manufacturing of flash memory controllers and peripheral system applications. The Company’s shares have been trading on the Taipei Exchange (over-the-counter exchange in Taiwan) since December 6, 2004.

2. Approval date and procedures of the consolidated financial statements

The consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on March 8, 2024.

3. New standards, amendments and interpretations adopted

- (1) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The Group has initially adopted the following new amendments, which do not have a significant impact on its consolidated financial statements, from January 1, 2023:

- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The Group has initially adopted the following new amendment, which do not have a significant impact on its consolidated financial statements, from May 23, 2023:

- Amendments to IAS 12 “International Tax Reform—Pillar Two Model Rules”

- (2) The impact of IFRS issued by the FSC but not yet effective

The Group assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2024, would not have a significant impact on its consolidated financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
- Amendments to IFRS 16 “Lease Liability in a Sale and Leaseback”

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

- (3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The following new and amended standards have been issued by the International Accounting Standards Board (“IASB”), but have yet to be endorsed by the FSC:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IAS 21 “Lack of Exchangeability”

As of the date the consolidated financial statements were authorized for issue, except for IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts” is not relevant to the Group, the Group is evaluating the impact of its initial adoption of the remaining abovementioned standards or interpretations on its consolidated financial position and consolidated financial performance. The results thereof will be disclosed when the Group completes its evaluation.

4. Summary of material accounting policies

The material accounting policies presented in the consolidated financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all the periods presented in the consolidated financial statements.

- (1) Statement of compliance

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (hereinafter referred to as “the Regulations”) and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations endorsed and issued into effect by the FSC (hereinafter referred to as “IFRSs endorsed by the FSC”).

- (2) Basis of preparation

A. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for the following material items in the consolidated balance sheets:

- (a) Financial assets measured at fair value through profit or loss are measured at fair value;
- (b) Financial assets measured at fair value through other comprehensive income are measured at fair value;
- (c) The defined benefit liabilities (assets) are measured at the fair value of the plan assets less the present value of the defined benefit obligation.

Phison Electronics Corp. and subsidiaries
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B. Functional and presentation currency

The functional currency of each individual consolidated entity is determined based on the primary economic environment in which the entity operates. The consolidated financial statements are presented in New Taiwan Dollar (NTD), which is the Company's functional currency. Unless otherwise noted, all financial information presented in NTD has been rounded to the nearest thousand.

(3) Basis of consolidation

A. Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and subsidiaries, which are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Intragroup balances and transactions, and any unrealized income and expenses arising from Intragroup transactions are eliminated in preparing the consolidated financial statements.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The Group attributes the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control 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 will be recognized directly in equity, and the Group will attribute it to the owners of the Company.

When the Group loses control over a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any interest retained in the former subsidiary is re-measured at fair value when control is lost, with the resulting gain or loss being recognized in profit or loss. The Group recognizes as gain or loss in profit or loss the difference between (i) the fair value of the consideration received as well as any investment retained in the former subsidiary at its fair value at the date when control is lost; and (ii) the assets (including any goodwill), liabilities of the subsidiary as well as any related non-controlling interests at their carrying amounts at the date when control is lost, as gain or loss in profit or loss. When the Group loses control of its subsidiary, it accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if it had directly disposed of the related assets or liabilities.

Phison Electronics Corp. and subsidiaries
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B. List of subsidiaries in the consolidated financial statements

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

Name investor	Name of subsidiary	Principal activity	Shareholding (%)		Note
			December 31, 2023	December 31, 2022	
The Company	Lian Xu Dong Investment Corporation	Investment	100	100	
The Company	Phison Electronics Japan Corp.	Sales and service office	100	100	
The Company	Emtops Electronics Corp.	Investment	100	100	
The Company	Phisontech Electronics Taiwan Corp.	Investment and trade	100	100	
The Company	Global Flash Limited	Investment and trade	100	100	
The Company	Power Flash (Samoa) Limited	Investment and trade	100	100	
The Company	Everspeed Technology Limited	Trade of electronic components	-	-	Note 1
The Company	Regis Investment (Samoa) Limited	Investment	100	100	
The Company	Nextorage Corporation	R&D, design, manufacture and sale of flash memory application products	100	100	Note 2
The Company	Phison Technology India Private Limited	Design, R&D, import and export of storage devices and electronic components	100	100	Note 3
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Investment and trade	100	100	
Lian Xu Dong Investment Corporation	Ostek Corporation	Manufacture and trade of electronic components	100	100	
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Sale of electronic products	100	100	
Power Flash (Samoa) Limited	Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	100	100	Note 4
Everspeed Technology Limited	Memoryexchange Corporation	Manufacture and sale of flash memory related products	-	-	Note 5
Regis Investment (Samoa) Limited	RealYou Investment Limited	Investment	100	100	

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Name investor	Name of subsidiary	Principal activity	Shareholding (%)		Note
			December 31, 2023	December 31, 2022	
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 and investment	100	100	
Emtops Electronics Corp.	Phison Technology Inc.	Sale of electronic products and business service office	100	100	
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Manufacture and trade of electronic components	100	100	

Note 1: Everspeed Technology Limited was liquidated in July 2022.

Note 2: Since January 1, 2022, Nextorage Corporation has become a 100%-held subsidiary of the Company. Please refer to note 6(9) for related information.

Note 3: For operation needs, the Company set up Phison Technology India Private Limited in India in December 2022, wherein the Company and Emtops Electronics Corp. held 2,299,990 shares and 10 shares, respectively, in it.

Note 4: For operation needs, the Company set up Power Storage Technology (Shenzhen) Limited in Shenzhen, Mainland China, in January 2022.

Note 5: Memoryexchange Corporation ended its operations in March 2021, and was liquidated in March 2022.

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

(4) 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 exchange rates 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 year 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 year 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.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

For the purpose of presenting consolidated financial statements, the functional currencies of the Company and its foreign operations are translated into the presentation currency, the NTD 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 year. The resulting currency translation differences are recognized in other comprehensive income. On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

(5) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- A. It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is expected to be realized within twelve months after the reporting period; or
- D. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

- A. It is expected to be settled in the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is due to be settled within twelve months after the reporting period; or
- D. The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(6) Cash and cash equivalents

Cash comprises cash on hand, check deposits and demand deposits. Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash equivalents.

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(7) Financial instruments

Accounts receivable and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

A. Financial assets

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

The Group classifies financial assets into the following categories: financial assets at amortized cost, investments in equity instruments at financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. Only when the Group changes its business model for managing financial assets it shall reclassify all affected financial assets.

(a) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are initially recognized at fair value, plus any directly attributable transaction costs. Subsequently, these assets are measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses, and recognition (reversal) of impairment losses, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. Purchases or sales of financial assets in trade practice are recognized and derecognized on a trade date basis.

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

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Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in equity will not be reclassified to profit or loss, instead, is reclassified to retained earnings. Dividend income derived from equity investments is recognized in profit or loss on the date on which the Group's right to receive payment is established.

(c) Financial assets measured at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets.

On initial recognition, these assets are measured at fair value. Net gains and losses, including any interest or dividend income and gains and losses of remeasurement, are recognized in profit or loss.

(d) Impairment of financial assets

The Group recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including accounts receivable).

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.

For internal credit risk management purposes, the Group determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Group):

- (i) Internal or external information shows that the debtor is unlikely to pay its creditors.
- (ii) When a financial asset is overdue unless the Group has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account.

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(e) Derecognition of financial assets

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

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

Debt and equity instruments issued by the Group are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(b) Equity instruments

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(c) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(d) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(e) Derecognition of financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

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(f) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(8) Inventories

The cost of inventories includes all necessary expenditures and charges for bringing the inventory to a stable, useable, and marketable condition and location. The production overhead is allocated to inventories based on the normal capacity of the production. Inventories are substantially measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(9) Investment in associates

Associates are those entities in which the Group has significant influence, but not control or joint control, over their financial and operating policies.

Investments in associates are accounted for using the equity method. 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 using the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (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), the Group discontinues recognizing its share of further loss, if any. 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.

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When the Group determines impairment loss, the entire carrying amount of an investment in an associate 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.

Profits and losses resulting from the transactions between the Group and associates are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

(10) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

B. Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

C. Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Except for land is not depreciated, the estimated useful lives of the other property, plant and equipment are as follows:

- (a) Land improvements: 7 years
- (b) Building—building cost: 20 to 50 years
- (c) Building—electrical engineering: 20 years

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- (d) Testing equipment: 3 to 7 years
- (e) Office equipment: 3 to 7 years
- (f) Mechanical equipment: 3 to 6 years
- (g) Other equipment: 1 to 15 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(11) Leases

A. Identifying a lease

A contract is, or contains, a lease when all the following conditions are satisfied:

- (a) the contract involves the use of an identified asset, and the supplier does not have a substantive right to substitute the asset; and
- (b) the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- (c) the Group has the right to direct the use of the identified asset throughout the period of use.

B. As a lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

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Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. For a lease modification that is not accounted for as a separate lease, the Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset of lease modifications that decreased the scope of the lease, and recognizing in profit or loss on the partial or full termination of the lease; making a corresponding adjustment to the right-of-use asset of all other lease modifications. Lease liabilities are presented on a separate line in the balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

C. As a lessor

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.

Lease payments from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

(12) Intangible assets

A. Intangible assets acquired separately

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 using the straight-line method based on the following estimated useful lives: Technology license fees - the estimated life of the technology or the term of the technology transfer contract; software and system design costs - 3 years or contract period; patent and others - the economic life or contract period. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

B. Intangible assets acquired in a business combination

Intangible assets acquired in a business combination is initially recognized at their fair value at the acquisition date. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

C. Derecognition of intangible assets

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.

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(13) Impairment of non-financial assets

Other than inventories and deferred tax assets, the carrying amounts of the Group's property, plant and equipment, right-of-use assets and other intangible assets with finite useful lives are reviewed at the reporting date to determine whether there is any indication of impairment. When there is an indication of impairment exists for the aforementioned assets, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset has been allocated to.

In performing an impairment test for other long-term non-financial assets, the estimated recoverable amount is evaluated in terms of an asset or a CGU. Any excess of the carrying amount of the asset or its related CGU over its recoverable amount is recognized as an impairment loss. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use. If there is evidence that the accumulated impairment loss of an asset in prior years no longer exists or has decreased, the amount previously recognized as an impairment loss is reversed, and the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increased carrying amount shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years.

For intangible assets with indefinite useful lives or that are not yet available for use, are required to be tested for impairment at least annually. Any excess of the carrying amount of the asset over its recoverable amount is recognized as an impairment loss.

(14) Revenue recognition

A. Revenue from contracts with customers

Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for services to a customer. The Group recognizes revenue when it satisfies a performance obligation by transferring control of a service to a customer. The accounting policies for the Group's main types of revenue are explained below.

(a) Sale of goods

The Group recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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The Group offers volume discounts and sale discounts to its customers based on aggregate sales of goods. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts and sale discounts. Historical experience and deal-way with customers is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

A receivable is recognized when the goods are delivered as this is the point in time that the Group has a right to an amount of consideration that is unconditional. The consideration received in advance from the customer but without delivery of goods is recognized as a contract liability, for which revenue is recognized when the control over the goods is transferred 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.

(b) Rendering of services

The Group progressively recognizes service revenue based on the progress towards complete satisfaction of contract, and only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

If there are changes in circumstances, the estimates of revenue, cost, and the progress towards complete satisfaction of contract will be amended. Any changes therein are recognized in profit or loss during the period in which the changes and amendments are made.

(c) Financing components

The Group does not expect to have any contracts where the period between the transfer of the services to the customer and payment by the customer, exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

(15) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

B. Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

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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.

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.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(16) Share-based payment

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. The grant date is the date when both parties of the Group and the employees reach an agreement on the subscription price and the number of shares to be subscribed.

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

The grant by the Group of its equity instruments to the employees of a subsidiary under options is treated as a capital contribution. The fair value of employee services received under the arrangement is measured by referring to the grant-date fair value and is recognized over the vesting period as an addition to the investment in the subsidiary, with a corresponding credit to capital surplus-employee share options.

Providing that the Group grants new equity instruments as a replacement for cancelled equity instruments, the Group shall recognize new equity instruments in the same way as a modification of original equity instruments. The incremental fair value is the difference between the fair value of new equity instruments and the net fair value of cancelled equity instruments at the date when new equity instruments are granted.

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(17) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for items related to business combinations or items recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

A. Current taxes

Current taxes comprise the expected tax payables or receivables on the taxable profits (losses) for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using the statutory tax rate or the actual legislative tax rate at the reporting date. In accordance with the ROC Income Tax Act, undistributed earnings from the companies located in the Republic of China is subject to an additional surtax. The surtax on unappropriated earnings is expensed in the year the shareholders approved the distributions.

The Group has determined that the global minimum top-up tax – which it is required to pay under Pillar Two legislation – is an income tax in the scope of IAS 12. The Group has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

B. Deferred taxes

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax liabilities are recognized for temporary difference of future taxable income. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they 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 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. 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. Deferred tax assets and liabilities are offset only if certain criteria are met.

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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.

(18) Business combination

The Group accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of (i) the consideration transferred (which is generally measured at fair value) and (ii) the amount of non-controlling interest in the acquiree, both over the identifiable net assets acquired at the acquisition date. If the amount calculated above is a deficit balance, the Group recognized that amount as a gain on a bargain purchase in profit or loss immediately after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

All acquisition-related transaction costs are expensed as incurred, except for the issuance of debt or equity instruments.

For each business combination, the Group measures any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, if the non-controlling interests are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by the IFRSs endorsed by the FSC.

(19) Earnings per share

Basic earnings per share is computed by dividing profit or loss of the period by the weighted-average number of common shares outstanding during the period. In computing diluted earnings per share, profit or loss of the period and the weighted-average number of common shares outstanding during the period are adjusted for the effects of dilutive potential common stock, assuming dilutive share equivalents had been issued. The effects of dilutive potential common stock include estimated employee compensation, employee stock options and convertible bonds.

5. Critical Accounting Judgments and Key Sources of Estimations and Assumptions Uncertainty

In preparing these consolidated financial statements in conformity with IFRSs endorsed by the FSC, the management has made judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

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Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(1) Judgment of whether the Group has substantive control over its investees

The Group holds 35.83% of the outstanding shares of HOSIN Global Electronics Co., Ltd. (the investee). However, due to the multiple voting right system, the Group only obtained 25.47% of the voting rights. The remaining 54.55% of voting rights are concentrated within specific shareholders. Thus, the Group still cannot obtain more than half of the total number of the investee's directors, and it also cannot obtain more than half of the voting rights at a shareholders' meeting. Therefore, it is determined that the Group has significant influence but without control on the investee.

(2) Inventories

Inventories are measured at the lower of cost or net realizable value. The Group uses judgement and estimates to determine the net realizable value of inventory at each reporting date. The estimation of net realizable value is determined based on current market conditions and historical experience with product sales of a similar nature. However, rapid industrial transformation and the change of marketing conditions may result in a significant influence on the estimation. Please refer note 6(7) for further description of the valuation of inventories.

6. Description of significant accounts

(1) Cash and cash equivalent

	December 31, 2023	December 31, 2022
Cash	\$ 165	145
Demand deposits and check deposits	11,264,285	11,507,034
Cash equivalents — time deposits	2,955,917	5,526,590
	<u>\$ 14,220,367</u>	<u>17,033,769</u>

According to the IFRSs Q&A updated by the Financial Supervisory Commission, R.O.C. Securities and Futures Bureau on January 5, 2024, the Group's special account of repatriated offshore funds, with a deposit balance of \$528,235 thousand, was transferred from financial assets at amortized cost — current to cash and cash equivalents, resulting in the unrealized foreign exchange loss (gains) under operating activities and the disposal of financial assets at amortized cost under investing activities to increase and decrease by \$19,725 thousand and \$547,960 thousand, respectively, as of January 1, 2022.

Please refer to note 6(26) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Group.

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(2) Financial assets at fair value through profit or loss

	December 31, 2023	December 31, 2022
Financial assets at fair value through profit or loss — current:		
Beneficiary certificates — open-end funds	\$ 112,094	110,769
Domestic listed stock (note)	868,313	674,253
Derivative instruments — convertible bonds (note 6(17))	350	-
	<u>\$ 980,757</u>	<u>785,022</u>
Financial assets at fair value through profit or loss — non-current:		
Domestic private equity funds	\$ 27,201	34,444
Domestic unlisted stocks	132,719	174,012
Foreign unlisted stocks	82,337	108,891
	<u>\$ 242,257</u>	<u>317,347</u>

Note: In August 2022, Apacer Technology Inc. issued additional ordinary shares in exchange for the common stock of UD INFO Corp., resulting in the Company to acquire 2,505 thousand shares of newly issued common stock of Apacer Technology Inc. in exchange for the previously held 1,252 thousand shares of UD INFO Corp., with the base date set on August 1, 2022. Due to the aforementioned transaction, the cumulative gain in equity recognized during the period in which the Company held UD INFO Corp.'s shares amounting to \$94,932 thousand had been reclassified from FVOCI to retained earnings.

None of financial assets mentioned above were pledged as collateral.

(3) Financial assets at amortized cost — current

	December 31, 2023	December 31, 2022
Pledged time deposits	<u>\$ 40,568</u>	<u>40,499</u>

A. The Group estimated that the expected credit risk of the above financial assets is limited and the credit risk of original recognition has not increased.

B. The financial assets mentioned above were pledged as collateral. Please refer to note 8.

(4) Financial assets at fair value through other comprehensive income — non-current

	December 31, 2023	December 31, 2022
Domestic unlisted stocks (Note)	\$ 271,751	235,752
Foreign unlisted stocks	185,706	195,945
	<u>\$ 457,457</u>	<u>431,697</u>

Note: Please refer to note 6(2) for related information.

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The Group held the abovementioned equity investment for long-term strategic purpose, but rather than for trading purpose. Therefore, those equity investments have been designated as financial assets at fair value through other comprehensive income. None of the above financial assets mentioned above were pledge as collateral.

(5) Accounts receivable, net (including related and non-related parties)

	December 31, 2023	December 31, 2022
Accounts receivable	\$ 7,870,481	6,126,356
Accounts receivable — related parties	1,811,450	1,221,183
	9,681,931	7,347,539
Less: loss allowance	(60,140)	(110,744)
Accounts receivable, net	<u>\$ 9,621,791</u>	<u>7,236,795</u>

As of January 1, 2022, the ending balance of accounts receivable, net (including related parties) was \$8,729,261 thousand.

The Group measures the loss allowance for accounts receivable at an amount equal to lifetime expected credit losses. The expected credit losses on accounts receivable 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 an accounts receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation, or when the accounts receivable are over two years past due, whichever occurs earlier. For accounts receivable 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 accounts receivable (including related and non-related parties) based on the Group's allowance matrix.

	December 31, 2023		
	Gross carrying amount	Weighted-aver age loss rate (%)	Loss allowance
Current	\$ 9,215,287	0.17	15,371
1~60 days past due	456,588	7.60	34,713
More than 151 days past due	10,056	100.00	10,056
	<u>\$ 9,681,931</u>		<u>60,140</u>

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	December 31, 2022		
	Gross carrying amount	Weighted-average loss rate (%)	Loss allowance
Current	\$ 6,344,599	0.31	19,831
1~60 days past due	975,376	6.49	63,349
121~150 days past due	708	100.00	708
More than 151 days past due	26,856	100.00	26,856
	<u>\$ 7,347,539</u>		<u>110,744</u>

The movement in the loss allowance for accounts receivable (including related and non-related parties) was as follows:

	For the years ended December 31,	
	2023	2022
Balance, beginning of the period	\$ 110,744	47,709
Impairment losses recognized (reversed)	(50,601)	63,035
Effect of movements in exchange rates	(3)	-
Balance, end of the period	<u>\$ 60,140</u>	<u>110,744</u>

None of the accounts receivable mentioned above were pledged as collateral. As the average credit term of 30~90 days is similar with the practical in the industry, there are no finance elements included.

The Group entered into an un-recourse factoring agreement with the factor to sell its accounts receivable. Under the agreement, except necessary agreed expenses, the Group does not have the responsibility to assume the default risk of the transferred accounts receivable. The Group derecognized the above accounts receivable, because it has transferred substantially all of the risks and rewards of their ownership, and it does not have any continuing involvement in them. The amounts receivable from the factor were recognized as “other receivables” upon the derecognition of those accounts receivable. The outstanding sold accounts receivable at the end of the period were as follows:

(Unit: USD in Thousands)

	December 31, 2023			
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	<u>\$ 312</u>	<u>253</u>	0.22~0.65	Note 1~4

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December 31, 2022				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	<u>\$ 2,166</u>	<u>1,714</u>	0.22~0.65	Note 1~4

Note 1: The accounts receivable transferred to the factoring bank are subjected to the consents of agreement between the Group and the bank and credit decision advices without recourse. No financing from the factoring bank agreement is within the factored accounts receivable.

Note 2: The Group informed its customers to make payment directly to the factoring bank.

Note 3: As of December 31, 2023 and 2022, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$7,763 thousand and \$52,651 thousand, respectively, were recognized under other receivables.

Note 4: To the extent of the amount transferred to the factor, risks of non-collection or potential payment default by customers in the event of insolvency are borne by the factor. The Group is not responsible for the collection of receivables subject to these facilities, or for any legal proceedings and costs thereof in collecting these receivables. No collaterals were provided by the Group.

(6) Other receivables

	December 31, 2023	December 31, 2022
Tax refund receivable	\$ 366,564	193,916
Factored accounts receivable	7,763	52,651
Others	44,448	87,335
Less: loss allowance	-	-
	<u>\$ 418,775</u>	<u>333,902</u>

(7) Inventories

	December 31, 2023	December 31, 2022
Raw materials	\$ 15,908,649	14,763,313
Work in process	5,144,759	2,427,948
Semi-finished goods	3,085,447	2,972,532
Finished goods	271,550	226,582
	<u>\$ 24,410,405</u>	<u>20,390,375</u>

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2023 and 2022 were \$32,057,192 thousand and \$42,923,527 thousand, respectively.

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The costs of goods sold for the years ended December 31, 2023 and 2022 included inventory obsolescence loss (reversal gain) of \$(379,317) thousand and \$1,711,889 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

- (8) Investments accounted for using the equity method

	December 31, 2023		December 31, 2022	
	Amount	Ownership interest (%)	Amount	Ownership interest (%)
HOSIN Global Electronics Co., Ltd. (SZ)	\$ 3,568,743	35.83	3,252,782	39.04
EpoStar Electronics (BVI) Corporation	201,413	30.51	206,796	30.51
Hefei Xinpeng Technology Co., Ltd.	118,508	24.23	81,685	24.23
ProGrade Digital Inc.	148,009	28.71	126,981	28.71
Microtops Design Corporation	26,198	49.00	25,719	49.00
	<u>\$ 4,062,871</u>		<u>3,693,963</u>	

The Group did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. in 2023 and 2022, therefore, the changes in equity of associate recognized in the capital surplus by the Group amounted to \$658,347 thousand and \$1,015,832 thousand for the years ended December 31, 2023 and 2022.

In 2023 and 2022, the change in percentage of ownership interests in investees resulted in the changes in equity of associate, including recognized in the capital surplus amounting to \$88,010 thousand and reversal of capital surplus amounting to \$3,708 thousand, respectively.

- A. The following consolidated financial information of significant associates has been adjusted according to individually prepared IFRS financial statements of these associates to express the adjustment due to the change in fair value when the Group obtained the ownership of the associates and the effect of different accounting policies:

HOSIN Global Electronics Co., Ltd. (SZ) and its subsidiaries and other significant associates

	December 31, 2023	December 31, 2022
Current assets	\$ 22,004,218	14,454,355
Non-current assets	5,723,941	5,566,387
Current liabilities	(16,289,337)	(9,858,617)
Non-current liabilities	(589,175)	(1,117,050)
Net assets	<u>\$ 10,849,647</u>	<u>9,045,075</u>

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	For the years ended December 31,	
	2023	2022
Operating revenue	\$ 38,631,969	24,469,891
Net profit (loss)	\$ 909,470	(3,124,640)
Other comprehensive income (loss)	(79,038)	(491,882)
Total comprehensive income (loss)	\$ 830,432	(3,616,522)

	December 31, 2023	December 31, 2022
Summarized information of the carrying amount of significant associates	\$ 3,770,156	3,459,578

	For the years ended December 31,	
	2023	2022
Attributable to the Group:		
Net profit (loss)	\$ (198,018)	(1,275,741)
Other comprehensive income (loss)	(91,904)	(187,462)
Total comprehensive income (loss)	\$ (289,922)	(1,463,203)

- B. The Group' s financial information for investments accounted for using the equity method that are individually insignificant was as follows:

	December 31, 2023	December 31, 2022
Summarized information of the carrying amount of associates that were not individually material	\$ 292,715	234,385

	For the years ended December 31,	
	2023	2022
Attributable to the Group:		
Net loss	\$ (33,129)	(43,427)
Other comprehensive income (loss)	(322)	7,671
Total comprehensive income (loss)	\$ (33,451)	(35,756)

C. Pledged

None of the investments accounted for using the equity method mentioned above were pledged as collateral.

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(9) Business Combinations

For the purpose of improving advanced customized storage devices to meet the demand of Japan and global market, the Company acquired 6,120 common shares of Nextorage Corporation in cash amounting to JPY578,217 thousand. Therefore, since January 1, 2022, Nextorage was no longer a 49%-held investee accounted for using the equity method, and became a 100%-held subsidiary of the Company.

A. Acquired identifiable assets and assumed liabilities at the date of acquisition

Current assets:

Cash and cash equivalents	\$ 113,936
Accounts receivable, net	452,438
Other receivables	41,050
Inventories	107,841
Other current assets	801

Non-current assets:

Property, plant and equipment	36,137
Intangible assets	2,401
Other non-current assets	68,313

Current liabilities:

Accounts payable	(368,896)
Other payables	(148,709)
Other current liabilities	(1,837)
	<u><u>\$ 303,475</u></u>

B. Net cash outflow of the acquisition of subsidiaries

Consideration paid in cash	\$ 138,483
Less: cash and cash equivalent acquired	(113,936)
	<u><u>\$ 24,547</u></u>

Gain on a bargain purchase from acquisition was as follows:

Consideration transferred	\$ 138,483
Plus: fair value of pre-existing interest in Nextorage	148,703
Less: fair value of identifiable assets	(303,475)
Gain on a bargain purchase (recognized as other income)	<u><u>\$ (16,289)</u></u>

The Group re-measured the fair value of its existing equity interest of 49% in Nextorage before the acquisition date, and the deemed gain on disposal of investments accounted for using the equity method of \$27,689 thousand was recognized as “other gains and losses” on the consolidated statement of comprehensive income for the year ended December 31, 2022.

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(10) Property, plant and equipment

	Land	Buildings	Mechanical and testing equipment	Office and other equipment	Construction in progress	Total
Cost:						
Balance at January 1, 2023	\$ 2,149,285	5,069,347	1,559,637	397,475	46,491	9,222,235
Additions for the period	-	94,071	286,162	99,637	12,532	492,402
Disposal for the period	-	-	(278,693)	(35,579)	-	(314,272)
Reclassification	-	56,265	2,157	-	(58,819)	(397)
Effect of movements in exchange rates	(20)	(765)	(1,277)	(2,198)	(13)	(4,273)
Balance at December 31, 2023	\$ 2,149,265	5,218,918	1,567,986	459,335	191	9,395,695
Balance at January 1, 2022	\$ 1,762,820	2,626,517	1,371,564	274,718	1,982,139	8,017,758
Additions for the period	386,279	273,822	463,689	138,900	253,536	1,516,226
Acquisition through business combination	189	10,841	1,519	23,376	212	36,137
Disposal for the period	-	-	(297,506)	(53,752)	-	(351,258)
Reclassification	-	2,158,507	17,374	12,632	(2,189,389)	(876)
Effect of movements in exchange rates	(3)	(340)	2,997	1,601	(7)	4,248
Balance at December 31, 2022	\$ 2,149,285	5,069,347	1,559,637	397,475	46,491	9,222,235
Depreciation:						
Balance at January 1, 2023	\$ -	723,512	730,222	170,740	-	1,624,474
Depreciation for the period	-	154,412	389,864	94,684	-	638,960
Disposal for the period	-	-	(278,209)	(35,579)	-	(313,788)
Effect of movements in exchange rates	-	(59)	(741)	(880)	-	(1,680)
Balance at December 31, 2023	\$ -	877,865	841,136	228,965	-	1,947,966
Balance at January 1, 2022	\$ -	596,723	634,894	135,579	-	1,367,196
Depreciation for the period	-	126,775	388,773	86,112	-	601,660
Disposal for the period	-	-	(294,117)	(52,237)	-	(346,354)
Effect of movements in exchange rates	-	14	672	1,286	-	1,972
Balance at December 31, 2022	\$ -	723,512	730,222	170,740	-	1,624,474
Carrying amounts:						
Balance at December 31, 2023	\$ 2,149,265	4,341,053	726,850	230,370	191	7,447,729
Balance at December 31, 2022	\$ 2,149,285	4,345,835	829,415	226,735	46,491	7,597,761
Balance at January 1, 2022	\$ 1,762,820	2,029,794	736,670	139,139	1,982,139	6,650,562

Part of the property, plant and equipment mentioned above was pledged as collateral for bank loans. Please refer to note 8.

To increase the scale of operations, the Company's Board of Directors resolved on January 17, 2020, to build a factory in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Company. The total price of the project was approximately \$1,398,000 thousand. The Company financed the construction with its own funds. In addition, the Company's Board of Directors resolved on November 12, 2020, to build a factory with loading and unloading parking space in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Company. The total price of the project was approximately \$829,000 thousand. The aforementioned construction project completed and accepted in June 2022.

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On January 21, 2022, the Company's Board of Directors resolved to participate the land auction for acquiring the land located on Datong Section, Zhunan Township, Miaoli County from the Miaoli County Government to set up a compound leisure club or similar real estate for employees' entertainment needs. The Company won the bid on January 25, 2022. The total transaction amount was \$346,660 thousand.

(11) Lease arrangements

A. Right-of-use assets

	Buildings	Transportation equipment	Others	Total
Cost:				
Balance at January 1, 2023	\$ 180,008	1,296	-	181,304
Additions for the period	15,311	473	-	15,784
Deduction for the period and others	(18,883)	(768)	-	(19,651)
Effect of movements in exchange rate	(1,909)	-	-	(1,909)
Balance at December 31, 2023	\$ 174,527	1,001	-	175,528
Balance at January 1, 2022	\$ 65,480	992	6,574	73,046
Additions for the period	153,465	528	-	153,993
Deduction for the period and others	(40,147)	(224)	(6,574)	(46,945)
Effect of movements in exchange rate	1,210	-	-	1,210
Balance at December 31, 2022	\$ 180,008	1,296	-	181,304
Depreciation:				
Balance at January 1, 2023	\$ 50,571	657	-	51,228
Depreciation for the period	46,293	429	-	46,722
Deduction for the period and others	(16,189)	(768)	-	(16,957)
Effect of movements in exchange rate	(810)	-	-	(810)
Balance at December 31, 2023	\$ 79,865	318	-	80,183
Balance at January 1, 2022	\$ 27,545	473	5,752	33,770
Depreciation for the period	47,884	408	822	49,114
Deduction for the period and others	(25,454)	(224)	(6,574)	(32,252)
Effect of movements in exchange rate	596	-	-	596
Balance at December 31, 2022	\$ 50,571	657	-	51,228

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	Buildings	Transportation equipment	Others	Total
Carrying amounts:				
Balance at December 31, 2023	\$ 94,662	683	-	95,345
Balance at December 31, 2022	\$ 129,437	639	-	130,076
Balance at January 1, 2022	\$ 37,935	519	822	39,276

B. Lease liabilities

	December 31, 2023	December 31, 2022
Current	\$ 64,400	46,250
Non-current	\$ 83,731	85,526

For the maturity analysis, please refer to note 6(26) “Financial instruments” .

The amounts recognized in profit or loss during the lease term were as follows:

	For the years ended December 31, 2023	2022
Interest expenses relating to lease liabilities	\$ 2,094	1,214
Expenses relating to short-term lease	\$ 11,613	9,566
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	\$ 1,395	1,100

The amounts relating to lease recognized in the statement of cash flows for were as follows:

	For the years ended December 31, 2023	2022
Total cash outflow for leases	\$ 79,007	59,869

C. Other information about leases

The Group leases certain transportation equipment, office and dormitory which qualify as short-term leases and certain office equipment which qualify as low-value asset leases. The Group had elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

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(12) Intangible assets

	Computer software	Technology License Fees	Total
Cost:			
Balance at January 1, 2023	\$ 1,616,037	458,308	2,074,345
Additions for the period	352,305	25,458	377,763
Disposal for the period	(372)	-	(372)
Reclassification	572	-	572
Effects of movements in exchange rates	(335)	-	(335)
Balance at December 31, 2023	<u>\$ 1,968,207</u>	<u>483,766</u>	<u>2,451,973</u>
Balance at January 1, 2022	\$ 1,214,130	403,695	1,617,825
Additions for the period	397,030	54,613	451,643
Acquisition through business combination	2,401	-	2,401
Reclassification	2,438	-	2,438
Effects of movements in exchange rates	38	-	38
Balance at December 31, 2022	<u>\$ 1,616,037</u>	<u>458,308</u>	<u>2,074,345</u>
Amortization:			
Balance at January 1, 2023	\$ 1,297,501	401,508	1,699,009
Amortization for the period	452,948	66,210	519,158
Disposal for the period	(372)	-	(372)
Effects of movements in exchange rates	(125)	-	(125)
Balance at December 31, 2023	<u>\$ 1,749,952</u>	<u>467,718</u>	<u>2,217,670</u>
Balance at January 1, 2022	\$ 957,934	345,220	1,303,154
Amortization for the period	339,506	56,288	395,794
Effects of movements in exchange rates	61	-	61
Balance at December 31, 2022	<u>\$ 1,297,501</u>	<u>401,508</u>	<u>1,699,009</u>
Carrying amounts:			
Balance at December 31, 2023	<u>\$ 218,255</u>	<u>16,048</u>	<u>234,303</u>
Balance at December 31, 2022	<u>\$ 318,536</u>	<u>56,800</u>	<u>375,336</u>
Balance at January 1, 2022	<u>\$ 256,196</u>	<u>58,475</u>	<u>314,671</u>

None of the intangible assets mentioned above were pledged as collateral.

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(13) Short-term borrowings

	December 31, 2023	December 31, 2022
Unsecured bank loans	<u>\$ 2,106,363</u>	<u>-</u>
Range of interest rates at the end of period (%)	<u>5.92~6.14</u>	<u>-</u>

Part of the property, plant and equipment mentioned above was pledged as collateral for bank loans.
Please refer to note 8.

(14) Other payables

	December 31, 2023	December 31, 2022
Salaries and bonus payable	\$ 5,412,949	6,066,671
Dividend payable (note 6(20))	887,774	1,970,963
Others	<u>1,262,442</u>	<u>901,494</u>
	<u>\$ 7,563,165</u>	<u>8,939,128</u>

(15) Other current liabilities

	December 31, 2023	December 31, 2022
Guarantee deposits received (note 9(3))	\$ 767,625	921,300
Refund liabilities	366,589	620,776
Payables for purchases of equipment	76,635	88,419
Receipts under custody	109,969	87,669
Other payables-related parties	101,199	550
Others	<u>6,863</u>	<u>7,693</u>
	<u>\$ 1,428,880</u>	<u>1,726,407</u>

(16) Long-term borrowings

	December 31, 2023		
	Rate of interest rates at the end of period (%)	Year of maturity	Amount
Secured bank loans	2.15	January, 2028	\$ 115,983
Less: current portion			<u>(27,470)</u>
			<u>\$ 88,513</u>

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	December 31, 2022		
	Rate of interest rates at the end of period (%)	Year of maturity	Amount
Secured bank loans	2.125	January, 2028	\$ 164,932
Less: current portion			(31,050)
			<u>\$ 133,882</u>

For the collateral for long-term borrowings, please refer to note 8.

(17) Bonds payable

On August 6, 2021, the Company's Board of Directors resolved the issuance of domestic 1st unsecured convertible bonds for purchasing properties, plants and equipment, and replenishing working capital. The issuance was approved by FSC on September 8, 2021. The issuance period is 3 years from December 17, 2021 to December 17, 2024. The total face value of the bonds issued is \$3,500,000 thousand and the coupon rate is 0%.

The details of unsecured convertible bonds were as follows:

	December 31, 2023	December 31, 2022
Total convertible corporate bonds issued	\$ 3,500,000	3,500,000
Unamortized discounted corporate bonds payable	(28,607)	(57,969)
Less: current portion	(3,471,393)	-
Bonds payable	<u>\$ -</u>	<u>3,442,031</u>
Embedded derivative instruments—call and conversion options, included in financial assets at fair value through profit or loss—current	<u>\$ 350</u>	<u>-</u>
Embedded derivative instruments—Equity component—conversion options, included in capital surplus—stock options	<u>\$ 102,369</u>	<u>102,369</u>
	<u>For the years ended December 31,</u>	<u>2023</u>
	<u>2023</u>	<u>2022</u>
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses	<u>\$ 350</u>	<u>(4,900)</u>
Interest expense	<u>\$ 29,362</u>	<u>29,176</u>

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The conversion price per share at the time of issuance of NTD570 is calculated by multiplying the closing price of the Company's ordinary shares traded on Taipei Exchange at one business day before the reference date for determining the conversion price, which is December 9, 2021, of NTD475 by the conversion premium rate of 120%. The number of convertible shares of the bonds is calculated by dividing the issued face value of the bonds by the conversion price. After the issuance of corporate bonds, the conversion price shall be adjusted in accordance with the article related to anti-dilution in the terms of issuance and conversion. Due to the distribution of cash dividends to shareholders, the conversion price shall be adjusted in accordance with the aforementioned terms. The conversion price adjusted was as follows:

Ex-dividend date	(Amount in Dollars)	
	Conversion price before adjustment	Conversion price after adjustment
December 27, 2021	570.0	556.3
July 4, 2022	556.3	537.3
December 19, 2022	537.3	520.6
July 10, 2023	520.6	515.1
December 29, 2023	515.1	510.4

The unsecured convertible bonds mentioned above included liability and equity components. The equity component is included in capital surplus— stock options. The effective interest rate originally recognized for the liability component was 1.005%.

(18) Employee benefits

A. Defined benefit plans

According to the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Group contributes amounts equal to certain percentage 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. By the end of each year, the Company 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 Company 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 Group has no right to influence the investment policy and strategy.

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Reconciliations of the present value of defined benefit obligation and the fair value of plan asset were as follows:

	December 31, 2023	December 31, 2022
Present value of defined benefit obligations	\$ 170,925	164,193
Fair value of plan assets	(52,703)	(49,395)
Net defined benefit liabilities	<u>\$ 118,222</u>	<u>114,798</u>

(a) Composition of plan assets

The Group' s domestic subsidiaries contribute pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

Bank of Taiwan labor pension reserve account balance of the Group' s domestic subsidiaries amounted to \$52,703 thousand as of December 31, 2023. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(b) Movements in present value change of defined benefit obligation

	For the years ended December 31, 2023	2022
Defined benefit obligation at January 1	\$ 164,193	149,156
Current service cost	3,327	3,000
Current interest cost	2,299	1,193
Remeasurements of the net defined benefit liabilities (assets)		
— Actuarial losses (gains) arising from changes in experience adjustment	(1,630)	28,422
— Actuarial losses (gains) arising from changes in financial assumptions	2,736	(16,862)
Benefits paid	-	(716)
Defined benefit obligation at December 31	<u>\$ 170,925</u>	<u>164,193</u>

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(c) Movements of defined benefit plan assets

	For the years ended December 31,	
	2023	2022
Fair value of plan assets at January 1	\$ 49,395	44,259
Interest income	692	354
Remeasurements of the net defined benefit liabilities (assets)		
— Return on plan assets (excluding current interest)	134	3,204
Contribution to the plan	2,482	2,294
Benefits paid	-	(716)
Fair value of plan assets at December 31	\$ 52,703	49,395

(d) Expenses recognized in profit or loss

	For the years ended December 31,	
	2023	2022
Current service cost	\$ 3,327	3,000
Net interest on the net defined benefit liabilities (assets)	1,607	839
	\$ 4,934	3,839

(e) Remeasurements of net defined benefit liabilities (assets) recognized in other comprehensive income

	For the years ended December 31,	
	2023	2022
Accumulated amount at January 1	\$ (55,198)	(48,513)
Recognized during the period	(778)	(6,685)
Accumulated amount at December 31	\$ (55,976)	(55,198)

(f) Actuarial assumptions

	December 31, 2023	December 31, 2022
Discount rate (%)	1.30	1.40
Future salary increase rate (%)	3.00	3.00

The Group is expecting a contribution of \$2,512 thousand to its defined benefit plans in the following year after the reporting date.

The weighted-average duration of the defined benefit obligation is 17 years.

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(g) Sensitivity analysis

If there was a change in the actuarial assumptions the impact on the present value of the defined benefit obligation would be as follows:

	Impact on present value of defined benefit obligations	
	Increase 0.25%	Decrease 0.25%
December 31, 2023		
Discount rate	\$ (6,740)	7,080
Future salary increase rate	6,512	(6,248)
December 31, 2022		
Discount rate	\$ (6,465)	6,786
Future salary increase rate	6,248	(5,998)

Reasonably possible changes at the reporting date in one of the relevant actuarial assumptions, assuming all other variables remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the parent company only balance sheets.

There were no changes in the method and assumptions used in calculating the sensitivity analysis for the years of 2023 and 2022.

B. Defined contribution plans

The Company and the Group's domestic subsidiaries allocate 6% of each employee's monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs of the Group's domestic subsidiaries under the defined contribution method were \$271,833 thousand and \$223,319 thousand for the years ended December 31, 2023 and 2022, respectively. Payment was made to the Bureau of Labor Insurance.

The pension costs of the Group's overseas subsidiaries under the defined contribution method were \$8,397 thousand and \$5,983 thousand for the years ended December 31, 2023 and 2022, respectively.

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(19) Income tax

A. Income tax recognized in profit or loss

The amounts of income tax expense were as follows:

	For the years ended December 31,	
	2023	2022
Current tax expense		
Current period	\$ 484,018	1,292,411
Tax refund of repatriated offshore funds	(91,590)	-
Prior-year adjustments	(58,376)	(26,229)
Income tax expense of unappropriated earnings	52,136	103,209
	<u>386,188</u>	<u>1,369,391</u>
Deferred tax expense		
Origination and reversal of temporary differences	88,826	(473,617)
	<u>\$ 475,014</u>	<u>895,774</u>

Reconciliations of income tax expense and profit before income tax expense were as follows:

	2023	2022
Profit before income tax	<u>\$ 4,099,442</u>	<u>6,296,920</u>
Income tax using the Company' s domestic tax rate	\$ 819,888	1,259,384
Effect of tax rates in foreign jurisdiction	43,874	44,634
Permanent difference	(106,266)	33,504
Investment tax incentives	(198,696)	(570,717)
Effect of unrecognized deferred tax liabilities	26,906	50,798
Income tax expense of unappropriated earnings	52,136	103,209
Tax refund of repatriated offshore funds	(91,590)	-
Prior-year adjustments	(58,376)	(26,229)
Others	<u>(12,862)</u>	<u>1,191</u>
Income tax expense	<u>\$ 475,014</u>	<u>895,774</u>

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B. Income tax recognized in other comprehensive income

The amounts of income tax expense (benefit) recognized in other comprehensive income were as follows:

	For the years ended December 31,	
	2023	2022
Remeasurements from defined benefit plans	\$ (194)	(1,671)
Exchange differences on translation of foreign financial statements	(24,812)	6,817
	\$ (25,006)	5,146

C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

The Group is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2023 and 2022. Also, it is probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details were as follows:

	December 31, 2023	December 31, 2022
Unrecognized deferred tax liabilities	\$ 333,333	360,239

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

	January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Effect of movements in exchange rates	Acquisitions through business combinations	December 31, 2023
Deferred tax assets						
Inventory write-downs	\$ 468,405	(76,108)	-	-	-	392,297
Unrealized exchange losses	136,062	25,827	-	-	-	161,889
Refund liabilities	124,155	(50,837)	-	-	-	73,318
Loss on foreign investment accounted for using the equity method	49,825	23,298	-	-	-	73,123
Impairment loss on financial assets	23,116	-	-	-	-	23,116
Net defined benefit liabilities	22,959	490	194	-	-	23,643
Exchange differences on translating foreign operations	-	-	17,995	-	-	17,995
Others	64,635	15,852	-	(2,157)	-	78,330
	\$ 889,157	(61,478)	18,189	(2,157)	-	843,711

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	January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Effect of movements in exchange rates	Acquisitions through business combinations	December 31, 2023
Deferred tax liabilities:						
Gain on foreign investment accounted for using the equity method	\$ 49,364	27,321	-	-	-	76,685
Exchange differences on translating foreign operations	6,817	-	(6,817)	-	-	-
Others	25	27	-	(1)	-	51
	<u>\$ 56,206</u>	<u>27,348</u>	<u>(6,817)</u>	<u>(1)</u>	<u>-</u>	<u>76,736</u>
	January 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Effect of movements in exchange rates	Acquisitions through business combinations	December 31, 2022
Deferred tax assets:						
Inventory write-downs	\$ 134,074	334,331	-	-	-	468,405
Unrealized exchange losses	133,659	2,403	-	-	-	136,062
Refund liabilities	165,792	(41,637)	-	-	-	124,155
Loss on foreign investment accounted for using the equity method	-	49,825	-	-	-	49,825
Impairment loss on financial assets	25,258	(2,142)	-	-	-	23,116
Net defined benefit liabilities	20,980	308	1,671	-	-	22,959
Others	15,430	(3,259)	-	(1,851)	54,315	64,635
	<u>\$ 495,193</u>	<u>339,829</u>	<u>1,671</u>	<u>(1,851)</u>	<u>54,315</u>	<u>889,157</u>
Deferred tax liabilities:						
Gain on foreign investment accounted for using the equity method	\$ 183,177	(133,813)	-	-	-	49,364
Exchange differences on translating foreign operations	-	-	6,817	-	-	6,817
Others	-	25	-	-	-	25
	<u>\$ 183,177</u>	<u>(133,788)</u>	<u>6,817</u>	<u>-</u>	<u>-</u>	<u>56,206</u>

D. Examination and approval

The income tax returns of the Company and the domestic subsidiaries had been examined and assessed by the tax authority through 2021.

(20) Equity

A. Common shares

As of December 31, 2023 and 2022, the Company's authorized common shares amounted to \$3,000,000 thousand, of which \$290,000 thousand was reserved for employee share options. The registered issued common shares amounted to \$2,044,690 thousand and \$1,970,740 thousand, respectively, with par value of NTD10 per share.

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As of December 31, 2023, the Company issued 7,395 thousand new common shares, with a par value of \$10 per share, as employee stock options. As of December 31, 2023 and 2022, the registration procedures for the amounts of \$3,000 thousand and \$16,005 thousand, respectively, recognized as advance receipts for share capital, has yet to be completed.

The reconciliation of number of outstanding shares of the Company for the years ended December 31, 2023 and 2022, respectively were as follows:

(Unit: Shares in Thousands)

	For the years ended December 31,	
	2023	2022
Balance, beginning of the period	191,815	197,074
Effect of repurchasing treasury shares	-	(6,860)
Employee share options exercised	6,094	1,601
Transfer of treasury shares	2,676	-
Balance, end of the period	200,585	191,815

B. Capital surplus

	December 31, 2023	December 31, 2022
Additional paid-in capital	\$ 8,416,171	6,597,101
Changes in equities of associates accounted for using the equity method	2,027,006	1,280,649
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
Changes in ownships interest in subsidiaries	1,944	1,944
Employee share options	580,922	839,390
Due to recognition of equity component of convertible bonds	102,369	102,369
Transaction of treasury stock	274,930	-
Expired employee stock options	279	227
	\$ 11,552,379	8,970,438

In accordance with the R.O.C. Company Act, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned realized capital surplus included share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be reclassified under share capital shall not exceed 10 % of the actual share capital amount.

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C. Retained earnings and dividend policy

The Company's Articles of Incorporation (the "Articles") that earnings distribution or offsetting of losses may be proposed at each half fiscal year.

Under the dividend policy as set forth in the Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, estimating and retaining the employees' and directors' remuneration, setting aside as legal reserve 10% of the remaining profit until the accumulated legal capital reserve equals to the paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with the beginning balance of undistributed retained earnings shall be used by the Company's Board of Directors as the basis for proposing a distribution plan. Where the aforementioned earnings, legal reserves, and capital reserves are distributed in cash, the Company's Board of Directors is authorized to approve the distribution by a resolution approved by a majority vote of the directors at a meeting attended by over two-thirds of the Company's Board of Directors and report to the shareholders' meeting. Where they are distributed by issuing new shares, it shall be resolved at the shareholders' meeting.

The Company's dividend policy complies with the laws, regulations and the Articles and takes into account the current and future competitions of the Company with domestic and foreign companies, investment environment, capital demand, capital budget, and shareholders' interests to strike a balance between dividends and the long-term financial planning of the Company, so as to foster sustainable operation and stable development. The dividend distribution of the shareholders of the Company can be distributed in cash dividends or share dividends, in which the proportion of shareholders' cash dividend distribution shall be no less than 10% of the total dividends of the shareholders.

The Company 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.

If the Company generates profit for the year, the distribution of the legal reserve, either by new shares or by cash, shall be resolved in the shareholders' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

The appropriation of 2023 earnings was as follows:

	Second Half of 2023	First Half of 2023
Resolution date of the Company's Board of Directors	March 8, 2024	August 4, 2023
Cash dividends to shareholders	\$ 1,773,262	887,555
Cash dividends per share (NTD)	8.84	4.42484464(Note)
Legal reserve	294,086	66,593
Special reserve	140,046	5,918

The amount of legal reserve and special reserve of 2023 will be submitted to the shareholders' meeting for approval on May 27, 2024.

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The appropriation of 2022 earnings was as follows:

	Second Half of 2022	First Half of 2022
Resolution date of the Company' s Board of Directors	March 15, 2023	July 29, 2022
Cash dividends to shareholders	\$ 865,962	1,970,740
Cash dividends per share (NTD) (Note)	4.45090808	10.27746561
Approval date of the Company' s shareholders' meeting	May 31, 2023	May 31, 2023
Legal reserve	\$ 149,747	399,192
Special reserve	216,810	-

Note: Due to the treasury shares and the exercise of employee stock options, the actual distribution of cash dividends per share was adjusted.

The appropriation of 2021 earnings was as follows:

	Second Half of 2021	First Half of 2021
Resolution date of the Company' s Board of Directors	March 4, 2022	August 6, 2021
Cash dividends to shareholders	\$ 2,561,962	1,970,740
Cash dividends per share (NTD)	13	10
Approval date of the Company' s shareholders' meeting	May 24, 2022	May 24, 2022
Legal reserve	\$ 418,001	355,551
Reversal of special reserve	(155,568)	(9,773)

The aforementioned appropriation of 2021 earnings for was consistent with the proposal made by the Board of Directors on March 4, 2022.

Information on the appropriations of earnings mentioned above is available at the Market Observation Post System website of the Taiwan Stock Exchange.

D. Treasury shares

On July 15, 2022, the Company' s Board of Directors resolved to plan to repurchase 10,000 thousand shares of its issued shares of common shares to its employees at a price not to exceed \$325 per share for the period from July 18 to September 16, 2022, in accordance with the Securities and Exchange Act. Based on the resolution mentioned above, after fully executing, the Company bought back 6,860 thousand treasury shares amounting to \$2,061,216 thousand in total.

The Company transferred 2,676 thousand treasury shares to its employees and subsidiary employees in 2023 and received the amount to \$801,843 thousand, resulting in the cost of the share-based remuneration of \$277,047 thousand to be recognized.

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E. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	For the years ended December 31,	
	2023	2022
Balance at January 1	\$ 27,271	(143,563)
Foreign exchange differences (net of tax)	(99,251)	170,834
Balance at December 31	<u>\$ (71,980)</u>	<u>27,271</u>

(b) Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

	For the years ended December 31,	
	2023	2022
Balance at January 1	\$ (244,081)	246,847
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax)	(61,345)	(395,996)
Disposal for the period	14,632	(94,932)
Balance at December 31	<u>\$ (290,794)</u>	<u>(244,081)</u>

(21) Share-based payment

The Company issued employee share options which each unit can be exercised to purchase one share of the Company. The duration of the plan is 3 to 4 years, and the plan was approved by the FSC. As of December 31, 2023, the information related to the employee share options was as follows:

Type	Authorization date	Issue date	Issued units (in thousands)	Grant Period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD)
2022 First employee share options (note)	July 27, 2022	September 7, 2022	6,000	service period between 2~3 years	293.50	278.80
2021 First employee share options (note)	October 4, 2021	November 19, 2021	6,000	service period between 2~3 years	414.50	note
2020 First employee share options	April 10, 2020	October 5, 2020	6,000	service period between 2~2.5 years	262.00	225.30
2019 Second employee share options	November 22, 2019	October 5, 2020	2,000	service period between 2~2.5 years	262.00	225.30

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The estimated fair values of the options granted were calculated at the date of grant using the Black-Scholes option pricing model. The Group recognized compensation cost amounting to \$241,871 thousand and \$360,211 thousand for the years ended December 31, 2023 and 2022, respectively.

Weighted-average assumptions were as follows:

	<u>2022 1st</u>	<u>2021 1st</u>	<u>2020 1st</u>	<u>2019 2nd</u>
Grant-date share price (NTD)	\$ 293.50	414.50	262.00	262.00
Exercise price (NTD)	293.50	414.50	262.00	262.00
Expected volatility (%)	38.77~39.50	37.44~37.96	35.27~35.45	35.27~35.45
Expected dividend yield (%)	-	-	-	-
Expected life (year)	4	4	3	3
Risk free interest rate (%)	1.05~1.11	0.40~0.41	0.20~0.22	0.20~0.22
Fair value per option (NTD) \$	84.61	112.17	59.63	59.63

Note: The Company retracted and cancelled all employee stock options issued in 2021 and replaced them with employee stock options issued in 2022, with the consent of the share option holders.

Information related to employee share options was as follows:

A. 2022 First employee share options

	<u>For the years ended December 31,</u>			
	<u>2023</u>		<u>2022</u>	
<u>Employee share options</u>	<u>Number of Options (In Thousands of Units)</u>	<u>Weighted-average exercise price (NTD)</u>	<u>Number of Options (In Thousands of Units)</u>	<u>Weighted-average exercise price (NTD)</u>
Outstanding at January 1	5,969	\$ 284.40	-	\$ -
Granted during the period	-	-	6,000	293.50
Exercised during the period	-	-	-	-
Forfeited during the period	(140)	-	(31)	-
Outstanding at December 31	<u>5,829</u>	278.80	<u>5,969</u>	\$ 284.40
Exercisable at December 31	<u>-</u>		<u>-</u>	

As of December 31, 2023 and 2022, the weighted-average remaining contractual life for outstanding option were 2.69 and 3.69 years, respectively.

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B. 2021 First employee share options

	For the years ended December 31, 2022	
	Number of Options (In Thousands of Units)	Weighted-av erage exercise price (NTD)
Employee share options		
Outstanding at January 1	5,987	\$ 404.50
Granted during the period	-	-
Exercised during the period	-	-
Forfeited during the period	(87)	-
Retracted during the period	(5,900)	-
Outstanding at December 31	-	-
Exercisable at December 31	-	-

C. 2020 First employee share options

	For the years ended December 31,			
	2023		2022	
	Number of Options (In Thousands of Units)	Weighted-av erage exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-av erage exercise price (NTD)
Employee share options				
Outstanding at January 1	4,642	\$ 227.70	5,782	\$ 243.30
Granted during the period	-	-	-	-
Exercised during the period	(4,632)	226.39	(1,127)	234.80
Forfeited during the period	(10)	-	(13)	-
Outstanding at December 31	-	-	4,642	227.70
Exercisable at December 31	-	-	1,760	-

As of December 31, 2022, the weighted-average remaining contractual life for outstanding option was 0.75 years.

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D. 2019 Second employee share options

	For the years ended December 31,			
	2023		2022	
Employee share options	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
Outstanding at January 1	1,480	\$ 227.70	1,940	\$ 243.30
Granted during the period	-	-	-	-
Exercised during the period	(1,479)	226.36	(457)	234.77
Forfeited during the period	(1)	-	(3)	-
Outstanding at December 31	<u>-</u>	-	<u>1,480</u>	227.70
Exercisable at December 31	<u>-</u>		<u>512</u>	

As of December 31, 2022, the weighted-average remaining contractual life for outstanding option, was 0.75 years.

(22) Earnings per share

A. Basic earnings per share

	For the years ended December 31,	
	2023	2022
Net profit attributable to ordinary shareholders of the Company	<u>\$ 3,624,428</u>	<u>5,401,146</u>
Weighted-average number of shares outstanding during the year (in thousands of shares)	<u>196,176</u>	<u>194,935</u>
Basic earnings per share (NTD)	<u>\$ 18.48</u>	<u>27.71</u>

B. Diluted earnings per share

	For the years ended December 31,	
	2023	2022
Net profit attributable to ordinary shareholders of the Company	\$ 3,624,428	5,401,146
Effect of dilutive potential ordinary shares		
Convertible bonds	23,210	19,420
Net profit attributable to ordinary shareholders of the Company	<u>\$ 3,647,638</u>	<u>5,420,566</u>
Weighted average number of shares outstanding during the year (in thousands of shares)	196,176	194,935
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	2,270	3,137
Employees' compensation	2,380	3,529
Effect of conversion of convertible bonds	6,758	6,409
	<u>207,584</u>	<u>208,010</u>
Diluted earnings per share (NTD)	<u>\$ 17.57</u>	<u>26.06</u>

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(23) Operating revenue

	For the years ended December 31,	
	2023	2022
Primary geographical markets:		
Asia	\$ 36,138,268	47,089,940
America	10,101,826	10,588,924
Europe	1,926,058	2,474,827
Australia	55,229	102,224
Others	249	227
	\$ 48,221,630	60,256,142
Major product categories:		
Flash memory module products	\$ 36,619,089	42,174,860
Controllers	8,359,636	13,907,161
Integrated Circuit	1,090,023	2,050,539
Others	2,152,882	2,123,582
	\$ 48,221,630	60,256,142

The Group categorized the operating revenue mainly based on the countries where the customers are located.

(24) Employees' compensation and remuneration of directors

The Company accrued its remunerations to employees and directors, at the rates of 8% to 19% and a maximum rate of 1.5%, of the net profit before income tax which yet the remunerations to employees and directors, respectively. The remunerations to employees and directors for the years ended December 31, 2023 and 2022, had been approved during the Company's board meetings held on March 8, 2024 and March 15, 2023, respectively, as follows:

	For the years ended December 31,			
	2023		2022	
	Cash	Share	Cash	Share
Employees' compensation	\$ 930,000	-	1,000,000	-
Remuneration of directors	23,000	-	35,000	-

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 is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2022.

Information on the employees' compensation and remuneration of directors resolved by the Company's Board of Directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

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(25) Non-operating income and expenses

A. Interest income

	For the years ended December 31,	
	2023	2022
Interest income from bank deposits	\$ 207,981	97,135
Others	-	8
	\$ 207,981	97,143

B. Other income

	For the years ended December 31,	
	2023	2022
Research project grant	\$ 104,912	31,797
Dividend income	86,966	90,937
Rent income	25,977	21,759
Gain on a bargain purchase (note 6(9))	-	16,289
Others	\$ 77,862	40,697
	\$ 295,717	201,479

C. Other gains and losses

	For the years ended December 31,	
	2023	2022
Gains on disposal of investments accounted for using the equity method (note 6(9))	\$ -	30,426
Net foreign exchange gains (losses)	(94,243)	755,681
Gains (Losses) on financial assets at fair value through profit or loss	429,756	(276,636)
Others	(76,533)	(144)
	\$ 258,980	509,327

D. Finance costs

	For the years ended December 31,	
	2023	2022
Interest on bank loans	\$ 22,370	5,271
Interest on lease liabilities	2,094	1,214
Interest on convertible bond	29,362	29,176
Others	131	122
	\$ 53,957	35,783

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(26) Financial instruments

A. Categories of financial instruments

	December 31, 2023	December 31, 2022
Financial assets		
Financial assets at FVTPL (current and non-current)	\$ 1,223,014	1,102,369
Financial assets at amortized cost (Note 1)	26,050,348	25,249,286
Financial assets at FVTOCI	457,457	431,697
	<u>\$ 27,730,819</u>	<u>26,783,352</u>
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	<u>\$ 20,537,868</u>	<u>20,572,844</u>

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost, accounts receivable (including related parties), other receivables and refundable deposits.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, accounts payable (including related parties), other payables, bonds payable, long-term borrowings (including current portion), and guarantee deposits received.

B. Financial risk management objectives and policies

The Group primarily manages its exposure to foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The Group's plans for material treasury activities must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties and reviewed in accordance with procedures required by relevant regulations or internal controls.

C. Market risk

The Group's activities were exposed 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. The Group continues to evaluate future exchange rate movements, and the exposure to foreign currency risk of foreign currency net assets is still within the controllable range.

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(i) Exposure to foreign currency risk

The Group's financial assets and liabilities exposed to significant foreign currency risk were as follows:

	December 31, 2023			December 31, 2022		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	564,033	30.705	17,318,620	438,421	30.710	13,463,913
<u>Non-Monetary items</u>						
CNY	852,150	4.327	3,687,251	756,458	4.408	3,334,467
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	280,680	30.705	8,618,265	231,543	30.710	7,110,673

(ii) Sensitivity analysis

The Group's exposure to foreign currency risk primarily arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable (including related parties), short-term borrowings, and accounts payable (including related parties), that are denominated in USD. A weakening (strengthening) of 5% of the NTD against the USD as of December 31, 2023 and 2022, would have increased or decreased the net profit before income tax for the years ended December 31, 2023 and 2022 by \$435,018 thousand and \$317,662 thousand, respectively. The analysis was performed on the same basis for comparative years.

(iii) Foreign exchange gains and losses on monetary items

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. The details of the net foreign currency exchange gains (losses) (including realized and unrealized) were as follows:

<u>For the years ended December 31,</u>	
<u>2023</u>	<u>2022</u>
<u>\$ (94,243)</u>	<u>755,681</u>

(b) Interest rate risk

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date.

If interest rates had been 0.25% basis point higher and all other variables were held constant, the Group's net profit before income tax for the years ended December 31, 2023 and 2022 would have increased by \$27,000 thousand and \$28,093 thousand, respectively. Due to the impact of variable interest rate cash and cash equivalents, short-term and long-term borrowings.

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(c) Other price risk

The Group was exposed to equity price risks through its investments in foreign and domestic listed and unlisted stock, private equity funds and beneficiary certificates.

Sensitivity analysis

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

If equity prices had been 10% higher or lower, net profit before income tax for the years ended December 31, 2023 and 2022 would have increased or decreased by \$122,301 thousand and \$110,237 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL. If equity prices had been 10% higher or lower, the other comprehensive income before income tax for the years ended December 31, 2023 and 2022 would have increased or decreased by \$45,746 thousand and \$43,170 thousand, respectively, as a result of the changes in fair value of financial assets at FVOCI.

D. Concentration of credit risk

(a) Accounts receivable

The major customers of the Group are in the electronics industry and the Group usually grants credit limits to customers in accordance with credit policy, therefore, the credit risk of the Group is mainly affected by the electronics industry. However, the Group mostly sells products to customers with good reputation and continuously monitors the financial situation of customers to monitor the significant loss from credit risk. As of December 31, 2023 and 2022, 41% and 36%, respectively, of accounts receivable (including related parties) were from top five customers, so there was no significant concentration of credit risk. In addition, the Group periodically reviews the recoverable amounts of accounts receivable to ensure that an adequate allowance is recognized for possible irrecoverable amounts. In this regard, the management believes there is no expected material credit risk.

(b) Cash and cash equivalents

The Group's cash and cash equivalents are deposited with different financial institutions. The Group controls the credit risk exposure to each financial institution and believes that the Group's cash and cash equivalents do not pose a risk of a significant concentration of credit risk.

(c) Receivables and debt securities

Please refer to note 6(5) for details on the credit risk exposure of accounts receivable. Please refer to note 6(3) for financial assets at amortized cost including pledged time deposits. Please refer to notes 6(2) and (4) for details on financial assets at fair value through profit and loss and other comprehensive income including listed stocks, unlisted stocks, open-end funds, and private equity funds.

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The financial assets mentioned above were with lower credit risk, so 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.

E. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Cash flow of contract	Within 1 year	1-5 years	Over 5 years
December 31, 2023					
Non-derivative financial liabilities					
Non-interest bearing liabilities	14,844,129	(14,844,129)	(14,838,383)	(4,336)	(1,410)
Lease liabilities (current and non-current)	148,131	(152,719)	(66,064)	(86,655)	-
Bonds payable (including current portion)	3,471,393	(3,500,000)	(3,500,000)	-	-
Floating interest rate liabilities	238,803	(245,302)	(153,744)	(91,558)	-
Fixed interest rate liabilities	1,983,543	(2,004,093)	(2,004,093)	-	-
	\$ 20,685,999	(20,746,243)	(20,562,284)	(182,549)	(1,410)
December 31, 2022					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 16,965,881	(16,965,881)	(16,040,071)	(924,728)	(1,082)
Lease liabilities (current and non-current)	131,776	(133,584)	(47,229)	(86,355)	-
Bonds payable	3,442,031	(3,500,000)	-	(3,500,000)	-
Floating interest rate liabilities	164,932	(174,143)	(34,250)	(137,038)	(2,855)
	\$ 20,704,620	(20,773,608)	(16,121,550)	(4,648,121)	(3,937)

The Group does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

F. Fair value of financial instruments

(a) Fair value measurements recognized in the consolidated balance sheets

Fair value measurements are grouped into Level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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(b) Fair value of financial instruments measured at fair value on a recurring basis

Fair value hierarchy

The following table presents the Group's financial assets and liabilities measured at fair value on a recurring basis:

		December 31, 2023			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Domestic listed stocks	\$	868,313	-	-	868,313
Domestic unlisted stocks		-	-	132,719	132,719
Foreign unlisted stocks		-	-	82,337	82,337
Domestic private equity funds		-	-	27,201	27,201
Beneficiary certificates — open-end funds		112,094	-	-	112,094
Derivative instruments — convertible bonds		-	-	350	350
		\$ 980,407	-	242,607	1,223,014
Financial assets at fair value through other comprehensive income					
Domestic unlisted stocks	\$	-	-	271,751	271,751
Foreign unlisted stocks		-	-	185,706	185,706
		\$ -	-	457,457	457,457
		December 31, 2022			
		Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss					
Domestic listed stocks	\$	674,253	-	-	674,253
Domestic unlisted stocks		-	-	174,012	174,012
Foreign unlisted stocks		-	-	108,891	108,891
Domestic private equity funds		-	-	34,444	34,444
Beneficiary certificates — open-end funds		110,769	-	-	110,769
		\$ 785,022	-	317,347	1,102,369
Financial assets at fair value through other comprehensive income					
Domestic unlisted stocks	\$	-	-	235,752	235,752
Foreign unlisted stocks		-	-	195,945	195,945
		\$ -	-	431,697	431,697

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There were no transfers between Levels 1 and 2 for the years ended December 31, 2023 and 2022.

The reconciliations of Level 3 fair value measurements of financial instruments were as follows:

	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
	Private equity funds	Derivative instruments-c convertible bonds	Equity instruments	Equity instruments	Total
January 1, 2023	\$ 34,444	-	282,903	431,697	749,044
Recognized in profit or loss	(7,243)	350	(59,785)	-	(66,678)
Recognized in other comprehensive income	-	-	-	(56,570)	(56,570)
Additions for the period	-	-	938	91,330	92,268
Disposal and proceeds from capital reduction	-	-	(9,000)	(9,000)	(18,000)
December 31, 2023	\$ 27,201	350	215,056	457,457	700,064
January 1, 2022	\$ 39,909	4,900	411,660	634,757	1,091,226
Recognized in profit or loss	(5,465)	(4,900)	(125,747)	-	(136,112)
Recognized in other comprehensive income	-	-	-	(181,391)	(181,391)
Additions for the period	-	-	4,265	95,113	99,378
Disposal and proceeds from capital reduction	-	-	(7,275)	(116,782)	(124,057)
December 31, 2022	\$ 34,444	-	282,903	431,697	749,044

(c) Quantified information on Level 3 used in fair value measurement

The Group's financial instruments that use Level 3 inputs to measure fair value mainly include financial assets at fair value through profit or loss—equity investments, derivative financial instruments, private equity funds, and financial assets at fair value through other comprehensive income—equity investments. If the measurement of the fair value requires the use of observable inputs which cannot be objectively observed, the Group will evaluate the most relevant market data carefully for the evaluation item.

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Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income — equity investments without an active market	Market approach	<ul style="list-style-type: none"> Discount for lack of marketability (December 31, 2023: 14.10%~30.00% and December 31, 2022: 7.69%~30.00%) 	<ul style="list-style-type: none"> The higher the discount for lack of marketability, the lower the fair value
Financial assets at fair value through other comprehensive income — equity investments without an active market	Income approach	<ul style="list-style-type: none"> Sustainable revenue growth rate (December 31, 2023: 1.92% and December 31, 2022: 1.6%) Weighted-average cost of capital (December 31, 2023: 5.8%~12.25% and December 31, 2022: 6.25%~12.11%) Discount for lack of marketability (December 31, 2023 and December 31, 2022: 15%) Discount for non-controlling interest (December 31, 2023 and December 31, 2022: 15%), 	<ul style="list-style-type: none"> The higher the sustainable revenue growth rate, the higher the fair value The higher the weighted-average cost of capital, the lower the fair value The higher the discount for lack of marketability, the lower the fair value The higher the discount for non-controlling interest, the lower the fair value
Financial assets at fair value through profit or loss — equity investments without an active market and private equity funds	Asset-based approach	<ul style="list-style-type: none"> Net Asset Value Discount for lack of marketability (December 31, 2023 and December 31, 2022: 10%) Discount for non-controlling interest (December 31, 2023 and December 31, 2022: 10%) 	No applicable

The fair values of derivatives instruments — convertible bonds is estimated by the binary tree convertible bond evaluation model, and the significant unobservable input value used is the stock price volatility. The stock price volatility adopted on December 31, 2023 and 2022, was 32.20% and 38.59%, respectively.

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(27) Capital management

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 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 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.

The Group's debt-to-equity ratios were respectively as follows:

	December 31, 2023	December 31, 2022
Total liabilities	\$ 22,174,371	22,358,014
Total equity	42,788,153	37,631,822
Debt-to-adjusted-capital ratio (%)	52	59

As of December 31, 2023, there is no change in the method of capital management of the Group.

(28) Investing and financing activities not affecting current cash flow

A. For leased right-of-use assets, please refer to note 6(11).

B. Reconciliations of liabilities arising from financing activities were as follows:

	January 1, 2023	Cash flows	Foreign exchange movement and others	December 31, 2023
Short-term borrowings	\$ -	2,177,294	(70,931)	2,106,363
Bonds payable (including current portion)	3,442,031	-	29,362	3,471,393
Long-term borrowings (including current portion)	164,932	(48,949)	-	115,983
Lease liabilities (current and non-current)	131,776	(63,905)	80,260 (Note)	148,131
Guarantee deposits received (current and non-current)	1,847,780	(1,150,954)	76,545	773,371
Total liabilities from financing activities	\$ 5,586,519	913,486	115,236	6,615,241

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	January 1, 2022	Cash flows	Foreign exchange movement and others	December 31, 2022
Short-term borrowings	\$ 439,216	(442,995)	3,779	-
Bonds payable	3,412,855	-	29,176	3,442,031
Long-term borrowings (including current portion)	195,636	(30,704)	-	164,932
Lease liabilities (current and non-current)	40,030	(47,989)	139,735 (Note)	131,776
Guarantee deposits received (current and non-current)	4,109	1,659,591	184,080	1,847,780
Total liabilities from financing activities	<u>\$ 4,091,846</u>	<u>1,137,903</u>	<u>356,770</u>	<u>5,586,519</u>

Note: The Group has leased equipment and offices in Taipei for operation needs for the years ended December 31, 2023 and 2022, respectively, lease liabilities of the Group increased \$68,353 thousand and \$100,116 thousand.

7. Related-party transactions

(1) Names and relationship with related parties

The followings are subsidiaries and related parties that have had transactions with the Group during the periods covered in the consolidated financial statements:

Name of related party	Relationship with the Group
Microtops Design Corporation	Associate
Hosin Global Electronics Co., Ltd. (SZ) (Hosin Global SZ)	Associate
Hosin Global Electronics Co., Ltd. (HK)	Hosin Global SZ' s subsidiary
SiliTai Electronics Co., Limited	Hosin Global SZ' s sub-subsubsidiary
Hefei Core Storage Electronic Limited	Hosin Global SZ' s subsidiary
Hefei Kaimeng Technology Co., Ltd.	Hosin Global SZ' s sub-subsubsidiary
Xiamen Hongxinchuang Electronics Co., Ltd.	Hosin Global SZ' s subsidiary
Shanghai Hongxinyu Microelectronics Technology Co., Ltd.	Hosin Global SZ' s subsidiary
Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng)	Associate
Hefei Datang Storage Technology Co., Ltd.	Hefei Xinpeng' s subsidiary
ProGrade Digital, Inc.	Associate
Kioxia Corporation (KIC)	The Company' s director
Kioxia Taiwan Corporation	KIC' s subsidiary
Kioxia Asia, Limited	KIC' s subsidiary
Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	KIC' s subsidiary

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Name of related party	Relationship with the Group
Toshiba International Procurement HongKong, Ltd.	KIC' s associate
Orient Semiconductor Electronics Ltd.	The Company had resigned in its position as the director on November 7, 2022; hence it was no longer a related party of the Group since then
Apacer Technology Inc.	The Company is its director
UD INFO Corp.	Since August 1, 2022, it became a subsidiary of Apacer Technology Inc.
ONE UPON Co. Ltd.	The Company' s director is its chairman
LIU, TIAN-PAI	Other related party

(2) Significant transactions with related parties

A. Operating revenues

Related Party Category / Name	For the years ended December 31,	
	2023	2022
Associates	\$ 3,247,097	5,761,656
Other related parties	2,234,809	3,215,711
	\$ 5,481,906	8,977,367

The credit terms to related parties were ranged from T/T in advance to EOM 90 days and that to non-related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the sales price and credit terms of the Group for related parties and that for the third parties.

B. Purchase of goods and Processing costs

(a) Purchase of goods

Related Party Category / Name	For the years ended December 31,	
	2023	2022
Other related parties – Kioxia Taiwan Corporation	\$ 10,032,575	11,413,643
Associates	30,793	(3,655)
Other related parties	20	-
	\$ 10,063,388	11,409,988

(b) Processing costs

Related Party Category / Name	For the years ended December 31,	
	2023	2022
Other related parties	\$ -	2,071,125

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The payment terms to related parties were ranged from T/T in advance to EOM 30 days and that to non-related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the purchase price and payment terms of the Group from related parties and that from the third parties.

C. Receivable from related parties

Related Party Category / Name	December 31, 2023	December 31, 2022
Associates — Hosin Global Electronics Co., Ltd. (HK)	\$ 1,118,344	235,530
Associates	49,338	417,838
Other related parties	643,767	567,815
	1,811,449	1,221,183
Less: Loss allowance	(3,685)	(22,110)
	<u>\$ 1,807,764</u>	<u>1,199,073</u>

The outstanding accounts receivable from related parties are unsecured.

D. Payables to related parties

Related Party Category / Name	December 31, 2023	December 31, 2022
Other related parties — Kioxia Taiwan Corporation	<u>\$ 1,028,950</u>	<u>578,866</u>

E. Other transactions

Account Name	Related Party Category / Name	For the years ended December 31,	
		2023	2022
Operating costs	Associates	\$ 9,395	-
	Other related parties	440	3,812
		<u>\$ 9,835</u>	<u>3,812</u>
Operating Expenses	Associates	\$ 332,805	256,178
	Other related parties	2,506	6,808
		<u>\$ 335,311</u>	<u>262,986</u>
Non-operating incomes	Associates	\$ 924	1,228
	Other related parties (note)	43,048	44,296
		<u>\$ 43,972</u>	<u>45,524</u>

Note: The related parties distributed \$41,430 thousand and \$36,381 thousand cash dividend to the Group for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, all the aforementioned dividends had been fully received.

As of December 31, 2023 and 2022, the receivables arising from abovementioned transactions were all \$81 thousand (recognized as other receivables), and the payables arising from abovementioned transactions were \$101,199 thousand and \$399 thousand, respectively (recognized as other current liabilities).

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

On January 21, 2022, the Company's Board of Directors resolved to purchase the land from the related party, LIU, TIAN-PAI, for the Company to expand operation in the future. The total amount without VAT of the purchase was \$39,500 thousand.

The Group leased the office to related parties with lease terms and prices determined based on mutual agreements. The payment term for rental is 30 days after the end of the month, with the related income being classified under non-operating income. The related party leased the land to the Group with lease terms and prices determined based on mutual agreements. The payment term for rental is T/T in advance, with the related expense being classified under operating expenses.

(3) Key management personnel compensation

Key management personnel compensation comprised:

	For the years ended December 31,	
	2023	2022
Short-term employee benefits	\$ 242,785	442,005
Post-employment benefits	1,402	1,804
Share-based payments	12,514	39,439
	\$ 256,701	483,248

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

Please refer to note 6(21) for further explanations related to share-based payment.

8. Pledged assets

The carrying values of pledged assets were as follows:

Pledged assets	Object	December 31, 2023	December 31, 2022
Property, plant and equipment	As collateral for loans and finance facilities	\$ 505,118	517,906
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	40,568	40,499
		\$ 545,686	558,405

9. Commitments and contingencies

(1) Significant commitments

A. The Group's unused letters of credit

	December 31, 2023	December 31, 2022
Unused letters of credit	\$ 660,000	1,160,000

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

- B. In order to receive the research project grant, the Group obtain a performance guarantee letter from the bank as follows:

December 31, 2023	December 31, 2022
<u>\$ 101,290</u>	<u>26,400</u>

- C. In order to apply post release duty payment for imported goods, the Group obtain a customs duties guarantee from the bank as follows:

December 31, 2023	December 31, 2022
<u>\$ 1,000</u>	<u>1,000</u>

(2) Purchase commitment

The Group entered into a long-term purchase agreement of material with a supplier. The relative purchase quantity and price of wafers are specified in the agreement. According to the agreement, the Group has to pay partial guarantee deposit before the appointment date. As of December 31, 2023, the Group has paid US\$56,000 thousand of guarantee deposit (recognized as other non-current assets).

(3) Long-term supply agreement

The Group entered into a long-term supply agreement with a customer in 2021, and received a guarantee deposit of US\$90,000 thousand as agreed. The Group was required to sell controllers to the customer in the amount agreed upon by both parties during the agreed period. As of December 31, 2023, the guarantee deposits received were classified as current liabilities of \$767,625 thousand (recognized as other current liabilities) based on the expected repayment period.

10. Losses due to major disasters: None.

11. Subsequent events

- (1) In order to expand the Chinese market, the Company' s Board of Directors resolved on January 18, 2024 to set up a Xiamen subsidiary, with an indirect investment of CNY60,000 thousand.
- (2) For the purpose of enhancing its working capital, the Company conducted a cash capital increase by issuing its second unsecured convertible bonds on January 23, 2024, with an issuance period of 5 years, and the total face value of \$6,000,000 thousand.
- (3) Based on the purpose of industry-university cooperation and cultivating talents, the Company' s Board of Directors resolved on March 8, 2024, and plan to build a new building at the National Yang Ming Chiao Tung University. After the construction is completed, it will be donated to the National Yang Ming Chiao Tung University.
- (4) In order to obtain a stable supply of the required parts, the Company prepaid the amount of US\$120,000 thousand to its supplier on January 4, 2024, with the approval of Board of Directors.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

12. Other

- (1) A summary of current-period employee benefits, depreciation, and amortization, by function, was as follows:

By item	By function	For the year ended December 31,					
		2023			2022		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
Salary		765,446	7,976,454	8,741,900	963,266	7,125,126	8,088,392
Labor and health insurance		76,907	451,928	528,835	88,433	379,495	467,928
Pension		31,663	253,501	285,164	38,606	194,535	233,141
Others		36,580	182,300	218,880	49,246	177,789	227,035
Depreciation		205,708	479,974	685,682	205,125	445,649	650,774
Amortization		1,914	517,244	519,158	2,027	393,767	395,794

- (2) The Company was served two complaints from Taiwan Hsinchu District Court on November 8, 2019 and December 13, 2019, that the Securities and Futures Investors Protection Center (“SFIPC”) filed the following two civil action:
- A. To ask to remove Mr. K.S. Pua from the Company’ s Board Director Position (“Removal Action”);
- B. To claim monetary damage amounting New Taiwan Dollars \$697,389 thousand against the Company, its board of directors and other co-defendants on behalf of certain investors (“Class Action”).

These two civil actions were derivative litigations from the criminal litigation associated with the Company’ s financial case occurred on August 05, 2016. The Company has engaged attorneys to answer and ask the court to dismiss SFIPC’ s allegations. Of which, Taiwan High Court rendered judgment on December 20, 2022, to dismiss the Removal Action. SFIPC disagreed court judgment and filed petition for appeal to Supreme Court. Nevertheless, since Mr. K.S. Pua had resigned from the Company’ s chairman and board director position on November 18, 2021, the Removal Action’ s future development has no influence to the Company. With regard to the Class Action, even though its future development and possible consequence could not be assessed by the Company, at current stage it has no significant influence to the Company’ s finance and operations.

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

13. Addition disclosures

(1) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Group:

- A. Loans to other parties: None.
- B. Guarantees and endorsements for other parties: None.
- C. Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures) : Please refer to Table 1.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None.
- G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 2.
- H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 3.
- I. Trading in derivative instruments: Please refer to Notes 6(2).
- J. Business relationships and significant intercompany transactions: Please refer to Table 4.

(2) Information on investees (excluding information on investees in Mainland China): Please refer to Table 5.

(3) Information on investment in Mainland China:

- A. The names of investees in Mainland China, the main businesses and products, and other information: Please refer to Table 6.
- B. Limitation on investment in Mainland China: Please refer to Table 6.
- C. Significant transactions:

For the year ended December 31, 2023, the significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions” .

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(4) Major shareholders:

(in units of shares)

Shareholder' s Name	Shareholding	Shares	Percentage
Trust Investment Account of KIOXIA Corporation by First Bank		19,821,112	9.67%

Note 1: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of differences in the basis of preparation.

Note 2: If the aforementioned data contains shares which are held in trust by the shareholders, the data is disclosed as a separate account of client which was set by the trustee. As for the shareholder who reports share equity as an insider whose shareholding ratio is greater than 10%, in accordance with the Securities and Exchange Act, the shareholding ratio includes the self-owned shares and shares held in trust, and at the same time, the shareholder has the power to decide how to allocate the trust assets. For the information on the reported share equity of insider, please refer to the Market Observation Post System.

14. Segment information

(1) General information

Information is reported to the chief operating decision maker for the purpose of resource allocation, and the assessment of segment performance is focused on operating income generated from flash memory controllers design and the flash peripheral application integration design, manufacturing and sales business. As a result, the Group has only one operating segment. The segment engages mainly in the design and sale of flash memory controllers and the flash peripheral application integration, such as the application design, manufacturing and sale of SSDs (included SATA, PCIe), Embedded Memory (included eMMC, UFS), USB and memory cards, etc.

The basis for the measurement of income from operations is the same as that for the preparation of the financial statements. Refer to the consolidated statements of comprehensive income for the related segment revenue and operating results.

(2) Product information

Please refer note 6(23).

Phison Electronics Corp. and subsidiaries
Notes to the Consolidated Financial Statements

(3) Geographic information

The Group categorized the operating revenue mainly based on the countries where the customers are located. And, non-current assets were categorized by the assets located, please refer note 6(23).

A. Revenue from external customers:

Please refer to note 6(23).

B. Non-current assets:

Geography	December 31, 2023	December 31, 2022
Asia	\$ 7,718,309	8,065,953
America	59,068	37,220
	<u>\$ 7,777,377</u>	<u>8,103,173</u>

(4) Major customer

There was no single customer that accounted for 10% or over of the Group's revenue for the years of 2023 and 2022.

Phison Electronics Corp. and Subsidiaries
Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures)
December 31, 2023

Table 1

(Shares in Thousands / Amounts in Thousands)

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Highest Percentage of ownership (%) during the year	Note
				Shares	Carrying Value	Percentage of Ownership (%)		
The Company	<u>Common shares</u>							
	Apacer Technology Inc.	-	Financial assets at fair value through profit or loss – current	12,555	777,129	10.23	10.23	
	Orient Semiconductor Electronics, Ltd.	-	Same as above	1,536	83,732	0.19	0.89	
	Acer Synergy Tech Corp.	-	Same as above	90	7,452	0.41	3.00	
					868,313			
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	4,455	88,372	11.11	11.11	
	Taiwan Capital Buffalo Fund Co., Ltd. (formerly known as Taishan Buffalo Investment Co., Ltd.)	-	Same as above	46,300	30,649	1.08	1.08	
	Innorich Venture Capital Corp.	-	Same as above	3,000	13,698	5.61	5.61	
	JAFCO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	3,704	0.67	0.67	
					136,423			

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares	Carrying Value	Percentage of Ownership (%)	Fair Value		
The Company	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at fair value through other comprehensive income — non-current	11,966	116,876	17.16	116,876	17.16	
	AppWorks Fund III Co., Ltd.	-	Same as above	8,385	64,689	2.92	64,689	2.92	
	Adam Elements International Co., Ltd.	-	Same as above	1,710	20,930	19.00	20,930	19.00	
	H3 Platform, Inc.	-	Same as above	18,400	1,818	12.14	1,818	12.14	
	Gospal Ltd.	-	Same as above	811,857	3,059	3.19	3,059	3.19	
	AppWorks Fund IV L.P.	-	Same as above	100,000	71,926	8.43	71,926	9.86	
	Aptos Technology Inc.	-	Same as above	212	-	0.35	-	0.35	
	THLight Co., Ltd.	-	Same as above	6,388	-	12.79	-	12.79	
	GeoThings, Inc.	-	Same as above	150	-	3.13	-	3.13	
	Ironyun Incorporated	-	Same as above	5,000	-	2.94	-	3.76	
	Deep Mentor Inc.	-	Same as above	700	16,800	3.72	16,800	3.72	
	<u>Private equity funds</u>				296,098				
	Fuh Hwa Smart Energy Fund	-	Financial assets at fair value through profit or loss — non-current	6,000	27,201	3.78	27,201	3.78	

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares	Carrying Value	Percentage of Ownership (%)	Fair Value		
Lian Xu Dong Investment Corporation	<u>Common shares</u>								
	Translink Capital Partners III L.P	-	Financial assets at fair value through profit or loss — non-current	1,500	42,755	1.18	42,755	1.18	
	Translink Capital Partners IV L.P	-	Financial assets at fair value through profit or loss — non-current	960	35,878	0.59	35,878	0.59	
					78,633				
	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income — non-current	2,111	42,105	4.75	42,105	4.75	
	Translink Capital Partners V, L.P.	-	Same as above	1,050	21,848	1.71	21,848	1.93	
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	50,000	38,861	3.19	38,861	3.19	
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	30,000	21,786	7.39	21,786	8.20	
	New Future III Limited Partnership	-	Same as above	28,003	20,770	3.38	20,770	5.13	
	Omni Media International Incorporation	-	Same as above	1,714	7,697	2.60	7,697	2.60	
					153,067				

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance				Highest Percentage of ownership (%) during the year	Note
				Shares	Carrying Value	Percentage of Ownership (%)	Fair Value		
Emitops Electronics Corporation Phisontech Electronics	My Digital Discount, Inc.	-	Financial assets at fair value through other comprehensive income — non-current	-	-	19.00	-	19.00	
	<u>Beneficiary certificates-open-end funds</u>								
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss — current	167	30,568	-	30,568	-	
	Franklin Templeton Sinoam Money Market Fund	-	Financial assets at fair value through profit or loss — current	1,917	20,369	-	20,369	-	
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,385	-	20,385	-	
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,385	-	20,385	-	
Super Storage Technology Corporation	Capital Money Market Fund	-	Same as above	1,229	20,387	-	20,387	-	
	<u>Common shares</u>				112,094				
	Power Research Technology Corp.	-	Financial assets at fair value through other comprehensive income — non-current	833	8,292	12.53	8,292	12.53	

Phison Electronics Corp. and Subsidiaries

**Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock
For the year ended December 31, 2023**

Table 2

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable) (%)	
The Company	Kioxia Taiwan Corporation	The subsidiary of KIC	Purchase	10,032,575	35	Net 30 days after monthly closing	None	None	(1,028,950)	(16)	Note 2
	Super Storage Technology Corporation	Sub-subsiidiary	Processing cost	504,947	2	Net 30 days after monthly closing	None	None	(115,699)	(2)	
	Kioxia Corporation	The Company's director	Sales	(420,574)	(1)	Net 60 days after monthly closing	None	None	162,859	2	
	Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	The subsidiary of KIC	Sales	(424,233)	(1)	Net 60~90 days after monthly closing	None	None	84,234	1	
	Apacer Technology Inc.	The Company is its director	Sales	(1,052,816)	(2)	Net 45 days after monthly closing	None	None	351,979	4	
	UD INFO Corp.	The Company is its Parent Company's director	Sales	(307,446)	(1)	Net 45 days after monthly closing	None	None	43,336	-	

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable) (%)	
The Company	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	Sales	(2,543,887)	(5)	Net 45~75 days after monthly closing	None	None	1,116,443	12	
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of Hefei Xinpeng	Sales	(132,698)	-	T/T in advance to net 60 days after monthly closing	None	None	24,501	-	
	Hosin Global Electronics Co., Ltd. (SZ)	Associate	Sales	(100,275)	-	Net 30 days after and net 75 days after monthly closing.	None	None	146	-	
	Nextorage Corporation	Subsidiary	Sales	(608,197)	(1)	Net 60 days after monthly closing	None	None	94,253	1	Note 2
	Phison Technology Inc.	Sub-subsubsidiary	Sales	(494,907)	(1)	Net 45 days after monthly closing	None	None	165,029	2	Note 2
	ProGrade Digital Incorporated	Associate	Sales	(346,916)	(1)	Net 30 days after monthly closing	None	None	24,234	-	

Note 1: The sales and purchase price to related parties were similar to those offered to non-related parties.

Note 2: The inter-company transactions and balance had been eliminated in the consolidated financial statements.

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, 2023

Table 3 (Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period (Note 1)	Allowance for Bad Debts	Note
					Amount	Action Taken			
The Company	Apacer Technology Inc.	The Company is its director	351,979	4.33	-	-	351,977	599	
	Kioxia Corporation	The Company's director	162,859	1.80	-	-	162,859	277	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	1,116,443	3.79	-	-	614,617	1,901	
	Phison Technology Inc.	Sub-subsiidiary	165,029	6.00	-	-	139,142	-	

Note 1: Information as of February 29, 2024.

Phison Electronics Corp. and Subsidiaries
Business relationships and significant intercompany transactions
For the year ended December 31, 2023

Table 4

(Amounts in Thousands)

No.	Name of company	Name of counter-party	Nature of relationship (Note 1)	Intercompany transactions			Percentage of the consolidated net revenue or total assets (%)
				Account name	Amount	Trading terms	
0	The Company	Ostek Corporation Super Storage Technology Corporation	1	Manufacturing cost	29,887	General trading terms	0.06
			1	Processing cost	504,947	General trading terms	1.05
			1	Accounts payable	115,699	General trading terms	0.18
		Phison Technology Inc.	1	Sales	494,907	General trading terms	1.03
			1	Accounts receivable	165,029	General trading terms	0.25
			1	Marketing expenses	499,719	General trading terms	1.04
		Nextorage Corporation	1	Other payables	40,757	General trading terms	0.06
			1	Sales	608,197	General trading terms	1.26
			1	Accounts receivable	94,253	General trading terms	0.14
		Power Storage Technology (Shenzhen) Limited	1	Marketing expenses	60,959	General trading terms	0.13
			1	Other payables	17,361	General trading terms	0.03
		Phison Electronics Japan Corp.	1	Marketing expenses	18,279	General trading terms	0.04

Note 1: 1.Parent Company to its subsidiaries

Note 2: The amount of significant transaction should exceed \$10,000 thousand.

Phison Electronics Corp. and Subsidiaries
Information on Investees (Excluding Information on Investees in Mainland China)
For the year ended December 31, 2023

Table 5

(Amounts in Thousands)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023		Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)				
The Company	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00	100.00	(134,528)	(134,528)	Subsidiary and note 2
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	100.00	(117,244)	(117,244)	Subsidiary and note 2
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	58	581,363	55,000,000	100.00	100.00	59,213	59,226	Subsidiary and note 2
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	100.00	(18,199)	(18,199)	Subsidiary and note 2
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	79,531	6,288,523	30.51	30.51	(1,991)	(607)	Investee accounted for using the equity method
	Entops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	100.00	20,694	20,694	Subsidiary and note 2
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	219,715	219,715	12,000	100.00	100.00	108,939	108,939	Subsidiary and note 2
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	150,190	4,800,000	100.00	100.00	6,082	6,082	Subsidiary and note 2

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)	Carrying Value				
The Company	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	28.71	148,009	28.71	74,245	21,315	Investee accounted for using the equity method
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	28,079	100.00	753	753	Subsidiary and note 2
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	8,768	8,768	2,299,990	100.00	9,354	100.00	876	876	Subsidiary and note 2
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	26,198	49.00	976	479	Investee accounted for using the equity method
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	26,866	100.00	(253)	(52,214)	Sub-Subsidiary and note 2
	Phison Technology Inc.	USA	Sale of electronic products and business service office	90,419	90,419	3,000,000	100.00	151,059	100.00	18,804	Note 1	Sub-subsubsidiary and note 2
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	-	-	10	-	-	-	877	Note 1	Subsidiary and note 2
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00	646,160	100.00	60,126	Note 1	Sub-subsubsidiary and note 2

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023			Highest Percentage of Ownership during the year (%)	Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)	Carrying Value				
Global Flash Limited	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00	2,890,791	100.00	(134,384)	Note 1	Sub-subsidiary and note 2
Power Flash (Samoa) Limited	Power Flash (HK) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	101,301	100.00	4,239	Note 1	Sub-subsidiary and note 2
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00	1,309,063	100.00	(117,129)	Note 1	Sub-subsidiary and note 2

Note 1: The share of profits/losses of the investee company is not disclosed herein as such amount is already included in the share of profits/losses of the investor company.

Note 2: The aforementioned inter-company transactions and balance have been eliminated in the consolidated financial statements.

Phison Electronics Corp. and Subsidiaries
Information on Investment in Mainland China
For the year ended December 31, 2023

Table 6

(Amounts in Thousands)

(1) The names of investees in Mainland China, the main businesses and products, and other information

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from January 1, 2023	Investment Flows		Accumulated Outflow of Investment from December 31, 2023	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Highest percentage of ownership during the year (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2023	Note
					Outflow	Inflow								
Ruhan Electronic Technology Limited	Design, R&D, sale of electronics product and technical support service and rendering of related services and investment	182,825	2(1)	182,825	-	-	182,825	(54,967)	100.00	100.00	(54,967)	124,542	-	Note 3
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	735,136	2(1)	-	-	-	-	(226,654)	24.23	24.23	(54,923)	118,508	-	-
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,958,329	2(1) and 2(2)	442,780	-	-	442,780	911,461	35.83	39.04	(197,411)	3,568,743	-	-

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, 2023	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2023	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Highest percentage of ownership during the year (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2023	Note
Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	43,520	2(3)	43,520	Outflow	Inflow	43,520	1,892	100.00	100.00	1,892	45,539	-	Note 3
					-	-								

(2) Limitation on investment in Mainland China

Accumulated Investment in Mainland China as of December 31, 2023	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 2)
669,125	1,380,908	25,672,892

Note 1: Method of investment.

1. Direct investment in the company in Mainland China.
2. Indirect investment in Mainland China through an existing investee company in a third region.
 - (1) Indirect investment in Mainland China through an existing investee company (Regis Investment (Samoa) Limited) in a third region.
 - (2) Indirect investment in Mainland China through an existing investee company (Global Flash Limited) in a third region.
 - (3) Indirect investment in Mainland China through an existing investee company (Power Flash (Samoa) Limited) in a third region.

Note 2: In accordance with the Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China amended on August 29, 2008, the limitation on investment in Mainland China shall not exceed 60% of the Company's net worth.

Note 3: The aforementioned inter-company transactions and balance have been eliminated in the consolidated financial statements.

Independent Auditors’ Report

To the Board of Directors of Phison Electronics Corp.:

Opinion

We have audited the parent company only financial statements of Phison Electronics Corp.(“the Company”), which comprise the parent company only balance sheets as of December 31, 2023 and 2022, the parent company only statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the parent company only financial position of the Company as of December 31, 2023 and 2022, and its parent company only financial performance and its parent company only 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 Financial Statement Audit and Attestation Engagements of Certified Public Accountant and Standards on Auditing of the Republic of China. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Parent Company Only Financial Statements section of our report. We are independent of the Company in accordance with the Norm of Professional Ethics for Certified Public Accountant of Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of 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 parent company only financial statements of the current period. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Based on our judgment, the key audit matters that should be disclosed in this report are as follows:

1. Revenue recognition

Please refer to Note 4(14) “Summary of significant accounting policies—Revenue recognition” , Note 6(22) “Description of significant accounts—Operating revenue” to the parent company only financial statements.

Description of key audit matter:

The Company engaged primarily in the sale of flash memory controllers and peripheral system applications. Revenue is recognized depending on the various trade terms agreed with customers. This exposes the Company to the risk that the sales transactions made close to the balance sheet date may not be recorded in the appropriate period. In addition, the Company operates in an industry in which sales revenue is easily influenced by various external factors such as supply and demand of the market, and this may impact the recognition of revenue. Consequently, this is one of the key areas that our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included understanding and evaluating the effectiveness of the design and performing internal controls over the timing of revenue recognition; sample testing on sales transaction that took place before and after the balance sheet date to assess the accuracy of the timing of revenue recognition; and assessing the adequacy of the Group' s disclosures of its revenue recognition policy and other related disclosures.

2. Valuation of inventories

Please refer to Note 4(7) "Summary of significant accounting policies – Inventories" , Note 5 "Critical Accounting Judgments and Key Sources of Estimations and Assumptions Uncertainty" , and Note 6(7) "Description of significant accounts – Inventories" to the parent company only financial statements.

Description of key audit matter:

Inventories are measured at the lower of cost and net realizable value. Due to the rapid technological innovations and highly competitive environment in the industry of the Company, the life cycles of products of the Company are short and the prices fluctuate rapidly, which could possibly result in a price decline and obsolescence of inventory, wherein the inventory cost may exceed its net realizable value. Consequently, this is one of the key areas that our audit focused on.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included reviewing the aging report of inventory and analyzing the fluctuation of inventory aging; on a sample basis, verifying the accuracy of the net realizable value of inventories and the inventory aging report; assessing the historical reasonableness of management' s estimates on inventory provisions; and evaluating whether valuation of inventories was accounted in accordance with the Company' s accounting policies and assessing the adequacy of the Company' s disclosures of its policy and other related disclosures.

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

Management is responsible for the preparation and fair presentation of the parent company only 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 parent company only financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company only financial statements, management is responsible for assessing the Company' 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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including the audit committee) are responsible for overseeing the Company' s financial reporting process.

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only 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 Standards on Auditing of 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 parent company only financial statements.

As part of an audit in accordance with the Standards on Auditing of the Republic of China, we exercise professional judgment and professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the parent company only 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 Company'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 Company'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 parent company only 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 Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only 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 the investment in other entities accounted for using the equity method to express an opinion on this 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 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 parent company only financial statements of the current period 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 Chien Hui Lu and An-Chih Cheng.

KPMG

Taipei, Taiwan (Republic of China)
March 8, 2024

Notes to Readers

The accompanying parent company only financial statements are intended only to present the financial position, financial performance and cash flows in accordance with the 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 parent company only financial statements are those generally accepted and applied in the Republic of China.

The independent auditors' audit report and the accompanying parent company only financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language independent auditors' audit report and parent company only financial statements, the Chinese version shall prevail.

(English Translation of Parent Company Only Financial Statements and Report Originally Issued in Chinese)
Phison Electronics Corp.

Balance Sheets

December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	Assets	December 31, 2023		December 31, 2022		December 31, 2023		December 31, 2022	
		Amount	%	Amount	%	Amount	%	Amount	%
	Current assets:								
1100	Cash and cash equivalents (note 6(1))	\$ 12,205,330	19	15,212,590	26				
1110	Financial assets at fair value through profit or loss—current (note 6(2))	868,663	1	674,253	1				
1136	Financial assets at amortized cost—current (notes 6(3) and 8)	40,568	-	40,499	-				
1170	Accounts receivable, net (note 6(5))	7,579,693	12	5,837,553	10				
1180	Accounts receivable—related parties, net (notes 6(5) and 7)	2,067,256	3	1,269,856	2				
1200	Other receivables (notes 6(6) and 7)	377,463	1	251,506	-				
130X	Inventories (note 6(7))	24,231,726	38	20,284,315	35				
1410	Prepayments	104,603	-	62,288	-				
1479	Other current assets	839	-	869	-				
		<u>47,476,141</u>	<u>74</u>	<u>43,633,729</u>	<u>74</u>				
	Non-current assets:								
1510	Financial assets at fair value through profit or loss—non-current (note 6(2))	163,624	-	214,952	-				
1517	Financial assets at fair value through other comprehensive income—non-current (note 6(4))	296,098	1	290,784	-				
1550	Investments accounted for using the equity method (note 6(8))	6,898,032	11	6,363,641	11				
1600	Property, plant and equipment (notes 6(10) and 7)	6,733,056	10	6,841,301	12				
1755	Right-of-use assets (note 6(11))	77,613	-	113,124	-				
1780	Intangible assets (note 6(12))	224,236	-	363,191	1				
1840	Deferred tax assets (note 6(18))	787,266	1	844,136	1				
1900	Other non-current assets (note 9(2))	1,733,547	3	636,511	1				
		<u>16,913,472</u>	<u>26</u>	<u>15,667,640</u>	<u>26</u>				
	Total assets	<u>\$ 64,389,613</u>	<u>100</u>	<u>59,301,369</u>	<u>100</u>				
	Liabilities and Equity								
	Current liabilities:								
	Short-term borrowings (note 6(13))			2100					
	Contract liabilities—current			2130					
	Accounts payable			2170					
	Accounts payable—related parties (note 7)			2180					
	Other payables (note 6(14))			2200					
	Tax payable			2230					
	Lease liabilities—current (note 6(11))			2280					
	Long-term borrowings, current portion (note 6(16))			2320					
	Other current liabilities (notes 6(15), 7 and 9(3))			2399					
		<u>21,331,031</u>	<u>34</u>	<u>17,054,976</u>	<u>29</u>				
	Non-Current liabilities:								
	Bonds payable (note 6(16))			2530					
	Deferred tax liabilities (note 6(18))			2570					
	Lease liabilities—non-current (note 6(11))			2580					
	Net defined benefit liabilities (note 6(17))			2640					
	Guarantee deposits received (note 9(3))			2645					
		<u>2,754</u>	<u>-</u>	<u>923,000</u>	<u>2</u>				
		<u>270,429</u>	<u>-</u>	<u>4,614,571</u>	<u>8</u>				
		<u>21,601,460</u>	<u>34</u>	<u>21,669,547</u>	<u>37</u>				
	Total liabilities								
	Equity (notes 6(19) and (20)):								
	Common shares			3100					
	Capital surplus			3200					
	Retained earnings			3300					
	Other equity interest			3400					
	Treasury shares			3500					
	Total equity								
	Total liabilities and equity	<u>\$ 64,389,613</u>	<u>100</u>	<u>59,301,369</u>	<u>100</u>				

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
Phison Electronics Corp.

Statements of Comprehensive Income

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)

		2023		2022	
		Amount	%	Amount	%
4000	Operating revenue (notes 6(22) and 7)	\$ 47,513,008	100	59,571,015	100
5000	Operating costs (notes 6(7), (23) and 7)	<u>31,886,845</u>	<u>67</u>	<u>42,678,103</u>	<u>72</u>
	Gross profit from operations	15,626,163	33	16,892,912	28
5910	Unrealized profit on transactions with associates	<u>(50,194)</u>	<u>-</u>	<u>17,277</u>	<u>-</u>
5950	Realized gross profit	<u>15,575,969</u>	<u>33</u>	<u>16,910,189</u>	<u>28</u>
	Operating expenses (notes 6(23) and 7):				
6100	Marketing expenses	1,158,506	2	1,176,667	2
6200	General and administrative expenses	821,294	2	894,714	1
6300	Research and development expenses	10,309,104	22	8,131,687	14
6450	Expected credit loss (reversal gain) (note 6(5))	<u>(50,759)</u>	<u>-</u>	<u>63,035</u>	<u>-</u>
	Total operating expenses	<u>12,238,145</u>	<u>26</u>	<u>10,266,103</u>	<u>17</u>
	Net operating income	<u>3,337,824</u>	<u>7</u>	<u>6,644,086</u>	<u>11</u>
	Non-operating income and expenses:				
7010	Other income (notes 6(9), (24) and 7)	252,959	1	169,715	-
7020	Other gains and losses (notes 6(9) and (24))	363,490	1	473,611	1
7050	Finance costs (note 6(24))	(49,465)	-	(31,625)	-
7100	Interest income (note 6(24))	187,371	-	83,945	-
7060	Shares of profit (loss) of subsidiaries and associates accounted for using the equity method (note 6(8))	<u>(52,214)</u>	<u>-</u>	<u>(1,107,108)</u>	<u>(2)</u>
		<u>702,141</u>	<u>2</u>	<u>(411,462)</u>	<u>(1)</u>
7900	Profit before tax	4,039,965	9	6,232,624	10
7950	Income tax expenses (note 6(18))	<u>415,537</u>	<u>1</u>	<u>831,478</u>	<u>1</u>
8200	Net profit for the year	<u>3,624,428</u>	<u>8</u>	<u>5,401,146</u>	<u>9</u>
8300	Other comprehensive income (loss):				
8310	Items that will not be reclassified subsequently to profit or loss				
8311	Remeasurements of defined benefit plans	(972)	-	(8,356)	-
8316	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income (note 6(25))	(70,986)	-	(62,878)	-
8330	Shares of other comprehensive income of subsidiaries and associates accounted for using the equity method	9,641	-	(333,118)	-
8349	Income tax related to items that will not be reclassified subsequently (note 6(18))	<u>194</u>	<u>-</u>	<u>1,671</u>	<u>-</u>
	Total items that will not be reclassified subsequently to profit or loss	<u>(62,123)</u>	<u>-</u>	<u>(402,681)</u>	<u>-</u>
8360	Items that may be reclassified subsequently to profit or loss				
8361	Exchange differences on translation of foreign financial statements	(124,063)	(1)	177,651	-
8399	Income tax related to items that may be reclassified subsequently (note 6(18))	<u>24,812</u>	<u>-</u>	<u>(6,817)</u>	<u>-</u>
	Total items that may be reclassified subsequently to profit or loss	<u>(99,251)</u>	<u>(1)</u>	<u>170,834</u>	<u>-</u>
8300	Other comprehensive income	<u>(161,374)</u>	<u>(1)</u>	<u>(231,847)</u>	<u>-</u>
8500	Total comprehensive income	<u>\$ 3,463,054</u>	<u>7</u>	<u>\$ 5,169,299</u>	<u>9</u>
	Earnings per share (New Taiwan Dollars) (note 6(21)):				
9750	Basic earnings per share	<u>\$ 18.48</u>		<u>27.71</u>	
9850	Diluted earnings per share	<u>\$ 17.57</u>		<u>26.06</u>	

See accompanying notes to parent company only financial statements.

Statements of Changes in Equity
For the years ended December 31, 2023 and 2022
(Expressed in Thousands of New Taiwan Dollars)

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
Phison Electronics Corp.

Statements of Cash Flows

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Profit before income tax	\$ 4,039,965	6,232,624
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	587,921	547,323
Amortization expense	514,923	392,465
Expected credit loss (reversal gain)	(50,759)	63,035
Net loss (gain) on financial assets at fair value through profit or loss	(453,131)	282,398
Finance costs	49,465	31,625
Interest income	(187,371)	(83,945)
Dividend income	(81,717)	(90,937)
Share-based payments	514,054	355,849
Shares of loss of subsidiaries and associates accounted for using the equity method	52,214	1,107,108
Loss on disposal of property, plant and equipment	-	1,480
Gain on disposal of investments accounted for using the equity method	-	(30,426)
Unrealized (realized) profit on transactions with associates	50,194	(17,277)
Unrealized foreign exchange loss (gain)	178,399	(209,056)
Inventory obsolescence loss (reversal gain)	(380,542)	1,671,654
Reversal of refund liabilities	(191,265)	(111,852)
Profit from lease modification	(30)	(396)
Gain recognized in bargain purchase transaction	-	(16,289)
Total adjustments to reconcile profit (loss)	<u>602,355</u>	<u>3,892,759</u>
Changes in operating assets and liabilities:		
Accounts receivable (including related parties)	(2,816,549)	1,461,291
Other receivables	(127,184)	294,218
Inventories	(3,566,869)	(2,464,851)
Prepayments	(42,315)	(44,075)
Other current assets	30	953
Contract liabilities	(13,363)	(56,721)
Accounts payable (including related parties)	614,588	(3,128,004)
Other payables	(377,861)	(1,059,915)
Other current liabilities	(102,727)	(112,521)
Net defined benefit liabilities	<u>2,452</u>	<u>1,545</u>
Total changes in operating assets and liabilities	<u>(6,429,798)</u>	<u>(5,108,080)</u>
Cash inflow (outflow) generated from operations	(1,787,478)	5,017,303
Interest paid	(13,717)	(2,837)
Income taxes paid	<u>(349,771)</u>	<u>(2,037,310)</u>
Net cash flows from (used in) operating activities	<u>(2,150,966)</u>	<u>2,977,156</u>

(Continued)

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)

Phison Electronics Corp.

Statements of Cash Flows (Continued)

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from investing activities:		
Acquisition of financial assets at fair value through other comprehensive income	(85,300)	(31,500)
Proceeds from disposal of financial assets at fair value through other comprehensive income	9,000	-
Proceeds from capital reduction of financial assets at fair value through other comprehensive income	-	16,150
Acquisition of financial assets at amortized cost	(69)	(40)
Proceeds from disposal of financial assets at fair value through profit or loss	801,049	377,473
Acquisition of financial assets at fair value through profit or loss	(500,000)	-
Proceeds from capital reduction of financial assets at fair value through profit and loss	9,000	7,245
Acquisition of investments accounted for using the equity method	-	(147,251)
Proceeds from disposal of investments accounted for using the equity method	-	7,099
Acquisition of property, plant and equipment	(376,767)	(1,467,124)
Proceeds from disposal of property, plant and equipment	-	216
Increase in refundable deposits	(1,118,228)	(12,470)
Acquisition of intangible assets	(375,968)	(443,745)
Decrease in prepayments for land and equipment	48,053	8,417
Interest received	188,526	82,009
Dividends received	81,717	187,817
Net cash flows used in investing activities	<u>(1,318,987)</u>	<u>(1,415,704)</u>
Cash flows from financing activities:		
Increase in short-term loans	2,561,756	1,967,656
Decrease in short-term loans	(384,462)	(2,350,651)
Increase (decrease) in guarantee deposits received	(996,803)	1,659,592
Payment of lease liabilities	(53,713)	(36,160)
Cash dividends paid	(2,836,702)	(4,532,702)
Exercise of employee stock options	1,379,676	375,672
Payments to acquire treasury shares	-	(2,061,216)
Treasury shares sold to employees	801,843	-
Net cash flows from (used in) financing activities	<u>471,595</u>	<u>(4,977,809)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(8,902)</u>	<u>425,005</u>
Net decrease in cash and cash equivalents	(3,007,260)	(2,991,352)
Cash and cash equivalents at beginning of period	<u>15,212,590</u>	<u>18,203,942</u>
Cash and cash equivalents at end of period	<u>\$ 12,205,330</u>	<u>15,212,590</u>

See accompanying notes to parent company only financial statements.

(English Translation of Parent Company Only Financial Statements Originally Issued in Chinese)
Phison Electronics Corp.

Notes to the Parent Company Only Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

1. Company history

Phison Electronics Corp. (the “Company”) was incorporated on November 8, 2000, with the approval of the Ministry of Economic Affairs, R.O.C. The major business activities of the Company are the design and manufacturing of flash memory controllers and peripheral system applications. The Company’s shares have been trading on the Taipei Exchange (over the counter exchange in Taiwan) since December 6, 2004.

2. Approval date and procedures of the financial statements

The parent company only financial statements were approved and authorized for issue by the Board of Directors on March 8, 2024.

3. New standards, amendments and interpretations adopted

- (1) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

The Company has initially adopted the following new amendments, which do not have a significant impact on its parent company only financial statements, from January 1, 2023:

- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Accounting Estimates”
- Amendments to IAS 12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction”

The Company has initially adopted the following new amendment, which do not have a significant impact on its parent company only financial statements, from May 23, 2023:

- Amendments to IAS 12 “International Tax Reform—Pillar Two Model Rules”

- (2) The impact of IFRS issued by the FSC but not yet effective

The Company assesses that the adoption of the following new amendments, effective for annual period beginning on January 1, 2024, would not have a significant impact on its parent company only financial statements:

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”
- Amendments to IAS 1 “Non-current Liabilities with Covenants”
- Amendments to IAS 7 and IFRS 7 “Supplier Finance Arrangements”
- Amendments to IFRS 16 “Lease Liability in a Sale and Leaseback”

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- (3) The impact of IFRS issued by IASB but not yet endorsed by the FSC

The following new and amended standards have been issued by the International Accounting Standards Board (“IASB”), but have yet to be endorsed by the FSC:

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts”
- Amendments to IFRS 17 “Initial Application of IFRS 17 and IFRS 9 – Comparative Information”
- Amendments to IAS 21 “Lack of Exchangeability”

As of the date the parent company only financial statements were authorized for issue, except for IFRS 17 “Insurance Contracts” and amendments to IFRS 17 “Insurance Contracts” is not relevant to the Company, the Company is evaluating the impact of its initial adoption of the remaining abovementioned standards or interpretations on its financial position and financial performance. The results thereof will be disclosed when the Company completes its evaluation.

4. Summary of material accounting policies

The material accounting policies presented in the parent company only financial statements are summarized as follows. Except for those described individually, the significant accounting policies have been applied consistently to all the periods presented in the parent company only financial statements.

- (1) 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 (hereinafter referred to as “the Regulations”).

- (2) Basis of preparation

A. Basis of measurement

The parent company only financial statements have been prepared on a historical cost basis except for the following material items in the balance sheets:

- (a) Financial assets measured at fair value through profit or loss are measured at fair value;
- (b) Financial assets measured at fair value through other comprehensive income are measured at fair value;
- (c) The defined benefit liabilities (assets) are measured at the fair value of the plan assets less the present value of the defined benefit obligation.

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B. Functional and presentation currency

The functional currency of the Company is determined based on the primary economic environment in which the entity operates. The parent company only financial statements are presented in New Taiwan Dollar (NTD), which is the Company's functional currency. Unless otherwise noted, all financial information presented in NTD has been rounded to the nearest thousand.

(3) Foreign currencies

A. Foreign currency transactions

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the exchange rates 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 year 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 year 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 financial statements, the functional currencies of the Company and its foreign operations (including subsidiaries and associates in other countries that use currencies different from the currency of the Company) are translated into the presentation currency, the NTD, 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 year. The resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

B. Foreign operations

The assets and liabilities of foreign operations are translated to NTD using the exchange rates at the reporting date, which is translated at historical cost rates, and income and expenses, which are translated to NTD at the average rate for the period. Foreign currency differences are recognized in other comprehensive income.

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On the disposal of a foreign operation (i.e., a disposal of the Company's entire interest in a foreign operation, or a disposal involving the loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

(4) Classification of current and non-current assets and liabilities

An asset is classified as current under one of the following criteria, and all other assets are classified as non-current.

- A. It is expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is expected to be realized within twelve months after the reporting period; or
- D. The asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

A liability is classified as current under one of the following criteria, and all other liabilities are classified as non-current.

An entity shall classify a liability as current when:

- A. It is expected to be settled in the normal operating cycle;
- B. It is held primarily for the purpose of trading;
- C. It is due to be settled within twelve months after the reporting period; or
- D. The Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by issuing equity instruments do not affect its classification.

(5) Cash and cash equivalents

Cash comprises cash on hand, check deposits and demand deposits. Cash equivalents are short term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Time deposits which meet the above definition and held for the purpose of meeting short term cash commitments rather than for investment or other purposes are classified as cash equivalents.

(6) Financial instruments

Accounts receivable and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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A. Financial assets

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

The Company classifies financial assets into the following categories: financial assets at amortized cost, investments in equity instruments at financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss. Only when the Company changes its business model for managing financial assets it shall reclassify all affected financial assets.

(a) Financial assets measured at amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are initially recognized at fair value, plus any directly attributable transaction costs. Subsequently, these assets are measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses, and recognition (reversal) of impairment losses, are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss. Purchases or sales of financial assets in trade practice are recognized and derecognized on a trade date basis.

(b) Financial assets measured at fair value through other comprehensive income (FVOCI)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an instrument-by-instrument basis.

Equity investments at FVOCI are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in other comprehensive income. When an investment is derecognized, the cumulative gain or loss in equity will not be reclassified to profit or loss, instead, is reclassified to retained earnings.

Dividend income derived from equity investments is recognized in profit or loss on the date which the Company's right to receive payment is established.

(c) Financial assets measured at fair value through profit or loss (FVTPL)

All financial assets not classified as amortized cost or FVOCI described as above are measured at FVTPL, including derivative financial assets.

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On initial recognition, these assets are measured at fair value. Net gains and losses, including any interest or dividend income and gains and losses of remeasurement, are recognized in profit or loss.

(d) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost (including accounts receivable).

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.

For internal credit risk management purposes, the Company determines that the following situations indicate that a financial asset is in default (without taking into account any collateral held by the Company):

- (i) Internal or external information shows that the debtor is unlikely to pay its creditors.
- (ii) When a financial asset is overdue unless the Company has reasonable and corroborative information to support a more lagged default criterion.

The impairment loss of all financial assets is recognized in profit or loss by a reduction in their carrying amounts through a loss allowance account.

(e) Derecognition of financial assets

The Company 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.

B. Financial liabilities and equity instruments

(a) Classification of debt or equity

Debt and equity instruments issued by the Company are classified as financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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(b) Equity instruments

An equity instrument is any contract that evidences residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued are recognized as the amount of consideration received, less the direct cost of issuing.

(c) Treasury shares

When shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is recognized in capital surplus or retained earnings (if the capital surplus is not sufficient to be written down).

(d) Financial liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

(e) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. On derecognition of a financial liability, the difference between the carrying amount of a financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

(f) Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount presented in the statement of balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(7) Inventories

The cost of inventories includes all necessary expenditures and charges for bringing the inventory to a stable, useable, and marketable condition and location. The production overhead is allocated to inventories based on the normal capacity of the production. Inventories are substantially measured at the lower of cost and net realizable value. The cost of inventories is calculated using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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(8) Investment in associates

Associates are those entities in which the Company has significant influence, but not control or joint control, over their financial and operating policies.

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

When the Company 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 Company's proportionate interest in the associate. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus-changes in the Company's share of the equity of associates. If the Company'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 Company's share of losses of an associate equals or exceeds its interest in that associate (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 Company's net investment in the associate), the Company discontinues recognizing its share of further loss, if any. Additional losses and liabilities are recognized only to the extent that the Company has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

When the Company determines impairment loss, the entire carrying amount of an investment in an associate 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 Company 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 Company 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.

Profits and losses resulting from the transactions between the Company and associates are recognized in the parent company only financial statements only to the extent of interests in the associate that are not related to Company.

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(9) Investments in subsidiaries

When preparing the parent company only financial statements, investment in subsidiaries which are controlled by the Company is accounted for using the equity method. Under the equity method, profit, other comprehensive income and equity in the parent company only financial statements are equivalent to those of the profit, other comprehensive income and equity which are contributed to the owners of the parent in the parent company only financial statements.

The changes in the parent's ownership interest in its subsidiaries that do not result in a loss of control are accounted as equity transactions.

(10) Property, plant and equipment

A. Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

B. Subsequent cost

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

C. Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Except for land is not depreciated, the estimated useful lives of the other property, plant and equipment are as follows:

- (a) Building—building cost: 20 to 50 years
- (b) Building—electrical engineering: 20 years
- (c) Testing equipment: 3 years
- (d) Office equipment: 3 years
- (e) Mechanical equipment: 3 years
- (f) Other equipment: 2 to 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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(11) Leases

A. Identifying a lease

A contract is, or contains, a lease when all the following conditions are satisfied:

- (a) the contract involves the use of an identified asset, and the supplier does not have a substantive right to substitute the asset; and
- (b) the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use; and
- (c) the Company has the right to direct the use of the identified asset throughout the period of use.

B. As a lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset of lease modifications that decreased the scope of the lease, and recognizing in profit or loss on the partial or full termination of the lease; making a corresponding adjustment to the right-of-use asset of all other lease modifications. Lease liabilities are presented on a separate line in the balance sheets.

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Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

C. As a lessor

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.

Lease payments from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

(12) Intangible assets

A. Intangible assets acquired separately

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 using the straight-line method based on the following estimated useful lives: Technology license fees—the estimated life of the technology or the term of the technology transfer contract; software and system design costs—3 years or contract period; patent and others—the economic life or contract period. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis.

B. Derecognition of intangible assets

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.

(13) Impairment of non-financial assets

Other than inventories and deferred tax assets, the carrying amounts of the Company's property, plant and equipment, right-of-use assets and other intangible assets with finite useful lives are reviewed at the reporting date to determine whether there is any indication of impairment. When there is an indication of impairment exists for the aforementioned assets, the recoverable amount of the asset is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset has been allocated to.

In performing an impairment test for other long-term non-financial assets, the estimated recoverable amount is evaluated in terms of an asset or a CGU. Any excess of the carrying amount of the asset or its related CGU over its recoverable amount is recognized as an impairment loss. The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value in use. If there is evidence that the accumulated impairment loss of an asset in prior years no longer exists or has decreased, the amount previously recognized as an impairment loss is reversed, and the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. The increased carrying amount shall not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years.

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For intangible assets with indefinite useful lives or that are not yet available for use, are required to be tested for impairment at least annually. Any excess of the carrying amount of the asset over its recoverable amount is recognized as an impairment loss.

(14) Revenue recognition

A. Revenue from contracts with customers

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for services to a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a service to a customer. The accounting policies for the Company's main types of revenue are explained below.

(a) Sale of goods

The Company recognizes revenue when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

The Company offers volume discounts and sale discounts to its customers based on aggregate sales of goods. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts and sale discounts. Historical experience and deal-way with customers is used to estimate the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

A receivable is recognized when the goods are delivered as this is the point in time that the Company has a right to an amount of consideration that is unconditional. The consideration received in advance from the customer but without delivery of goods is recognized as a contract liability, for which revenue is recognized when the control over the goods is transferred to the customer.

The Company 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.

(b) Rendering of services

The Company progressively recognizes service revenue based on the progress towards complete satisfaction of contract, and only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

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If there are changes in circumstances, the estimates of revenue, cost, and the progress towards complete satisfaction of contract will be amended. Any changes therein are recognized in profit or loss during the period in which the changes and amendments are made.

(c) Financing components

The Company does not expect to have any contracts where the period between the transfer of the services to the customer and payment by the customer, exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(15) Employee benefits

A. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

B. Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each the plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method.

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.

Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Company'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.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

C. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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(16) Share-based payment

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 Company'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. The grant date is the date when both parties of the Company and the employees reach an agreement on the subscription price and the number of shares to be subscribed.

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

The grant by the Company of its equity instruments to the employees of a subsidiary under options is treated as a capital contribution. The fair value of employee services received under the arrangement is measured by referring to the grant-date fair value and is recognized over the vesting period as an addition to the investment in the subsidiary, with a corresponding credit to capital surplus — employee share options.

Providing that the Company grants new equity instruments as a replacement for cancelled equity instruments, the Company shall recognize new equity instruments in the same way as a modification of original equity instruments. The incremental fair value is the difference between the fair value of new equity instruments and the net fair value of cancelled equity instruments at the date when new equity instruments are granted.

(17) Income taxes

Income taxes comprise current taxes and deferred taxes. Except for items related to business combinations or items recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

A. Current taxes

Current taxes comprise the expected tax payables or receivables on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using the statutory tax rate or the actual legislative tax rate at the reporting date. In accordance with the ROC Income Tax Act, undistributed earnings from the companies located in the Republic of China is subject to an additional surtax. The surtax on unappropriated earnings is expensed in the year the shareholders approved the distributions.

The Company has determined that the global minimum top-up tax – which it is required to pay under Pillar Two legislation – is an income tax in the scope of IAS 12. The Company has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

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B. Deferred taxes

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax liabilities are recognized for temporary difference of future taxable income. Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Company 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 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. 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. Deferred tax assets and liabilities are offset only if the specific criteria are met.

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.

(18) Business combination

The Company accounts for business combinations using the acquisition method. The goodwill arising from an acquisition is measured as the excess of (i) the consideration transferred (which is generally measured at fair value) and (ii) the amount of non-controlling interest in the acquiree, both over the identifiable net assets acquired at the acquisition date. If the amount calculated above is a deficit balance, the Company recognized that amount as a gain on a bargain purchase in profit or loss immediately after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed.

All acquisition-related transaction costs are expensed as incurred, except for the issuance of debt or equity instruments.

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For each business combination, the Company measures any non-controlling interests in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, if the non-controlling interests are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by the IFRSs endorsed by the FSC.

(19) Earnings per share

Basic earnings per share is computed by dividing profit or loss of the period by the weighted average number of common shares outstanding during the period. In computing diluted earnings per share, profit or loss of the period and the weighted average number of common shares outstanding during the period are adjusted for the effects of dilutive potential common stock, assuming dilutive share equivalents had been issued. The effects of dilutive potential common stock include estimated employee compensation, employee stock options and convertible bonds.

5. Critical Accounting Judgments and Key Sources of Estimations and Assumptions Uncertainty

In preparing these parent company only financial statements in conformity with the Regulations, the management has made judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the parent company only financial statements is as follows:

Inventories:

Inventories are measured at the lower of cost or net realizable value. The Company uses judgement and estimates to determine the net realizable value of inventory at each reporting date. The estimation of net realizable value is determined based on current market conditions and historical experience with product sales of a similar nature. However, rapid industrial transformation and the change of marketing conditions may result in a significant influence on the estimation. Please refer note 6(7) for further description of the valuation of inventories.

6. Description of significant accounts

(1) Cash and cash equivalent

	December 31, 2023	December 31, 2022
Cash	\$ 135	115
Demand deposits and check deposits	10,261,005	10,617,941
Cash equivalents — time deposits	1,944,190	4,594,534
	<u>\$ 12,205,330</u>	<u>15,212,590</u>

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According to the IFRSs Q&A updated by the Financial Supervisory Commission, R.O.C. Securities and Futures Bureau on January 5, 2024, the Company's special account of repatriated offshore funds, with a deposit balance of \$528,235 thousand, was transferred from financial assets at amortized cost—current to cash and cash equivalents, resulting in the unrealized foreign exchange loss (gains) under operating activities and the disposal of financial assets at amortized cost under investing activities to increase and decrease by \$19,725 thousand and \$547,960 thousand, respectively, as of January 1, 2022.

Please refer to note 6(25) for the fair value sensitivity analysis and interest rate risk of the financial assets and liabilities of the Company.

(2) Financial assets at fair value through profit or loss

	December 31, 2023	December 31, 2022
Financial assets at fair value through profit or loss — current:		
Domestic listed stock (note)	\$ 868,313	674,253
Derivative instruments — convertible bonds (note 6(16))	350	-
	<u>\$ 868,663</u>	<u>674,253</u>
Financial assets at fair value through profit or loss — non-current:		
Domestic private equity funds	\$ 27,201	34,444
Domestic unlisted stocks	132,719	174,012
Foreign unlisted stocks	3,704	6,496
	<u>\$ 163,624</u>	<u>214,952</u>

Note: In August 2022, Apacer Technology Inc. issued additional ordinary shares in exchange for the common stock of UD INFO Corp., resulting in the Company to acquire 2,505 thousand shares of newly issued common stock of Apacer Technology Inc. in exchange for the previously held 1,252 thousand shares of UD INFO Corp., with the base date set on August 1, 2022. Due to the aforementioned transaction, the cumulative gain in equity recognized during the period in which the Company held UD INFO Corp.'s shares amounting to \$94,932 thousand had been reclassified from FVOCI to retained earnings.

None of financial assets mentioned above were pledged as collateral.

(3) Financial assets at amortized cost — current

	December 31, 2023	December 31, 2022
Pledged time deposits	<u>\$ 40,568</u>	<u>40,499</u>

A. The Company estimated that the expected credit risk of the above financial assets is limited and the credit risk of original recognition has not increased.

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B. The financial assets mentioned above were pledged as collateral. Please refer to note 8.

- (4) Financial assets at fair value through other comprehensive income — non-current

	December 31, 2023	December 31, 2022
Domestic unlisted stocks (Note)	\$ 174,345	123,098
Foreign unlisted stocks	121,753	167,686
	<u>\$ 296,098</u>	<u>290,784</u>

Note: Please refer to note 6(2) for related information.

The Company held the abovementioned equity investment for long-term strategic purpose, but rather than for trading purpose. Therefore, those equity investments have been designated as financial assets at fair value through other comprehensive income. None of the above financial assets mentioned above were pledge as collateral.

- (5) Accounts receivable, net (including related and non-related parties)

	December 31, 2023	December 31, 2022
Accounts receivable	\$ 7,635,993	5,926,187
Accounts receivable — related parties	2,070,941	1,291,966
	9,706,934	7,218,153
Less: loss allowance	(59,985)	(110,744)
Accounts receivable, net	<u>\$ 9,646,949</u>	<u>7,107,409</u>

As of January 1, 2022, the ending balance of accounts receivable, net (including related parties) was \$8,728,293 thousand.

The Company measures the loss allowance for accounts receivable at an amount equal to lifetime expected credit losses. The expected credit losses on accounts receivable 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 Company' 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 Company' s customer base.

The Company writes off an accounts receivable when there is information indicating that the debtor is experiencing severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation, or when the accounts receivable are over two years past due, whichever occurs earlier. For accounts receivable that have been written off, the Company 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.

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The following table details the loss allowance of accounts receivable (including related and non-related parties) based on the Company's allowance matrix.

December 31, 2023			
	Gross carrying amount	Weighted-average loss rate (%)	Loss allowance
Current	\$ 9,243,098	0.17	15,285
1~60 days past due	453,780	7.63	34,644
More than 151 days past due	10,056	100.00	10,056
	<u>\$ 9,706,934</u>		<u>59,985</u>

December 31, 2022			
	Gross carrying amount	Weighted-average loss rate (%)	Loss allowance
Current	\$ 6,215,213	0.32	19,831
1~60 days past due	975,376	6.49	63,349
121~150 days past due	708	100.00	708
More than 151 days past due	26,856	100.00	26,856
	<u>\$ 7,218,153</u>		<u>110,744</u>

The movement in the loss allowance for accounts receivable (including related and non-related parties) was as follows:

	For the years ended December 31,	
	2023	2022
Balance, beginning of the period	\$ 110,744	47,709
Impairment losses recognized(reversed)	(50,759)	63,035
Balance, end of the period	<u>\$ 59,985</u>	<u>110,744</u>

None of the accounts receivable mentioned above were pledged as collateral. As the average credit term of 30~90 days is similar with the practical in the industry, there are no finance elements included.

The Company entered into an un-recourse factoring agreement with the factor to sell its accounts receivable. Under the agreement, except necessary agreed expenses, the Company does not have the responsibility to assume the default risk of the transferred accounts receivable. The Company derecognized the above accounts receivable, because it has transferred substantially all of the risks and rewards of their ownership, and it does not have any continuing involvement in them. The amounts receivable from the factor were recognized as "other receivables" upon the derecognition of those accounts receivable. The outstanding sold accounts receivable at the end of the period were as follows:

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(Unit: USD in Thousands)

December 31, 2023				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	<u><u>\$ 312</u></u>	<u><u>253</u></u>	0.22~0.65	Note 1~4

December 31, 2022				
Factor	Factor Amount	Amount Recognized in Other Receivables	Range of Handling Fees Rate (%)	Transferring Terms
HSBC Bank (Taiwan) Limited	<u><u>\$ 2,166</u></u>	<u><u>1,714</u></u>	0.22~0.65	Note 1~4

Note 1: The accounts receivable transferred to the factoring bank are subjected to the consents of agreement between the Company and the bank and credit decision advices without recourse. No financing from the factoring bank agreement is within the factored accounts receivable.

Note 2: The Company informed its customers to make payment directly to the factoring bank.

Note 3: As of December 31, 2023 and 2022, the outstanding receivables after the above transactions, net of fees charged by the factoring bank, of \$7,763 thousand and \$52,651 thousand, respectively, were recognized under other receivables.

Note 4: To the extent of the amount transferred to the factor, risks of non-collection or potential payment default by customers in the event of insolvency are borne by the factor. The Company is not responsible for the collection of receivables subject to these facilities, or for any legal proceedings and costs thereof in collecting these receivables. No collaterals were provided by the Company.

(6) Other receivables

	December 31, 2023	December 31, 2022
Tax refund receivable	\$ 366,479	193,830
Factored accounts receivable	7,763	52,651
Other receivables — related parties (note 7)	83	201
Others	3,138	4,824
Less: loss allowance	-	-
	<u><u>\$ 377,463</u></u>	<u><u>251,506</u></u>

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(7) Inventories

	December 31, 2023	December 31, 2022
Raw materials	\$ 15,903,013	14,757,068
Work in process	5,137,785	2,423,833
Semi-finished goods	3,085,446	2,972,532
Finished goods	105,482	130,882
	<u>\$ 24,231,726</u>	<u>20,284,315</u>

The costs of inventories recognized as costs of goods sold for the years ended December 31, 2023 and 2022 were \$31,886,845 thousand and \$42,678,103 thousand, respectively.

The costs of goods sold for the years ended December 31, 2023 and 2022 included inventory obsolescence loss (reversal gain) of \$(380,542) thousand and \$1,671,654 thousand, respectively.

None of the inventories mentioned above were pledged as collateral.

(8) Investments accounted for using the equity method

	December 31, 2023	December 31, 2022
Subsidiaries	\$ 6,522,412	6,004,145
Associates	375,620	359,496
	<u>\$ 6,898,032</u>	<u>6,363,641</u>

A. Subsidiaries:

The Company acquired 6,120 common shares of Nextorage Corporation in cash amounting to JPY578,217 thousand. Therefore, since January 1, 2022, Nextorage was no longer a 49%-held investee accounted for using the equity method, and became a 100%-held subsidiary of the Company. Please refer to note 6(9) for related information.

For the purpose of operation, the Company set up Phison Technology India Private Limited in India, in December 2022. The investment amounted to \$8,768 thousand.

The Company's subsidiary did not participate in the subscription of the cash capital increase of Hosin Global Electronics Co., Ltd. (SZ) in 2023 and 2022, therefore, the changes in equity of associate recognized in the capital surplus by the Company amounted to \$658,347 thousand and \$1,015,832 thousand for the years ended December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the Company's percentage of ownership interest in HOSIN Global Electronics Co., Ltd. (SZ) was 35.83% and 39.04%, respectively.

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The Company's subsidiary did not participate in the subscription of the cash capital increase of Investee company in 2023, therefore, the changes in equity of associate recognized in the capital surplus by the Company amounted to \$88,010 thousand for the year ended December 31, 2023 .

Please refer to consolidated financial statements for the years ended December 31, 2023 and 2022 for subsidiaries information.

B. Associates

	December 31, 2023	December 31, 2022
EpoStar Electronics (BVI) Corporation	\$ 201,413	206,796
ProGrade Digital Inc.	148,009	126,981
Microtops Design Corporation	26,198	25,719
	<u>\$ 375,620</u>	<u>359,496</u>

The Company's financial information for investments accounted for using the equity method that are individually insignificant was as follows:

	For the years ended December 31, 2023	2022
Attributable to the Company:		
Net profit	\$ 21,187	23,919
Other comprehensive income (loss)	(4,776)	(214,605)
Total comprehensive income (loss)	<u>\$ 16,411</u>	<u>(190,686)</u>

In 2022, the change in percentage of ownership interests in ProGrade Digital, Inc. resulted in the changes in equity of associate, including the reversal of capital surplus amounting to \$3,708 thousand.

C. Pledged

None of the investments accounted for using the equity method mentioned above were pledged as collateral.

(9) Business Combinations

For the purpose of improving advanced customized storage devices to meet the demand of Japan and global market, the Company acquired 6,120 common shares of Nextorage Corporation in cash amounting to JPY578,217 thousand. Therefore, since January 1, 2022, Nextorage was no longer a 49%-held investee accounted for using the equity method, and became a 100%-held subsidiary of the Company.

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A. Acquired identifiable assets and assumed liabilities at the date of acquisition

Current assets:

Cash and cash equivalents	\$ 113,936
Accounts receivable, net	452,438
Other receivables	41,050
Inventories	107,841
Other current assets	801

Non-current assets:

Property, plant and equipment	36,137
Intangible assets	2,401
Other non-current assets	68,313

Current liabilities:

Accounts payable	(368,896)
Other payables	(148,709)
Other current liabilities	(1,837)
	<u><u>\$ 303,475</u></u>

B. Net cash outflow of the acquisition of subsidiaries

Consideration paid in cash	\$ 138,483
Less: cash and cash equivalent acquired	(113,936)
	<u><u>\$ 24,547</u></u>

Gain on a bargain purchase from acquisition was as follows:

Consideration transferred	\$ 138,483
Plus: fair value of pre-existing interest in Nextorage	148,703
Less: fair value of identifiable assets	(303,475)
Gain on a bargain purchase (recognized as other income)	<u><u>\$ (16,289)</u></u>

The Company re-measured the fair value of its existing equity interest of 49% in Nextorage before the acquisition date, and the deemed gain on disposal of investments accounted for using the equity method of \$27,689 thousand was recognized as “other gains and losses” on the parent company only statement of comprehensive income for the year ended December 31, 2022.

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(10) Property, plant and equipment

	Land	Buildings	Mechanical and testing equipment	Office and other equipment	Construction in progress	Total
Cost:						
Balance at January 1, 2023	\$ 1,963,050	4,559,348	1,349,329	278,382	43,733	8,193,842
Additions for the period	-	94,071	242,942	95,574	12,533	445,120
Disposal for the period	-	-	(268,462)	(26,420)	-	(294,882)
Reclassification	-	56,266	-	-	(56,266)	-
Balance at December 31, 2023	\$ 1,963,050	4,709,685	1,323,809	347,536	-	8,344,080
Balance at January 1, 2022	\$ 1,576,890	2,128,231	1,201,694	177,038	1,951,257	7,035,110
Additions for the period	386,160	272,610	430,538	126,833	250,983	1,467,124
Disposal for the period	-	-	(282,903)	(27,050)	-	(309,953)
Reclassification	-	2,158,507	-	1,561	(2,158,507)	1,561
Balance at December 31, 2022	\$ 1,963,050	4,559,348	1,349,329	278,382	43,733	8,193,842
Depreciation:						
Balance at January 1, 2023	\$ -	595,379	644,996	112,166	-	1,352,541
Depreciation for the period	-	140,958	341,234	71,173	-	553,365
Disposal for the period	-	-	(268,462)	(26,420)	-	(294,882)
Balance at December 31, 2023	\$ -	736,337	717,768	156,919	-	1,611,024
Balance at January 1, 2022	\$ -	482,071	581,497	86,270	-	1,149,838
Depreciation for the period	-	113,308	346,209	51,443	-	510,960
Disposal for the period	-	-	(282,710)	(25,547)	-	(308,257)
Balance at December 31, 2022	\$ -	595,379	644,996	112,166	-	1,352,541
Carrying amounts:						
Balance at December 31, 2023	\$ 1,963,050	3,973,348	606,041	190,617	-	6,733,056
Balance at December 31, 2022	\$ 1,963,050	3,963,969	704,333	166,216	43,733	6,841,301
Balance at January 1, 2022	\$ 1,576,890	1,646,160	620,197	90,768	1,951,257	5,885,272

None of the property, plant and equipment mentioned above were pledged as collateral.

To increase the scale of operations, the Company's Board of Directors resolved on January 17, 2020, to build a factory in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Company. The total price of the project was approximately \$1,398,000 thousand. The Company financed the construction with its own funds. In addition, the Company's Board of Directors resolved on November 12, 2020, to build a factory with loading and unloading parking space in Zhunan Guangyuan Science and Technology Park by contracting third parties to construct on the land owned by the Company. The total price of the project was approximately \$829,000 thousand. The aforementioned construction project completed and accepted in June 2022.

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On January 21, 2022, the Company's Board of Directors resolved to participate the land auction for acquiring the land located on Datong Section, Zhunan Township, Miaoli County from the Miaoli County Government to set up a compound leisure club or similar real estate for employees' entertainment needs. The Company won the bid on January 25, 2022. The total transaction amount was \$346,660 thousand.

(11) Lease arrangements

A. Right-of-use assets

	Buildings	Transportation equipment	Others	Total
Cost:				
Balance at January 1, 2023	\$ 148,675	1,296	-	149,971
Additions for the period	1,266	473	-	1,739
Deduction for the period and others	(10,103)	(768)	-	(10,871)
Balance at December 31, 2023	\$ 139,838	1,001	-	140,839
Balance at January 1, 2022	\$ 84,461	992	6,574	92,027
Additions for the period	111,693	528	-	112,221
Deduction for the period and others	(47,479)	(224)	(6,574)	(54,277)
Balance at December 31, 2022	\$ 148,675	1,296	-	149,971
Depreciation:				
Balance at January 1, 2023	\$ 36,190	657	-	36,847
Depreciation for the period	34,127	429	-	34,556
Deduction for the period and others	(7,409)	(768)	-	(8,177)
Balance at December 31, 2023	\$ 62,908	318	-	63,226
Balance at January 1, 2022	\$ 28,629	472	5,752	34,853
Depreciation for the period	35,132	409	822	36,363
Deduction for the period and others	(27,571)	(224)	(6,574)	(34,369)
Balance at December 31, 2022	\$ 36,190	657	-	36,847
Carrying amounts:				
Balance at December 31, 2023	\$ 76,930	683	-	77,613
Balance at December 31, 2022	\$ 112,485	639	-	113,124
Balance at January 1, 2022	\$ 55,832	520	822	57,174

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B. Lease liabilities

	December 31, 2023	December 31, 2022
Current	<u>\$ 54,593</u>	<u>35,145</u>
Non-current	<u>\$ 72,768</u>	<u>78,561</u>

For the maturity analysis, please refer to note 6(25) “Financial instruments” .

The amounts recognized in profit or loss during the lease term were as follows:

	For the years ended December 31, 2023	2022
Interest expenses relating to lease liabilities	<u>\$ 775</u>	<u>826</u>
Expenses relating to short-term lease	<u>\$ 4,706</u>	<u>4,165</u>
Expenses relating to lease of low-value assets, excluding short-term lease of low-value assets	<u>\$ 1,395</u>	<u>1,100</u>

The amounts relating to lease recognized in the statement of cash flows for were as follows:

	For the years ended December 31, 2023	2022
Total cash outflow for leases	<u>\$ 60,589</u>	<u>42,251</u>

C. Other information about leases

The Company leases certain transportation equipment, office and dormitory which qualify as short-term leases and certain office equipment which qualify as low-value asset leases. The Company had elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

(12) Intangible assets

	Computer software	Technology License Fees	Total
Cost:			
Balance at January 1, 2023	\$ 1,599,054	458,308	2,057,362
Additions for the period	<u>350,510</u>	<u>25,458</u>	<u>375,968</u>
Balance at December 31, 2023	<u>\$ 1,949,564</u>	<u>483,766</u>	<u>2,433,330</u>
Balance at January 1, 2022	\$ 1,209,922	403,695	1,613,617
Additions for the period	<u>389,132</u>	<u>54,613</u>	<u>443,745</u>
Balance at December 31, 2022	<u>\$ 1,599,054</u>	<u>458,308</u>	<u>2,057,362</u>

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	Computer software	Technology License Fees	Total
Amortization:			
Balance at January 1, 2023	\$ 1,292,663	401,508	1,694,171
Amortization for the period	448,713	66,210	514,923
Balance at December 31, 2023	<u>\$ 1,741,376</u>	<u>467,718</u>	<u>2,209,094</u>
Balance at January 1, 2022	\$ 956,486	345,220	1,301,706
Amortization for the period	336,177	56,288	392,465
Balance at December 31, 2022	<u>\$ 1,292,663</u>	<u>401,508</u>	<u>1,694,171</u>
Carrying amounts:			
Balance at December 31, 2023	<u>\$ 208,188</u>	<u>16,048</u>	<u>224,236</u>
Balance at December 31, 2022	<u>\$ 306,391</u>	<u>56,800</u>	<u>363,191</u>
Balance at January 1, 2022	<u>\$ 253,436</u>	<u>58,475</u>	<u>311,911</u>

None of the intangible assets mentioned above were pledged as collateral.

(13) Short-term borrowings

	December 31, 2023	December 31, 2022
Unsecured bank loans	<u>\$ 2,106,363</u>	<u>-</u>
Range of interest rates at the end of period (%)	<u>5.92~6.14</u>	<u>-</u>

(14) Other payables

	December 31, 2023	December 31, 2022
Salaries and bonus payable	\$ 5,228,902	5,929,795
Dividend payable (note 6(19))	887,555	1,970,740
Others	1,070,064	749,483
	<u>\$ 7,186,521</u>	<u>8,650,018</u>

(15) Other current liabilities

	December 31, 2023	December 31, 2022
Guarantee deposits received (note 9(3))	\$ 767,625	921,300
Refund liabilities	366,589	620,776
Payables for purchases of equipment	69,908	85,181
Receipts under custody	106,442	83,698
Other payables—related parties	101,199	-
Others	71,081	65,881
	<u>\$ 1,482,844</u>	<u>1,776,836</u>

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(16) Bonds payable

On August 6, 2021, the Company's Board of Directors resolved the issuance of domestic 1st unsecured convertible bonds for purchasing properties, plants and equipment, and replenishing working capital. The issuance was approved by FSC on September 8, 2021. The issuance period is 3 years from December 17, 2021 to December 17, 2024. The total face value of the bonds issued is \$3,500,000 thousand and the coupon rate is 0%.

The details of unsecured convertible bonds were as follows:

	December 31, 2023	December 31, 2022
Total convertible corporate bonds issued	\$ 3,500,000	3,500,000
Unamortized discounted corporate bonds payable	(28,607)	(57,969)
Less: current portion	(3,471,393)	-
Bonds payable	<u>\$ -</u>	<u>3,442,031</u>
Embedded derivative instruments – call and conversion options, included in financial assets at fair value through profit or loss–current	<u>\$ 350</u>	<u>-</u>
Embedded derivative instruments –Equity component – conversion options, included in capital surplus– stock options	<u>\$ 102,369</u>	<u>102,369</u>
	For the years ended December 31,	
	2023	2022
Embedded derivative instruments – net gains and losses of call and conversion options remeasured at fair value, included in other gains and losses	<u>\$ 350</u>	<u>(4,900)</u>
Interest expense	<u>\$ 29,362</u>	<u>29,176</u>

The conversion price per share at the time of issuance of NTD570 is calculated by multiplying the closing price of the Company's ordinary shares traded on Taipei Exchange at one business day before the reference date for determining the conversion price, which is December 9, 2021, of NTD475 by the conversion premium rate of 120%. The number of convertible shares of the bonds is calculated by dividing the issued face value of the bonds by the conversion price. After the issuance of corporate bonds, the conversion price shall be adjusted in accordance with the article related to anti-dilution in the terms of issuance and conversion. Due to the distribution of cash dividends to shareholders, the conversion price shall be adjusted in accordance with the aforementioned terms.

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The conversion price adjusted was as follows:

(Amount in Dollars)

<u>Ex-dividend date</u>	<u>Conversion price before adjustment</u>	<u>Conversion price after adjustment</u>
December 27, 2021	570.0	556.3
July 4, 2022	556.3	537.3
December 19, 2022	537.3	520.6
July 10, 2023	520.6	515.1
December 29, 2023	515.1	510.4

The unsecured convertible bonds mentioned above included liability and equity components. The equity component is included in capital surplus–stock options. The effective interest rate originally recognized for the liability component was 1.005%.

(17) Employee benefits

A. Defined benefit plans

According to the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to certain percentage 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. By the end of each year, the Company 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 Company 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 Company has no right to influence the investment policy and strategy.

Reconciliations of the present value of defined benefit obligation and the fair value of plan asset were as follows:

	December 31, 2023	December 31, 2022
Present value of defined benefit obligations	\$ 170,925	164,193
Fair value of plan assets	(52,703)	(49,395)
Net defined benefit liabilities	<u>\$ 118,222</u>	<u>114,798</u>

(a) Composition of plan assets

The Company contributes pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Bureau of Labor Funds, Ministry of Labor. With regard to the utilization of the funds, minimum earnings shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks.

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Bank of Taiwan labor pension reserve account balance of the Company amounted to \$52,703 thousand as of December 31, 2023. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(b) Movements in present value change of defined benefit obligation

	For the years ended December 31,	
	2023	2022
Defined benefit obligation at January 1	\$ 164,193	149,156
Current service cost	3,327	3,000
Current interest cost	2,299	1,193
Remeasurements of the net defined benefit liabilities (assets)		
— Actuarial losses (gains) arising from changes in experience adjustment	(1,630)	28,422
— Actuarial losses (gains) arising from changes in financial assumptions	2,736	(16,862)
Benefits paid	-	(716)
Defined benefit obligation at December 31	\$ 170,925	164,193

(c) Movements of defined benefit plan assets

	For the years ended December 31,	
	2023	2022
Fair value of plan assets at January 1	\$ 49,395	44,259
Interest income	692	354
Remeasurements of the net defined benefit liabilities (assets)		
— Return on plan assets (excluding current interest)	134	3,204
Contribution to the plan	2,482	2,294
Benefits paid	-	(716)
Fair value of plan assets at December 31	\$ 52,703	49,395

(d) Expenses recognized in profit or loss

	For the years ended December 31,	
	2023	2022
Current service cost	\$ 3,327	3,000
Net interest on the net defined benefit liabilities (assets)	1,607	839
	\$ 4,934	3,839

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- (e) Remeasurements of net defined benefit liabilities (assets) recognized in other comprehensive income

	For the years ended December 31,	
	2023	2022
Accumulated amount at January 1	\$ (55,198)	(48,513)
Recognized during the period	(778)	(6,685)
Accumulated amount at December 31	<u>\$ (55,976)</u>	<u>(55,198)</u>

- (f) Actuarial assumptions

	December 31, 2023	December 31, 2022
Discount rate (%)	1.30	1.40
Future salary increase rate (%)	3.00	3.00

The Company is expecting a contribution of \$2,512 thousand to its defined benefit plans in the following year after the reporting date.

The weighted-average duration of the defined benefit obligation is 17 years.

- (g) Sensitivity analysis

If there was a change in the actuarial assumptions the impact on the present value of the defined benefit obligation would be as follows:

	Impact on present value of defined benefit obligations	
	Increase 0.25%	Decrease 0.25%
December 31, 2023		
Discount rate	\$ (6,740)	7,080
Future salary increase rate	6,512	(6,248)
December 31, 2022		
Discount rate	\$ (6,465)	6,786
Future salary increase rate	6,248	(5,998)

Reasonably possible changes at the reporting date in one of the relevant actuarial assumptions, assuming all other variables remain constant, would have affected the defined benefit obligation by the amounts shown above. The method used in the sensitivity analysis is consistent with the calculation of pension liabilities in the parent company only balance sheets.

There were no changes in the method and assumptions used in calculating the sensitivity analysis for the years of 2023 and 2022.

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B. Defined contribution plans

The Company allocate 6% of each employee' s monthly wages to the labor pension personal account at the Bureau of Labor Insurance in accordance with the provisions of the Labor Pension Act. Under these defined contribution plans, the Company allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligation.

The pension costs of the Company under the defined contribution method were \$260,034 thousand and \$211,835 thousand for 2023 and 2022, respectively. Payment was made to the Bureau of Labor Insurance.

(18) Income tax

A. Income tax recognized in profit or loss

The amounts of income tax expense were as follows:

	For the years ended December 31,	
	2023	2022
Current tax expense		
Current period	\$ 414,150	1,230,759
Tax refund of repatriated offshore funds	(91,590)	-
Prior-year adjustments	(58,061)	(16,469)
Income tax expense of unappropriated earnings	48,658	98,291
	<u>313,157</u>	<u>1,312,581</u>
Deferred tax expense		
Origination and reversal of temporary differences	102,380	(481,103)
Income tax expense	<u>\$ 415,537</u>	<u>831,478</u>

Reconciliations of income tax expense and profit before income tax expense were as follows:

	For the years ended December 31,	
	2023	2022
Profit before income tax	<u>\$ 4,039,965</u>	<u>6,232,624</u>
Income tax using the Company' s domestic tax rate	\$ 807,993	1,246,525
Permanent difference	(120,023)	19,548
Investment tax incentives	(198,346)	(569,593)
Effect of unrecognized deferred tax liabilities	26,906	50,798
Income tax expense of unappropriated earnings	48,658	98,291
Tax refund of repatriated offshore funds	(91,590)	-
Prior-year adjustments	(58,061)	(16,469)
Others	-	2,378
Income tax expense	<u>\$ 415,537</u>	<u>831,478</u>

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B. Income tax recognized in other comprehensive income

The amounts of income tax expense (benefit) recognized in other comprehensive income were as follows:

	For the years ended December 31,	
	2023	2022
Remeasurements from defined benefit plans	\$ (194)	(1,671)
Exchange differences on translation of foreign financial statements	(24,812)	6,817
	\$ (25,006)	5,146

C. Deferred tax assets and liabilities

(a) Unrecognized deferred tax liabilities

The Company is able to control the timing of the reversal of the temporary differences associated with investments in subsidiaries as of December 31, 2023 and 2022. Also, it is probable that the temporary differences will not reverse in the foreseeable future. Hence, such temporary differences are not recognized under deferred tax liabilities. Details were as follows:

	December 31, 2023	December 31, 2022
Unrecognized deferred tax liabilities	\$ 333,333	360,239

(b) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities were as follows:

	January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2023
Deferred tax assets				
Inventory write-downs	\$ 468,405	(76,108)	-	392,297
Unrealized exchange losses	136,062	25,827	-	161,889
Refund liabilities	124,155	(50,837)	-	73,318
Loss on foreign investment accounted for using the equity method	49,825	23,298	-	73,123
Impairment loss on financial assets	23,116	-	-	23,116
Net defined benefit liabilities	22,959	490	194	23,643
Exchange differences on translating foreign operations	-	-	17,995	17,995
Others	19,614	2,271	-	21,885
	\$ 844,136	(75,059)	18,189	787,266

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	January 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2023
Deferred tax liabilities:				
Gain on foreign investment accounted for using the equity method	\$ 49,364	27,321	-	76,685
Exchange differences on translating foreign operations	6,817	-	(6,817)	-
	<u>\$ 56,181</u>	<u>27,321</u>	<u>(6,817)</u>	<u>76,685</u>

	January 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2022
Deferred tax assets:				
Inventory write-downs	\$ 134,074	334,331	-	468,405
Unrealized exchange losses	133,659	2,403	-	136,062
Refund liabilities	165,792	(41,637)	-	124,155
Loss on foreign investment accounted for using the equity method	-	49,825	-	49,825
Impairment loss on financial assets	25,258	(2,142)	-	23,116
Net defined benefit liabilities	20,980	308	1,671	22,959
Others	15,413	4,201	-	19,614
	<u>\$ 495,176</u>	<u>347,289</u>	<u>1,671</u>	<u>844,136</u>

Deferred tax liabilities:				
Gain on foreign investment accounted for using the equity method	\$ 183,178	(133,814)	-	49,364
Exchange differences on translating foreign operations	-	-	6,817	6,817
	<u>\$ 183,178</u>	<u>(133,814)</u>	<u>6,817</u>	<u>56,181</u>

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D. Examination and approval

The income tax returns of the Company had been examined and assessed by the tax authority through 2021.

(19) Equity

A. Common shares

As of December 31, 2023 and 2022, the Company's authorized common shares amounted to \$3,000,000 thousand, of which \$290,000 thousand was reserved for employee share options. The registered issued common shares amounted to \$2,044,690 thousand and \$1,970,740 thousand, respectively with par value of NTD10 per share.

As of December 31, 2023, the Company issued 7,395 thousand new common shares, with a par value of \$10 per share, as employee stock options. As of December 31, 2023 and 2022, the registration procedures for the amounts of \$3,000 thousand and \$16,005 thousand, respectively, recognized as advance receipts for share capital, has yet to be completed.

The reconciliation of number of outstanding shares of the Company for the years ended December 31, 2023 and 2022, respectively were as follows:

(Unit: Shares in Thousands)

	For the years ended December 31,	
	2023	2022
Balance, beginning of the period	191,815	197,074
Effect of repurchasing treasury shares	-	(6,860)
Employee share options exercised	6,094	1,601
Transfer of treasury shares	2,676	-
Balance, end of the period	200,585	191,815

B. Capital surplus

	December 31, 2023	December 31, 2022
Additional paid-in capital	\$ 8,416,171	6,597,101
Changes in equities of associates accounted for using the equity method	2,027,006	1,280,649
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
Changes in ownerships interest in subsidiaries	1,944	1,944
Employee share options	580,922	839,390
Due to recognition of equity component of convertible bonds	102,369	102,369
Transaction of treasury stock	274,930	-
Expired employee share options	279	227
	\$ 11,552,379	8,970,438

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In accordance with the R.O.C. Company Act, realized capital surplus can only be reclassified as share capital or distributed as cash dividends after offsetting losses. The aforementioned realized capital surplus included share premiums and donation gains. In accordance with the Securities Offering and Issuance Guidelines, the amount of capital surplus to be reclassified under share capital shall not exceed 10 % of the actual share capital amount.

C. Retained earnings and dividend policy

The Company's Articles of Incorporation (the "Articles") that earnings distribution or offsetting of losses may be proposed at each half fiscal year.

Under the dividend policy as set forth in the Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, estimating and retaining the employees' and directors' remuneration, setting aside as legal reserve 10% of the remaining profit until the accumulated legal capital reserve equals to the paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit together with the beginning balance of undistributed retained earnings shall be used by the Company's Board of Directors as the basis for proposing a distribution plan. Where the aforementioned earnings, legal reserves, and capital reserves are distributed in cash, the Company's Board of Directors is authorized to approve the distribution by a resolution approved by a majority vote of the directors at a meeting attended by over two-thirds of the Company's Board of Directors and report to the shareholders' meeting. Where they are distributed by issuing new shares, it shall be resolved at the shareholders' meeting.

The Company's dividend policy complies with the laws, regulations and the Articles and takes into account the current and future competitions of the Company with domestic and foreign companies, investment environment, capital demand, capital budget, and shareholders' interests to strike a balance between dividends and the long-term financial planning of the Company, so as to foster sustainable operation and stable development. The dividend distribution of the shareholders of the Company can be distributed in cash dividends or share dividends, in which the proportion of shareholders' cash dividend distribution shall be no less than 10% of the total dividends of the shareholders.

The Company 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.

If the Company generates profit for the year, the distribution of the legal reserve, either by new shares or by cash, shall be resolved in the shareholders' meeting, and the distribution amount is limited to the portion of legal reserve which exceeds 25% of the paid-in capital.

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The appropriation of 2023 earnings was as follows:

	Second Half of 2023	First Half of 2023
Resolution date of the Company's Board of Directors	March 8, 2024	August 4, 2023
Cash dividends to shareholders	\$ 1,773,262	887,555
Cash dividends per share (NTD)	8.84	4.42484464(Note)
Legal reserve	294,086	66,593
Special reserve	140,046	5,918

The amount of legal reserve and special reserve of 2023 will be submitted to the shareholders' meeting for approval on May 27, 2024.

The appropriation of 2022 earnings was as follows:

	Second Half of 2022	First Half of 2022
Resolution date of the Company's Board of Directors	March 15, 2023	July 29, 2022
Cash dividends to shareholders	\$ 865,962	1,970,740
Cash dividends per share (NTD) (Note)	4.45090808	10.27746561
Approval date of the Company's shareholders' meeting	May 31, 2023	May 31, 2023
Legal reserve	\$ 149,747	399,192
Special reserve	216,810	-

Note: Due to the treasury shares and the exercise of employee stock options, the actual distribution of cash dividends per share was adjusted.

The appropriation of 2021 earnings was as follows:

	Second Half of 2021	First Half of 2021
Resolution date of the Company's Board of Directors	March 4, 2022	August 6, 2021
Cash dividends to shareholders	\$ 2,561,962	1,970,740
Cash dividends per share (NTD)	13	10
Approval date of the Company's shareholders' meeting	May 24, 2022	May 24, 2022
Legal reserve	418,001	355,551
Reversal of special reserve	(155,568)	(9,773)

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The aforementioned appropriation of 2021 earnings was consistent with the proposal made by the Board of Directors on March 4, 2022.

Information on the appropriations of earnings mentioned above is available at the Market Observation Post System website of the Taiwan Stock Exchange.

D. Treasury shares

On July 15, 2022, the Company's Board of Directors resolved to plan to repurchase 10,000 thousand shares of its issued shares of common shares to its employees at a price not to exceed \$325 per share for the period from July 18 to September 16, 2022, in accordance with the Securities and Exchange Act. Based on the resolution mentioned above, after fully executing, the Company bought back 6,860 thousand treasury shares amounting to \$2,061,216 thousand in total.

The Company transferred 2,676 thousand treasury shares to its employees and subsidiary employees in 2023 and received the amount to \$801,843 thousand, resulting in the cost of the share-based remuneration of \$277,047 thousand to be recognized.

E. Other equity (net of tax)

(a) Exchange differences on translation of foreign financial statements

	For the years ended December 31,	
	2023	2022
Balance at January 1	\$ 27,271	(143,563)
Foreign exchange differences (net of tax)	(99,251)	170,834
Balance at December 31	<u>\$ (71,980)</u>	<u>27,271</u>

(b) Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income

	For the years ended December 31,	
	2023	2022
Balance at January 1	\$ (244,081)	246,847
Unrealized gains (losses) from financial assets measured at fair value through other comprehensive income (net of tax)	(61,345)	(395,996)
Disposal for the period	14,632	(94,932)
Balance at December 31	<u>\$ (290,794)</u>	<u>(244,081)</u>

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(20) Share-based payment

The Company issued employee share options which each unit can be exercised to purchase one share of the Company. The duration of the plan is 3 to 4 years, and the plan was approved by the FSC. As of December 31, 2023, the information related to the employee share options was as follows:

Type	Authorization date	Issue date	Issued units (in thousands)	Grant Period	Exercise price per share (TWD)	Adjusted exercise price per share (TWD)
2022 First employee share options (note)	July 27, 2022	September 7, 2022	6,000	service period between 2~3 years	293.50	278.80
2021 First employee share options (note)	October 4, 2021	November 19, 2021	6,000	service period between 2~3 years	414.50	note
2020 First employee share options	April 10, 2020	October 5, 2020	6,000	service period between 2~2.5 years	262.00	225.30
2019 Second employee share options	November 22, 2019	October 5, 2020	2,000	service period between 2~2.5 years	262.00	225.30

The estimated fair values of the options granted were calculated at the date of grant using the Black-Scholes option pricing model. The Company recognized compensation cost amounting to \$238,663 thousand and \$355,849 thousand for the years ended December 31, 2023 and 2022, respectively. Furthermore, compensation costs recognized by the Company's subsidiaries for the years of 2023 and 2022, were \$3,208 thousand and \$4,362 thousand, respectively.

Weighted-average assumptions were as follows:

	2022 1st	2021 1st	2020 1st	2019 2nd
Grant-date share price (NTD)	\$ 293.50	414.50	262.00	262.00
Exercise price (NTD)	293.50	414.50	262.00	262.00
Expected volatility (%)	38.77~39.50	37.44~37.96	35.27~35.45	35.27~35.45
Expected dividend yield (%)	-	-	-	-
Expected life (year)	4	4	3	3
Risk free interest rate (%)	1.05~1.11	0.40~0.41	0.20~0.22	0.20~0.22
Fair value per option (NTD) \$	84.61	112.17	59.63	59.63

Note: The Company retracted and cancelled all employee stock options issued in 2021 and replaced them with employee stock options issued in 2022, with the consent of the share option holders.

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Information related to employee share options was as follows:

A. 2022 First employee share options

	For the years ended December 31,			
	2023		2022	
	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
Employee share options				
Outstanding at January 1	5,969	\$ 284.40	-	\$ -
Granted during the period	-	-	6,000	293.50
Exercised during the period	-	-	-	-
Forfeited during the period	(140)	-	(31)	-
Outstanding at December 31	<u>5,829</u>	278.80	<u>5,969</u>	\$ 284.40
Exercisable at December 31	<u>-</u>		<u>-</u>	

As of December 31, 2023 and 2022, the weighted-average remaining contractual life for outstanding option were 2.69 and 3.69 years, respectively.

B. 2021 First employee share options

	For the years ended December 31,	
	2022	
	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
Employee share options		
Outstanding at January 1	5,987	\$ 404.50
Granted during the period	-	-
Exercised during the period	-	-
Forfeited during the period	(87)	-
Retracted during the period	(5,900)	-
Outstanding at December 31	<u>-</u>	-
Exercisable at December 31	<u>-</u>	

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C. 2020 First employee share options

	For the years ended December 31,			
	2023		2022	
	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
Employee share options				
Outstanding at January 1	4,642	\$ 227.70	5,782	\$ 243.30
Granted during the period	-	-	-	-
Exercised during the period	(4,632)	226.39	(1,127)	234.80
Forfeited during the period	(10)	-	(13)	-
Outstanding at December 31	<u>-</u>	-	<u>4,642</u>	227.70
Exercisable at December 31	<u>-</u>		<u>1,760</u>	

As of December 31, 2022, the weighted-average remaining contractual life for outstanding option was 0.75 years.

D. 2019 Second employee share options

	For the years ended December 31,			
	2023		2022	
	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)	Number of Options (In Thousands of Units)	Weighted-average exercise price (NTD)
Employee share options				
Outstanding at January 1	1,480	\$ 227.70	1,940	\$ 243.30
Granted during the period	-	-	-	-
Exercised during the period	(1,479)	226.36	(457)	234.77
Forfeited during the period	(1)	-	(3)	-
Outstanding at December 31	<u>-</u>	-	<u>1,480</u>	227.70
Exercisable at December 31	<u>-</u>		<u>512</u>	

As of December 31, 2022, the weighted-average remaining contractual life for outstanding option, was 0.75 years.

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(21) Earnings per share

A. Basic earnings per share

	For the years ended December 31,	
	2023	2022
Net profit attributable to ordinary shareholders of the Company	\$ 3,624,428	5,401,146
Weighted-average number of shares outstanding during the year (in thousands of shares)	196,176	194,935
Basic earnings per share (NTD)	\$ 18.48	27.71

B. Diluted earnings per share

	For the years ended December 31,	
	2023	2022
Net profit attributable to ordinary shareholders of the Company	\$ 3,624,428	5,401,146
Effect of dilutive potential ordinary shares		
Convertible bonds	23,210	19,420
Net profit attributable to ordinary shareholders of the Company	\$ 3,647,638	5,420,566
Weighted average number of shares outstanding during the year (in thousands of shares)	196,176	194,935
Effect of dilutive potential ordinary shares (in thousands of shares)		
Employee share options	2,270	3,137
Employees' compensation	2,380	3,529
Effect of conversion of convertible bonds	6,758	6,409
	207,584	208,010
Diluted earnings per share (NTD)	\$ 17.57	26.06

(22) Operating revenue

Disaggregation of revenues from contracts with customers were as follows:

	For the years ended December 31,	
	2023	2022
Primary geographical markets		
Asia	\$ 35,397,883	46,404,813
America	10,133,589	10,588,924
Europe	1,926,058	2,474,827
Australia	55,229	102,224
Others	249	227
	\$ 47,513,008	59,571,015

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	For the years ended December 31,	
	2023	2022
Major product categories		
Flash memory module products	\$ 36,393,849	41,916,049
Controllers	8,359,636	13,907,161
Integrated Circuit	1,090,017	2,050,788
Others	1,669,506	1,697,017
	\$ 47,513,008	59,571,015

The Company categorized the operating revenue mainly based on the countries where the customers are located.

(23) Employees' compensation and remuneration of directors

The Company accrued its remunerations to employees and directors, at the rates of 8% to 19% and a maximum rate of 1.5%, of the net profit before income tax which yet the remunerations to employees and directors, respectively. The remunerations to employees and directors for the years ended December 31, 2023 and 2022 had been approved during the Company's board meetings held on March 8, 2024 and March 15, 2023, respectively, as follows:

	For the years ended December 31,			
	2023		2022	
	Cash	Share	Cash	Share
Employees' compensation	\$ 930,000	-	1,000,000	-
Remuneration of directors	23,000	-	35,000	-

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 is no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2022.

Information on the employees' compensation and remuneration of directors resolved by the Company's Board of Directors is available at the Market Observation Post System website of the Taiwan Stock Exchange.

(24) Non-operating income and expenses

A. Interest income

	For the years ended December 31,	
	2023	2022
Interest income from bank deposits	\$ 187,371	83,944
Others	-	1
	\$ 187,371	83,945

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B. Other income

	For the years ended December 31,	
	2023	2022
Dividend income	\$ 81,717	90,937
Rent income	6,058	3,111
Gain on a bargain purchase (note 6(9))	-	16,289
Research project grant	104,912	31,797
Others	60,272	27,581
	\$ 252,959	169,715

C. Other gains and losses

	For the years ended December 31,	
	2023	2022
Gains (Losses) on financial assets at fair value through profit or loss	\$ 453,131	(282,398)
Gain on disposal of investments accounted for using the equity method (note 6(9))	-	30,426
Net foreign exchange gains (losses)	(89,670)	726,667
Others	29	(1,084)
	\$ 363,490	473,611

D. Finance costs

	For the years ended December 31,	
	2023	2022
Interest on bank loans	\$ 19,316	1,623
Interest on lease liabilities	775	826
Interest on convertible bond	29,362	29,176
Others	12	-
	\$ 49,465	31,625

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(25) Financial instruments

A. Categories of financial instruments

	December 31, 2023	December 31, 2022
Financial assets		
Financial assets at FVTPL (current and non-current)	\$ 1,032,287	889,205
Financial assets at amortized cost (Note 1)	24,003,556	23,200,161
Financial assets at FVTOCI	296,098	290,784
	<u>\$ 25,331,941</u>	<u>24,380,150</u>
Financial liabilities		
Financial liabilities at amortized cost (Note 2)	<u>\$ 19,995,768</u>	<u>19,911,144</u>

Note 1: The balances include financial assets measured at amortized cost, which comprise cash and cash equivalents, financial assets at amortized cost, accounts receivable (including related parties), other receivables and refundable deposits.

Note 2: The balances include financial liabilities measured at amortized cost, which comprise short-term borrowings, accounts payable (including related parties), other payables, bonds payable (including current portion), and guarantee deposits received.

B. Financial risk management objectives and policies

The Company primarily manages its exposure to foreign currency risk, interest rate risk, equity price risk, credit risk and liquidity risk with the objective to reduce the potentially adverse effects the market uncertainties may have on its financial performance.

The Company's plans for material treasury activities must comply with certain treasury procedures that provide guiding principles for overall financial risk management and segregation of duties and reviewed in accordance with procedures required by relevant regulations or internal controls.

C. Market risk

The Company's activities were exposed primarily to the financial risks of changes in foreign currency rates and interest rates.

(a) Foreign currency risk

The Company had foreign currency sales and purchases, which exposed the Company 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 Company 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. The Company continues to evaluate future exchange rate movements, and the exposure to foreign currency risk of foreign currency net assets is still within the controllable range.

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Notes to the Parent Company Only Financial Statements

(i) Exposure to foreign currency risk

The Company's financial assets and liabilities exposed to significant foreign currency risk were as follows:

	December 31, 2023			December 31, 2022		
	Foreign currency	Exchange rate	NTD	Foreign currency	Exchange rate	NTD
<u>Financial assets</u>						
<u>Monetary items</u>						
USD	550,935	30.705	16,916,449	417,606	30.710	12,824,683
<u>Non-Monetary items</u>						
JPY	2,415,631	0.217	524,675	1,925,056	0.232	446,613
USD	4,789	30.705	148,009	4,135	30.710	126,981
<u>Financial liabilities</u>						
<u>Monetary items</u>						
USD	276,824	30.705	8,499,869	224,194	30.710	6,884,994

(ii) Sensitivity analysis

The Company's exposure to foreign currency risk primarily arises from the translation of the foreign currency exchange gains and losses on cash and cash equivalents, accounts receivable (including related parties), short-term borrowings, and accounts payable (including related parties), that are denominated in USD. A weakening (strengthening) of 5% of the NTD against the USD as of December 31, 2023 and 2022, would have increased or decreased the net profit before income tax by \$420,829 thousand and \$296,984 thousand, respectively. The analysis was performed on the same basis for comparative years.

(iii) Foreign exchange gains and losses on monetary items

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 Company entities. The details of the net foreign currency exchange gains (losses) (including realized and unrealized) were as follows:

<u>For the years ended December 31,</u>	
<u>2023</u>	<u>2022</u>
<u>\$ (89,670)</u>	<u>726,667</u>

(b) Interest rate risk

For variable rate instruments, the sensitivity analysis assumes the variable rate liabilities are outstanding for the whole year on the reporting date.

If interest rates had been 0.25% basis point higher and all other variables were held constant, the Company's net profit before income tax for the years of 2023 and 2022 would have increased by \$25,653 thousand and \$26,545 thousand, respectively. Due to the impact of variable interest rate cash and cash equivalents and short-term borrowings.

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(c) Other price risk

The Company was exposed to equity price risks through its investments in foreign and domestic listed and unlisted stock, private equity funds and beneficiary certificates.

Sensitivity analysis

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

If equity prices had been 10% higher or lower, net profit before income tax for the years ended December 31, 2023 and 2022 would have increased or decreased by \$103,229 thousand and \$88,921 thousand, respectively, as a result of the changes in fair value of financial assets at FVTPL. If equity prices had been 10% higher or lower, the other comprehensive income before income tax for the years ended December 31, 2023 and 2022 would have increased or decreased by \$29,610 thousand and \$29,078 thousand, respectively, as a result of the changes in fair value of financial assets at FVOCI.

D. Concentration of credit risk

(a) Accounts receivable

The major customers of the Company are in the electronics industry and the Company usually grants credit limits to customers in accordance with credit policy, therefore, the credit risk of the Company is mainly affected by the electronics industry. However, the Company mostly sells products to customers with good reputation and continuously monitors the financial situation of customers to monitor the significant loss from credit risk. As of December 31, 2023 and 2022, 41% and 36%, respectively, of accounts receivable were from top five customers, so there was no significant concentration of credit risk. In addition, the Company periodically reviews the recoverable amounts of accounts receivable to ensure that an adequate allowance is recognized for possible irrecoverable amounts. In this regard, the management believes there is no expected material credit risk.

(b) Cash and cash equivalents

The Company's cash and cash equivalents are deposited with different financial institutions. The Company controls the credit risk exposure to each financial institution and believes that the Company's cash and cash equivalents do not pose a risk of a significant concentration of credit risk.

(c) Receivables and debt securities

Please refer to note 6(5) for details on the credit risk exposure of accounts receivable. Please refer to note 6(3) for financial assets at amortized cost including pledged time deposits. Please refer to notes 6(2) and (4) for details on financial assets at fair value through profit and loss and other comprehensive income including listed stocks, unlisted stocks, open-end funds, and private equity funds.

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The financial assets mentioned above were with lower credit risk, so 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.

E. Liquidity risk

The following table shows the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Carrying amount	Cash flow of contract	Within 1 year	1-5 years	Over 5 years
December 31, 2023					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 14,418,012	(14,418,012)	(14,415,258)	(2,754)	-
Lease liabilities (current and non-current)	127,361	(132,317)	(56,272)	(76,045)	-
Bonds payable (including current portion)	3,471,393	(3,500,000)	(3,500,000)	-	-
Floating interest rate liabilities	122,820	(124,050)	(124,050)	-	-
Fixed interest rate liabilities	1,983,543	(2,004,093)	(2,004,093)	-	-
	\$ 20,123,129	(20,178,472)	(20,099,673)	(78,799)	-
December 31, 2022					
Non-derivative financial liabilities					
Non-interest bearing liabilities	\$ 16,469,113	(16,469,113)	(15,546,113)	(923,000)	-
Lease liabilities (current and non-current)	113,706	(114,813)	(35,667)	(79,146)	-
Bonds payable	3,442,031	(3,500,000)	-	(3,500,000)	-
	\$ 20,024,850	(20,083,926)	(15,581,780)	(4,502,146)	-

The Company does not expect the cash flows included in the maturity analysis to occur significantly earlier or at significantly different amounts.

F. Fair value of financial instruments

(a) Fair value measurements recognized in the balance sheets

Fair value measurements are grouped into Level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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(b) Fair value of financial instruments measured at fair value on a recurring basis

Fair value hierarchy

The following table presents the Company's financial assets and liabilities measured at fair value on a recurring basis:

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 868,313	-	-	868,313
Domestic unlisted stocks	-	-	132,719	132,719
Foreign unlisted stocks	-	-	3,704	3,704
Domestic private equity funds	-	-	27,201	27,201
Derivative instruments—convertible bonds	-	-	350	350
	\$ 868,313	-	163,974	1,032,287
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	174,345	174,345
Foreign unlisted stocks	-	-	121,753	121,753
	\$ -	-	296,098	296,098
	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Domestic listed stocks	\$ 674,253	-	-	674,253
Domestic unlisted stocks	-	-	174,012	174,012
Foreign unlisted stocks	-	-	6,496	6,496
Domestic private equity funds	-	-	34,444	34,444
	\$ 674,253	-	214,952	889,205
Financial assets at fair value through other comprehensive income				
Domestic unlisted stocks	\$ -	-	123,098	123,098
Foreign unlisted stocks	-	-	167,686	167,686
	\$ -	-	290,784	290,784

There were no transfers between Levels 1 and 2 for the years ended December 31, 2023 and 2022.

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The reconciliations of Level 3 fair value measurements of financial instruments were as follows:

	Financial assets at fair value through profit or loss			Financial assets at fair value through other comprehensive income	
	Derivative instruments —				
	Private equity funds	convertible bonds	Equity instruments	Equity instruments	Total
January 1, 2023	\$ 34,444	-	180,508	290,784	505,736
Recognized in profit or loss	(7,243)	350	(35,085)	-	(41,978)
Recognized in other comprehensive income	-	-	-	(70,986)	(70,986)
Additions for the period	-	-	-	85,300	85,300
Disposal and proceeds from capital reduction	-	-	(9,000)	(9,000)	(18,000)
December 31, 2023	\$ 27,201	350	136,423	296,098	460,072
January 1, 2022	\$ 39,909	4,900	318,740	438,944	802,493
Recognized in profit or loss	(5,465)	(4,900)	(130,957)	-	(141,322)
Recognized in other comprehensive income	-	-	-	(62,878)	(62,878)
Additions for the period	-	-	-	31,500	31,500
Disposal and proceeds from capital reduction	-	-	(7,275)	(116,782)	(124,057)
December 31, 2022	\$ 34,444	-	180,508	290,784	505,736

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

The Company's financial instruments that use Level 3 inputs to measure fair value mainly include financial assets at fair value through profit or loss—equity investments, derivative financial instruments, private equity funds, and financial assets at fair value through other comprehensive income—equity investments. If the measurement of the fair value requires the use of observable inputs which cannot be objectively observed, the Company will evaluate the most relevant market data carefully for the evaluation item.

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Quantified information of significant unobservable inputs was as follows:

Item	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income—equity investments without an active market	Market approach	<ul style="list-style-type: none"> Discount for lack of marketability (December 31, 2023: 30% and December 31, 2022: 20.81%~22.11%) 	<ul style="list-style-type: none"> The higher the discount for lack of marketability, the lower the fair value
Financial assets at fair value through other comprehensive income—equity investments without an active market	Income approach	<ul style="list-style-type: none"> Sustainable revenue growth rate (December 31, 2023: 1.92% and December 31, 2022: 1.6%) Weighted-average cost of capital (December 31, 2023: 5.80%~12.25% and December 31, 2022: 6.25%~12.11%) Discount for lack of marketability (December 31, 2023 and December 31, 2022: 15%) Discount for non-controlling interest (December 31, 2023 and December 31, 2022: 15%) 	<ul style="list-style-type: none"> The higher the sustainable revenue growth rate, the higher the fair value The higher the weighted-average cost of capital, the lower the fair value The higher the discount for lack of marketability, the lower the fair value The higher the discount for non-controlling interest, the lower the fair value
Financial assets at fair value through profit or loss—equity investments without an active market and private equity funds	Asset-based approach	<ul style="list-style-type: none"> Net Asset Value Discount for lack of marketability (December 31, 2023 and December 31, 2022: 10%) Discount for non-controlling interest (December 31, 2023 and December 31, 2022: 10%) 	No applicable

The fair values of derivatives instruments—convertible bonds is estimated by the binary tree convertible bond evaluation model, and the significant unobservable input value used is the stock price volatility. The stock price volatility adopted on December 31, 2023 and 2022, was 32.20% and 38.59%, respectively.

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(26) Capital management

The capital structure of the Company consists of net debts (borrowings offset by cash and cash equivalents) and equity (comprising share capital, capital surplus, retained earnings and other equities).

The Company manages its capital to ensure that the Company 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 Company is not subject to any externally imposed capital requirements.

Key management personnel of the Company 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 Company may adjust the amount of dividends paid to shareholders and the amount of new debt issued or existing debt redeemed.

The Company's debt-to-equity ratios at December 31, 2023 and 2022, were as follows:

	December 31, 2023	December 31, 2022
Total liabilities	\$ 21,601,460	21,669,547
Total equity	42,788,153	37,631,822
Debt-to-adjusted-capital ratio (%)	50	58

As of December 31, 2023, there is no change in the method of capital management of the Company.

(27) Investing and financing activities not affecting current cash flow

A. For leased right-of-use assets, please refer to note 6(11).

B. Reconciliations of liabilities arising from financing activities were as follows:

	January 1, 2023	Cash flows	Foreign exchange movement and others	December 31, 2023
Short-term borrowings	\$ -	2,177,294	(70,931)	2,106,363
Lease liabilities (current and non-current)	113,706	(53,713)	67,368	127,361
Bonds payable(including current portion)	3,442,031	-	29,362	3,471,393
Guarantee deposits received (current and non-current)	1,844,300	(996,803)	(77,118)	770,379
Total liabilities from financing activities	\$ 5,400,037	1,126,778	(51,319)	6,475,496

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	January 1, 2022	Cash flows	Foreign exchange movement and others	December 31, 2022
Short-term borrowings	\$ 379,216	(382,995)	3,779	-
Lease liabilities (current and non-current)	57,949	(36,160)	91,917	113,706
Bonds payable	3,412,855	-	29,176	3,442,031
Guarantee deposits received (current and non-current)	628	1,659,592	184,080	1,844,300
Total liabilities from financing activities	<u>\$ 3,850,648</u>	<u>1,240,437</u>	<u>308,952</u>	<u>5,400,037</u>

7. Related-party transactions

(1) Names and relationship with related parties

The followings are subsidiaries and related parties that have had transactions with the Company during the periods covered in the parent company only financial statements:

Name of related party	Relationship with the Company
Microtops Design Corporation	Associate
Hosin Global Electronics Co., Ltd. (SZ) (Hosin Global SZ)	Associate
Hosin Global Electronics Co., Ltd. (HK)	Hosin Global SZ' s subsidiary
SiliTai Electronics Co., Limited	Hosin Global SZ' s sub-subsubsidiary
Hefei Core Storage Electronic Limited	Hosin Global SZ' s subsidiary
Hefei Kaimeng Technology Co., Ltd.	Hosin Global SZ' s sub-subsubsidiary
Xiamen Hongxinchuang Electronics Co., Ltd.	Hosin Global SZ' s subsidiary
Shanghai Hongxinyu Microelectronics Technology Co., Ltd.	Hosin Global SZ' s subsidiary
Hefei Xinpeng Technology Co., Ltd. (Hefei Xinpeng)	Associate
Hefei Datang Storage Technology Co., Ltd.	Hefei Xinpeng' s subsidiary
ProGrade Digital, Inc.	Associate
Nextorage Corporation	Subsidiary
Kioxia Corporation (KIC)	The Company' s director
Kioxia Taiwan Corporation	KIC' s subsidiary
Kioxia Asia, Limited	KIC' s subsidiary
Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	KIC' s subsidiary
Toshiba International Procurement HongKong, Ltd.	KIC' s associate

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<u>Name of related party</u>	<u>Relationship with the Company</u>
Orient Semiconductor Electronics Ltd.	The Company had resigned in its position as the director on November 7, 2022; hence it was no longer a related party of the Company since then.
Apacer Technology Inc.	The Company is its director
UD INFO Corp.	Since August 1, 2022, it became a subsidiary of Apacer Technology Inc.
ONE UPON Co. Ltd.	The Company's director is its chairman
LIU, TIAN-PAI	Other related party
Lian Xu Dong Investment Corporation	Subsidiary
Phison Electronics Japan Corp.	Subsidiary
Phison Technology Inc.	Sub-subsidiary
Emtops Electronics Corp.	Subsidiary
Ostek Company	Sub-subsidiary
Phisontech Electronics Taiwan Corp.	Subsidiary
Memoryexchange Corporation	Subsidiary (Note)
Super Storage Technology Corporation	Sub-subsidiary
Power Storage Technology (Shenzhen) Limited	Sub-subsidiary
Phison Technology India Private Limited	Subsidiary

Note: Memoryexchange Corporation ended its operations in March 2021, and was liquidated in March 2022.

(2) Significant transactions with related parties

A. Operating revenues

<u>Related Party Category / Name</u>	<u>For the years ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Subsidiaries	\$ 1,104,418	526,126
Associates	3,247,097	5,761,656
Other related parties	2,234,809	3,215,711
	<u><u>\$ 6,586,324</u></u>	<u><u>9,503,493</u></u>

The credit terms to related parties were ranged from T/T in advance to EOM 90 days and that to non-related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the sales price and credit terms of the Company for related parties and that for the third parties.

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B. Purchase of goods and Processing costs

(a) Purchase of goods

Related Party Category / Name	For the years ended December 31,	
	2023	2022
Associates	\$ 30,793	(3,655)
Other related parties — Kioxia Taiwan Corporation	10,032,575	11,413,643
Other related parties	20	-
	\$ 10,063,388	11,409,988

(b) Processing costs

Related Party Category / Name	For the years ended December 31,	
	2023	2022
Subsidiaries	\$ 521,551	482,160
Other related parties	-	2,071,125
	\$ 521,551	2,553,285

The payment terms to related parties were ranged from T/T in advance to EOM 30 days and that to non-related parties were ranged from T/T in advance to EOM 90 days. There was no significant difference between the purchase price and payment terms of the Company from related parties and that from the third parties.

C. Receivable from related parties

Related Party Category / Name	December 31, 2023	December 31, 2022
Subsidiaries	\$ 259,492	70,783
Associates — Hosin Global Electronics Co., Ltd. (HK)	1,118,344	235,530
Associates	49,338	417,838
Other related parties	643,767	567,815
	2,070,941	1,291,966
Less: Loss allowance	(3,685)	(22,110)
	\$ 2,067,256	1,269,856

The outstanding accounts receivable from related parties are unsecured.

D. Payables to related parties

Related Party Category / Name	December 31, 2023	December 31, 2022
Subsidiaries	\$ 119,532	103,127
Other related parties — Kioxia Taiwan Corporation	1,028,950	578,866
	\$ 1,148,482	681,993

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E. Other transactions

Account Name	Related Party Category / Name	For the years ended December 31,	
		2023	2022
Operating Costs	Subsidiaries	\$ 22,204	26,934
	Associates	9,395	-
	Other related parties	440	3,812
		\$ 32,039	30,746
Operating Expenses	Subsidiaries	\$ 594,032	422,946
	Associates	332,805	256,178
	Other related parties	2,506	6,808
		\$ 929,343	685,932
Non-operating incomes	Subsidiaries	\$ 1,796	1,285
	Associates	924	1,228
	Other related parties	43,048	44,296
		\$ 45,768	46,809

The related parties distributed \$41,430 thousand and \$133,261 thousand cash dividend to the Company for the years ended December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, all the aforementioned dividends had been fully received.

As of December 31, 2023 and 2022, the receivables arising from abovementioned transactions were \$83 thousand and \$201 thousand, respectively (recognized as other receivables), and the payables arising from abovementioned transactions were \$171,665 thousand and \$65,114 thousand, respectively (recognized as other current liabilities).

On January 21, 2022, the Company' s Board of Directors resolved to purchase the land from the related party, LIU, TIAN-PAI, for the Company to expand operation in the future. The total amount without VAT of the purchase was \$39,500 thousand.

The Company leased the office to related parties with lease terms and prices determined based on mutual agreements. The payment term for rental is 30 days after the end of the month, with the related income being classified under non-operating income. The related party leased the land to the Company with lease terms and prices determined based on mutual agreements. The payment term for rental is T/T in advance, with the related expense being classified under operating expenses.

(3) Key management personnel compensation

Key management personnel compensation comprised:

	For the years ended December 31,	
	2023	2022
Short-term employee benefits	\$ 228,709	427,924
Post-employment benefits	1,402	1,804
Share-based payments	12,514	39,440
	\$ 242,625	469,168

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

Please refer to note 6(20) for further explanations related to share-based payment.

8. Pledged assets

The carrying amounts of pledged assets were as follows:

Pledged assets	Object	December 31, 2023	December 31, 2022
Pledged time deposits (recognized as financial assets at amortized cost — current)	As collateral for the tariff of imported raw materials	\$ 40,568	40,499

9. Commitments and contingencies

(1) Significant commitments

A. The Company' s unused letters of credit

	December 31, 2023	December 31, 2022
Unused letters of credit	\$ 660,000	1,160,000

B. In order to receive the research project grant, the Company obtain a performance guarantee letter from the bank as follows:

	December 31, 2023	December 31, 2022
	\$ 101,290	26,400

(2) Purchase commitment

The Company entered into a long-term purchase agreement of material with a supplier. The relative purchase quantity and price of wafers are specified in the agreement. According to the agreement, the Company has to pay partial guarantee deposit before the appointment date. As of December 31, 2023, the Company has paid US\$56,000 thousand of guarantee deposit (recognized as other non-current assets).

(3) Long-term supply agreement

The Company entered into a long-term supply agreement with a customer in 2021, and received a guarantee deposit of US\$90,000 thousand as agreed. The Company was required to sell controllers to the customer in the amount agreed upon by both parties during the agreed period. As of December 31, 2023, the guarantee deposits received were classified as current liabilities of \$767,625 thousand (recognized as other current liabilities) based on the expected repayment period.

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10. Losses due to major disasters: None

11. Subsequent events

- (1) In order to expand the Chinese market, the Company' s Board of Directors resolved on January 18,2024, to set up Xiamen subsidiary with an indirect investment of CNY 60,000 thousand.
- (2) For the purpose of financial requirement for enhancing working capital in order to improve the capital movement capabilities, the Company issued the second unsecured convertible of corporate bonds on January 23, 2024. The issuance period is 5 years, and the total face value of the bonds issued is \$6,000,000 thousand.
- (3) Based on the purpose of industry-university cooperation and cultivating talents, the Company' s Board of Directors resolved on March 8, 2024, and plan to build a new building at the National Yang Ming Chiao Tung University. After the construction is completed, it will be donated to the National Yang Ming Chiao Tung University.
- (4) In order to obtain a stable supply of the required parts, the Company prepaid the amount of US\$120,000 thousand to its supplier on January 4, 2024, with the approval of Board of Directors.

12. Other

- (1) A summary of current-period employee benefits, depreciation, and amortization, by function, was as follows:

By item	By function	For the year ended December 31,					
		2023			2022		
		Classified as operating cost	Classified as operating expenses	Total	Classified as operating cost	Classified as operating expenses	Total
Employee benefits							
Salary		440,457	7,557,047	7,997,504	648,398	6,740,759	7,389,157
Labor and health insurance		40,560	426,315	466,875	56,899	355,101	412,000
Pension		20,820	244,148	264,968	28,074	187,600	215,674
Remuneration of directors		-	23,000	23,000	-	35,000	35,000
Others		21,056	177,729	198,785	35,140	167,213	202,353
Depreciation		152,454	435,467	587,921	149,439	397,884	547,323
Amortization		465	514,458	514,923	507	391,958	392,465

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The following provides information of the number of employees and employee benefits in 2023 and 2022, respectively:

	For the year ended December 31,	
	2023	2022
Number of employees	3,698	3,386
Number of directors who were not employees	6	5
Average employee benefit costs	\$ 2,418	2,431
Average employee salary expenses	\$ 2,166	2,186
Adjustment of average employee salary expenses	(0.91)%	

Note: The Company did not have a supervisor in 2023 and 2022; hence, no remuneration to supervisors had been accrued.

Remuneration policies for directors, managerial personnel and employee were as follows:

The Company's policy on the remuneration of directors: The policy is provided in the Company's Articles of Incorporation, Article 16 which states that "Remuneration of the chairperson and directors of the Company shall be determined by the Board of Directors based on the value of the involvement and contribution of the chairperson and each director in the operation of the Company and with reference to industry standards." and Article 19 which states that "If the Company makes profit in the year, it shall appropriate 8% to 19% for compensation of employees and no more than 1.5% for remuneration of directors." No other remuneration of whatever kind or nature shall be made to the directors. For the determination of the amount of remuneration, the Board of Directors shall refer to the result of "Self-evaluation or peer-evaluation of the Board of Directors" as well as to the result of the evaluation of the performance of each director and supervisor, including attendance in meetings and continuing education of the Board of Directors. The remuneration committee will review the evaluation of each director and submit recommendation to the Board of Directors. The remuneration system shall be reviewed at any time necessary in the actual operating conditions in accordance with the provisions of relevant laws and regulations, in order to achieve the balance of the Company's sustainable operation and risk control.

The Company's policy on the salary and remuneration of employees: Remuneration of employees is divided into fixed and variable salary items. The fixed salary is based on the salary classification standard of the employee's position; the variable salary is based on the Company's operating results, and is distributed corresponding to the employee's individual performance assessment. The policy is reviewed and modified timely based on actual operating conditions, market trends and relevant laws and regulations.

The Company's policy on the remuneration of managers: The remuneration policy is reviewed regularly by the remuneration committee, and the content and amount of remuneration are determined individually based on the manager's achievement of performance goals; then, recommendations are submitted to the Board of Directors for discussion and decision. The policy is reviewed and modified timely based on actual operating conditions, market trends and relevant laws and regulations.

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

- (2) The Company was served two complaints from Taiwan Hsinchu District Court on November 8, 2019 and December 13, 2019, that the Securities and Futures Investors Protection Center (“SFIPC”) filed the following two civil action:

- A. To ask to remove Mr. K.S. Pua from the Company’ s Board Director Position (“Removal Action”);
- B. To claim monetary damage amounting New Taiwan Dollars \$697,389 thousand against the Company, its board of directors and other co-defendants on behalf of certain investors (“Class Action”).

These two civil actions were derivative litigations from the criminal litigation associated with the Company’ s financial case occurred on August 05, 2016. The Company has engaged attorneys to answer and ask the court to dismiss SFIPC’ s allegations. Of which, Taiwan High Court rendered judgment on December 20, 2022 to dismiss the Removal Action. SFIPC disagreed court judgment and filed petition for appeal to Supreme Court. Nevertheless, since Mr. K.S. Pua had resigned from the Company’ s chairman and board director position on November 18, 2021, the Removal Action’ s future development has no influence to the Company. With regard to the Class Action, even though its future development and possible consequence could not be assessed by the Company, at current stage it has no significant influence to the Company’ s finance and operations.

13. Addition disclosures

- (1) Information on significant transactions:

The following is the information on significant transactions required by the “Regulations Governing the Preparation of Financial Reports by Securities Issuers” for the Company:

- A. Loans to other parties: None
- B. Guarantees and endorsements for other parties: None
- C. Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures): Please refer to Table 1.
- D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- E. Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- F. Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 20% of the capital stock: None
- G. Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 2.
- H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20% of the capital stock: Please refer to Table 3.
- I. Trading in derivative instruments: Please refer to Notes 6(2).

Phison Electronics Corp.
Notes to the Parent Company Only Financial Statements

- (2) Information on investees (excluding information on investees in Mainland China): Please refer to Table 4.
- (3) Information on investment in Mainland China:
- A. The names of investees in Mainland China, the main businesses and products, and other information: Please refer to Table 5.
- B. Limitation on investment in Mainland China: Please refer to Table 5.
- C. Significant transactions:
- For the year ended December 31, 2023, the significant inter-company transactions with the subsidiary in Mainland China, which were eliminated in the preparation of consolidated financial statements, are disclosed in “Information on significant transactions” .
- (4) Major shareholders:

(in units of shares)

Shareholder' s Name	Shareholding	Shares	Percentage
Trust Investment Account of KIOXIA Corporation by First Bank		19,821,112	9.67%

Note 1: The information of major shareholders presented in this table is provided by the Taiwan Depository & Clearing Corporation based on the number of ordinary shares and preferred shares held by shareholders with ownership of 5% or greater, that have been issued without physical registration (including treasury shares) by the Company as of the last business day for the current quarter. The share capital in the consolidated financial statements may differ from the actual number of shares that have been issued without physical registration because of differences in the basis of preparation.

Note 2: If the aforementioned data contains shares which are held in trust by the shareholders, the data is disclosed as a separate account of client which was set by the trustee. As for the shareholder who reports share equity as an insider whose shareholding ratio is greater than 10%, in accordance with the Securities and Exchange Act, the shareholding ratio includes the self-owned shares and shares held in trust, and at the same time, the shareholder has the power to decide how to allocate the trust assets. For the information on the reported share equity of insider, please refer to the Market Observation Post System.

14. Segment information

Please refer to consolidated financial statements for the year ended December 31, 2023.

Phison Electronics Corp.

Securities held as of December 31, 2023 (excluding investment in subsidiaries, associates and joint ventures)

December 31, 2023

Table 1

(Shares in Thousands /Amounts in Thousands)

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	Fair Value
The Company	<u>Common shares</u>						
	Apacer Technology Inc.	-	Financial assets at fair value through profit or loss – current	12,555	777,129	10.23	777,129
	Orient Semiconductor Electronics, Ltd.	-	Same as above	1,536	83,732	0.19	83,732
	Acer Synergy Tech Corp.	-	Same as above	90	7,452	0.41	7,452
					<u>868,313</u>		
	AppWorks Fund II Co., Ltd.	-	Financial assets at fair value through profit or loss – non-current	4,455	88,372	11.11	88,372
	Taiwan Capital Buffalo Fund Co., Ltd. (formerly known as Taishan Buffalo Investment Co., Ltd.)	-	Same as above	46,300	30,649	1.08	30,649
	Innorich Venture Capital Corp.	-	Same as above	3,000	13,698	5.61	13,698
	JAFECO ASIA TECHNOLOGY FUND VI L.P.	-	Same as above	1,000	3,704	0.67	3,704
					<u>136,423</u>		

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	
The Company	CAL-COMP INDUSTRIA DE SEMICONDUCTORES S.A.	-	Financial assets at fair value through other comprehensive income — non-current	11,966	116,876	17.16	116,876
	AppWorks Fund III Co., Ltd.	-	Same as above	8,385	64,689	2.92	64,689
	Adam Elements International Co., Ltd.	-	Same as above	1,710	20,930	19.00	20,930
	H3 Platform, Inc.	-	Same as above	18,400	1,818	12.14	1,818
	Gospal Ltd.	-	Same as above	811,857	3,059	3.19	3,059
	AppWorks Fund IV L.P.L	-	Same as above	100,000	71,926	8.43	71,926
	Aptos Technology Inc.	-	Same as above	212	-	0.35	-
	THLight Co., Ltd.	-	Same as above	6,388	-	12.79	-
	GeoThings, Inc.	-	Same as above	150	-	3.13	-
	Ironyun Incorporated	-	Same as above	5,000	-	2.94	-
	Deep Mentor Inc.	-	Same as above	700	16,800	3.72	16,800
	<u>Private equity funds</u>				296,098		
	Fuh Hwa Smart Energy Fund	-	Financial assets at fair value through profit or loss — non-current	6,000	27,201	3.78	27,201

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	
Lian Xu Dong Investment Corporation	<u>Common shares</u>						
	Translink Capital Partners III, L.P.	-	Financial assets at fair value through profit or loss — non-current	1,500	42,755	1.18	42,755
	Translink Capital Partners IV L.P	-	Same as above	960	35,878	0.59	35,878
					78,633		
	Liquid, Inc. (preference shares)	-	Financial assets at fair value through other comprehensive income — non-current	2,111	42,105	4.75	42,105
	Translink Capital Partners V, L.P.	-	Same as above	1,050	21,848	1.71	21,848
	Taiwania Capital Buffalo Fund V, LP.	-	Same as above	50,000	38,861	3.19	38,861
	Cathy Private Equity Smart Technology Limited Partnership	-	Same as above	30,000	21,786	7.39	21,786
	New Future III Limited Partnership	-	Same as above	28,003	20,770	3.38	20,770
	Omni Media International Incorporation	-	Same as above	1,714	7,697	2.60	7,697
Emtops Electronics Corporation	My Digital Discount, Inc.	-	Financial assets at fair value through other comprehensive income — non-current		153,067	19.00	-
				-	-		

Name of Holder	Type and Name of Marketable Securities	Relationship with Company	Account Title	Ending Balance			Note
				Shares/Units	Carrying Value	Percentage of Ownership (%)	
Phisontech Electronics	<u>Beneficiary certificates — open-end funds</u>						
	FSITC Money Market Fund	-	Financial assets at fair value through profit or loss — current	167	30,568	-	30,568
	Franklin Templeton Sinoam Money Market Fund	-	Same as above	1,917	20,369	-	20,369
	FSITC Taiwan Money Market Fund	-	Same as above	1,295	20,385	-	20,385
	Mega Diamond Money Market Fund	-	Same as above	1,580	20,385	-	20,385
	Capital Money Market Fund	-	Same as above	1,229	20,387	-	20,387
Super Storage Technology Corporation	<u>Common shares</u>				112,094		
	Power Research Technology Corp.	-	Financial assets at fair value through other comprehensive income — non-current	833	8,292	12.53	8,292

Phison Electronics Corp.

**Related-party transactions for purchases and sales with amounts exceeding the lower of NT\$100 million or 20% of the capital stock
For the year ended December 31, 2023**

Table 2

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable) (%)	
The Company	Kioxia Taiwan Corporation	The subsidiary of KIC	Purchase	10,032,575	35	Net 30 days after monthly closing	None	None	(1,028,950)	(16)	
	Super Storage Technology Corporation	Sub-subsiidiary	Processing cost	504,947	2	Net 30 days after monthly closing	None	None	(115,699)	(2)	
	Kioxia Corporation	The Company's director	Sales	(420,574)	(1)	Net 60 days after monthly closing	None	None	162,859	2	
	Solid State Storage Technology Corporation (including Hsinchu Science Park Branch)	The subsidiary of KIC	Sales	(424,233)	(1)	Net 60~90 days after monthly closing	None	None	84,234	1	
	Apacer Technology Inc.	The Company is its director	Sales	(1,052,816)	(2)	Net 45 days after monthly closing	None	None	351,979	4	
	UD INFO Corp.	The Company is its Parent Company's director	Sales	(307,446)	(1)	Net 45 days after monthly closing	None	None	43,336	-	

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Receivable (Payable)		Note
			Purchase/Sales	Amount	Percentage of Total Purchases/Sales (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance	Percentage of Total Notes/Accounts Receivable (Payable) (%)	
The Company	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	Sales	(2,543,887)	(5)	Net 45~75 days after monthly closing	None	None	1,116,443	12	
	Hefei Datang Storage Technology Co., Ltd.	The subsidiary of Hefei Xinpeng	Sales	(132,698)	-	T/T in advance to net 60 days after monthly closing	None	None	24,501	-	
	Hosin Global Electronics Co., Ltd. (SZ)	Associate	Sales	(100,275)	-	Net 30 days after and net 75 days after monthly closing	None	None	146	-	
	Nextorage Corporation	Subsidiary	Sales	(608,197)	(1)	Net 60 days after monthly closing	None	None	94,253	1	
	Phison Technology Inc.	Sub-subsubsidiary	Sales	(494,907)	(1)	Net 45 days after monthly closing			165,029	2	
	ProGrade Digital Incorporated	Associate	Sales	(346,916)	(1)	Net 30 days after monthly closing	None	None	24,234	-	

Note 1: The sales and purchase price to related parties were similar to those offered to non-related parties.

Phison Electronics Corp.

Receivables from Related Parties Amounting to at least NT\$100 Million or 20% of the Paid-in Capital

December 31, 2023

Table 3

(Amounts in Thousands)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period (Note 1)	Allowance for Bad Debts	Note
					Amount	Action Taken			
The Company	Apacer Technology Inc.	The Company is its director	351,979	4.33	-	-	351,977	599	
	Kioxia Corporation	The Company's director	162,859	1.80	-	-	162,859	277	
	Hosin Global Electronics Co., Ltd. (HK)	The subsidiary of Hosin Global (SZ)	1,116,443	3.79	-	-	614,617	1,901	
	Phison Technology Inc.	Sub-subsiidiary	165,029	6.00	-	-	139,142	-	

Note 1: Information as of February 29, 2024.

Phison Electronics Corp.
Information on Investees (Excluding Information on Investees in Mainland China)
For the year ended December 31, 2023

Table 4

(Amount in Thousands)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023		Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)			
The Company	Global Flash Limited	Samoa	Investment and trade	726,307	726,307	22,100,000	100.00	(134,528)	(134,528)	Subsidiary
	Regis Investment (Samoa) Limited	Samoa	Investment	655,995	655,995	21,900,000	100.00	(117,244)	(117,244)	Subsidiary
	Phisontech Electronics Taiwan Corp.	Taiwan	Investment and trade	58	581,363	55,000,000	100.00	59,213	59,226	Subsidiary
	Lian Xu Dong Investment Corporation	Taiwan	Investment	650,000	650,000	65,000,000	100.00	(18,199)	(18,199)	Subsidiary
	EpoStar Electronics (BVI) Corporation	British Virgin Islands	Investment	79,531	79,531	6,288,523	30.51	(1,991)	(607)	Investee accounted for using the equity method
	Entops Electronics Corporation	Taiwan	Investment	380,000	380,000	38,000,000	100.00	20,694	20,694	Subsidiary
	Nextorage Corporation	Japan	R&D, design, manufacture and sale of flash memory application products	219,715	219,715	12,000	100.00	108,939	108,939	Subsidiary
	Power Flash (Samoa) Limited	Samoa	Investment and trade	150,190	150,190	4,800,000	100.00	6,082	6,082	Subsidiary
	ProGrade Digital Inc.	USA	Flash memory related products and market development	83,439	83,439	2,785,000	28.71	74,245	21,315	Investee accounted for using the equity method
	Phison Electronics Japan Corp.	Japan	Sales and service office	59,508	59,508	2,000	100.00	753	753	Subsidiary

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2023		Net Income (Losses) of Investee	Share of Profits/Losses of Investee	Note
				December 31, 2023	December 31, 2022	Shares	Percentage of Ownership (%)			
The Company	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	8,768	8,768	2,299,990	100.00	9,354	876	Subsidiary
	Microtops Design Corporation	Taiwan	Development and design of flash memory controllers and related products	22,638	22,638	2,263,800	49.00	26,198	479	Investee accounted for using the equity method
								6,898,032	(52,214)	
Lian Xu Dong Investment Corporation	Ostek Corporation	Taiwan	Manufacture and trade of electronic components	9,000	9,000	900,000	100.00	26,866	(253)	Sub-subsidiary
	Phison Technology Inc. USA	USA	Sale of electronic products and business service office	90,419	90,419	3,000,000	100.00	151,059	18,804	Sub-subsidiary
	Phison Technology India Private Limited	India	Design, R&D, import and export of storage devices and electronic components	-	-	10	-	-	877	Subsidiary
Phisontech Electronics Taiwan Corp.	Super Storage Technology Corporation	Taiwan	Manufacture and trade of electronic components	452,954	452,954	34,842,595	100.00	646,160	60,126	Sub-subsidiary
	Core Storage Electronic (Samoa) Limited	Samoa	Investment and trade	636,593	636,593	19,150,000	100.00	2,890,791	(134,384)	Sub-subsidiary
	Power Flash (Samoa) Limited	Hong Kong	Sales and trade of electronic products	98,754	98,754	3,000,000	100.00	101,301	4,239	Sub-subsidiary
Regis Investment (Samoa) Limited	RealYou Investment Limited	Hong Kong	Investment	654,726	654,726	21,850,000	100.00	1,309,063	(117,129)	Sub-subsidiary

Note: The share of profits/losses of the investee company is not disclosed herein as such amount is already included in the share of profits/losses of the investor company.

Phison Electronics Corp.
Information on Investment in Mainland China
For the year ended December 31, 2023

Table 5

(Amounts in Thousands)

(1) The names of investees in Mainland China, the main businesses and products, and other information

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from January 1, 2023	Investment Flows		Accumulated Outflow of Investment from December 31, 2023	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2023	Note
					Outflow	Inflow							
Ruhan Electronic Technology Limited	Design, R&D, sale of electronics product and technical support service and rendering of related services and investment	182,825	2(1)	182,825	-	-	182,825	(54,967)	100.00	(54,967)	124,542	-	
Hefei Xinpeng Technology Co., Ltd.	R&D, production and sale of electronic product and technical service and rendering of related services and investment	735,136	2(1)	-	-	-	-	(226,654)	24.23	(54,923)	118,508	-	
Hosin Global Electronics Co., Ltd. (SZ)	R&D and sale of electronic product and technical service and rendering of related services	1,958,329	2(1) and 2(2)	442,780	-	-	442,780	911,461	35.83	(197,411)	3,568,743	-	

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, 2023	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2023	Net Income (Losses) of the Investee	Percentage of Ownership (%)	Investment Income (Losses)	Book Value	Accumulated Remittance of Earnings in as of December 31, 2023	Note
Power Storage Technology (Shenzhen) Limited	Design, R&D, import and export of storage devices and electronic components	43,520	2(3)	43,520	Outflow	Inflow	43,520	1,892	100.00	1,892	45,539	-	
					-	-							

(2) Limitation on investment in Mainland China

Accumulated Investment in Mainland China as of December 31, 2023	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment (Note 2)
669,125	1,380,908	25,672,892

Note 1: Method of investment.

1. Direct investment in the company in Mainland China.
2. Indirect investment in Mainland China through an existing investee company in a third region.
 - (1) Indirect investment in Mainland China through an existing investee company (Regis Investment (Samoa) Limited) in a third region.
 - (2) Indirect investment in Mainland China through an existing investee company (Global Flash Limited) in a third region
 - (3) Indirect investment in Mainland China through an existing investee company (Power Flash (Samoa) Limited) in a third region.

Note 2: In accordance with the Regulations Governing the Examination of Investment or Technical Cooperation in Mainland China amended on August 29, 2008, the limitation on investment in Mainland China shall not exceed 60% of the Company' s net worth.

Phison Electronics Corp.
Statement of Cash and Cash Equivalents
December 31, 2023
(Expressed in Thousands of New Taiwan Dollars,
Unless Otherwise Specified)

Item	Description	Amount
Cash	Petty cash and cash on hand	\$ 135
	Demand deposits	4,696,008
	Time deposits	1,857,650
	Foreign demand deposits (USD : 181,194 thousand ; JPY : 2,837 thousand ; CNY : 188 thousand)	5,564,997
	Foreign time deposits (CNY : 20,000 thousand)	86,540
	Subtotal	12,205,195
	Total	<u><u>\$ 12,205,330</u></u>

Note: The exchange rates at the balance sheet date were as follows:

USD to NTD: 30.705

JPY to NTD: 0.217

CNY to NTD: 4.327

Phison Electronics Corp.
**Statement of Financial Assets Measured at
Value through Profit or Loss— Current and
Non-current**
December 31, 2023

Please refer to note 6(2) for further information of financial assets measured
at fair value through profit or loss.

Statement of Financial Assets Measured at Fair Value

Please refer to note 6(4) for further information of financial assets measured
at fair value through other comprehensive income — non-current.

Phison Electronics Corp.
Statement of Accounts Receivable
December 31, 2023
(Expressed in Thousands of New Taiwan Dollars)

<u>Name of customer</u>	<u>Amount</u>
Related parties	
Company A	\$ 1,118,344
Company B	352,578
Company C	165,029
Company D	163,136
Others (the amount of individual customer does not exceed 5% of the account balance)	<u>271,854</u>
Subtotal	2,070,941
Less: loss allowance	<u>(3,685)</u>
	<u>\$ 2,067,256</u>
Unrelated parties	
Company E	\$ 1,431,400
Company F	546,164
Company G	491,105
Company H	432,540
Others (the amount of individual customer does not exceed 5% of the account balance)	<u>4,734,784</u>
Subtotal	7,635,993
Less: loss allowance	<u>(56,300)</u>
	<u>\$ 7,579,693</u>

Note: Accounts receivable are generated from operating activities.

Phison Electronics Corp.

Statement of Inventories

December 31, 2023

(Expressed in Thousands of New Taiwan Dollars)

Item	Amount	
	Cost	Net realizable value
Raw materials	\$ 15,903,013	19,955,291
Work in process	5,137,785	6,659,654
Semi-finished goods	3,085,446	4,059,326
Finished goods	105,482	164,372
Total	\$ 24,231,726	30,838,643

Statement of Other Current Assets

Item	Amount
Temporary payments	\$ 839

Statement of Prepayments

Item	Amount
Prepayment for purchases	\$ 43,943
Prepaid insurance	14,387
Others (individual amount does not exceed 5% of the account balance)	46,273
Total	\$ 104,603

Phison Electronics Corp.
Statement of Movements in Investments Accounted for Using the Equity Method
For the year ended December 31, 2023
(Expressed in Thousands of New Taiwan Dollars, in thousands shares)

Name of investee	Beginning balance		Share of profits/losses of investee	Capital surplus	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) from investments in equity instruments measured at fair value through other comprehensive income	Other adjustments	Unrealized gain on transaction	Ending balance		Percentage of ownership (%)	Net assets value	Pledged as collateral
	Shares	Amount							Shares	Amount			
ProGrade Digital Inc.	2,785	\$ 126,981	21,315	-	(322)	-	-	35	2,785	148,009	28.71	382,741	None
EpoStar Electronics (BVI) Corporation	6,289	206,796	(607)	-	-	(4,776)	-	-	6,289	201,413	30.51	660,155	None
Microtops Design Corporation	2,264	25,719	479	-	-	-	-	-	2,264	26,198	49.00	53,464	None
Nextorage Corporation	12	417,357	108,939	-	(29,700)	-	-	-	12	496,596	100.00	496,596	None
Lian Xu Dong Investment Company	65,000	486,585	(18,199)	-	-	16,523	-	-	65,000	484,909	100.00	484,909	None
Emtops Electronics Corp.	38,000	392,286	20,694	-	(12)	-	4,864	-	38,000	417,832	100.00	417,832	None
Phison Electronics Japan Corp.	2	29,256	753	-	(1,930)	-	-	-	2	28,079	100.00	28,079	None
Phisontech Electronics Taiwan Corp	55,000	707,425	59,226	-	-	(2,106)	-	-	55,000	764,545	100.00	764,481	None
Power Flash (Samoa) Limited	4,800	148,096	6,082	-	(924)	-	-	-	4,800	153,254	100.00	153,254	None
Regis Investment (Samoa) Limited	21,900	1,148,118	(117,244)	296,446	(29,361)	-	-	(14,071)	21,900	1,283,888	100.00	1,310,234	None
Global Flash Limited	22,100	2,666,489	(134,528)	449,911	(61,759)	-	-	(36,158)	22,100	2,883,955	100.00	2,940,091	None
Phison Technology India Private Limited	2,300	8,533	876	-	(55)	-	-	-	2,300	9,354	100.00	9,354	None
Total		\$ 6,363,641	(52,214)	746,357	(124,063)	9,641	4,864	(50,194)		6,898,032		7,701,190	

Phison Electronics Corp.
Statement of Movement in Right-of-Use Assets
For the year ended December 31, 2023

Please refer to note 6(11) for further information of lease.

Statement of Movement in Intangible Assets

Please refer to note 6(12) for further information of intangible assets.

Statement of Other Non-current Assets
December 31, 2023
(Expressed in Thousands of New Taiwan Dollars)

Item	Amount
Refundable deposits	\$ 1,733,246
Prepayments for equipment	<u>301</u>
	<u>\$ 1,733,547</u>

Phison Electronics Corp.
Statement of Accounts Payable
December 31, 2023
(Expressed in Thousands of New Taiwan Dollars)

Vendor name	Amount
Related parties	
Company I	\$ 1,028,950
Company J	115,699
Others (the amount of individual vendor does not exceed 5% of the account balance)	<u>3,833</u>
	<u>\$ 1,148,482</u>
Unrelated parties	
Company K	\$ 1,280,981
Company L	468,039
Company M	420,744
Company N	391,756
Company O	349,011
Company P	275,370
Others (the amount of individual vendor does not exceed 5% of the account balance)	<u>2,126,729</u>
	<u>\$ 5,312,630</u>

Note: Accounts payable are generated from operating activities.

Phison Electronics Corp.
Statement of Other Payables
December 31, 2023

Please refer to note 6(14) for further information of other payables.

Statement of Other Current Liabilities

Please refer to note 6(15) for further information of other current liabilities.

Statement of Lease Liabilities
(Expressed in Thousands of New Taiwan Dollars)

Item	Summary	Lease period	Discount rate	Ending balance	Note
Building	Plant and dormitory	2-5 years	0.508%-5.9%	\$ 77,523	
Transportation equipment	Company car	2-3 years	0.81%-6%	687	
Others	Testing equipment	3 years	6%	49,151	
				127,361	
Less: lease liabilities, current portion				(54,593)	
				<u><u>\$ 72,768</u></u>	

Phison Electronics Corp.
Statement of Operating Revenue
For the year ended December 31, 2023
(Expressed in Thousands of New Taiwan Dollars)

<u>Item</u>	<u>Quantity</u>	<u>Amount</u>
Operating revenue:		
Flash memory module products	124,394 thousand	\$ 36,560,573
Integrated Circuit	10,781 thousand	1,111,725
Controllers	226,044 thousand	8,473,898
Others		<u>1,673,744</u>
		47,819,940
Less: Sales returns and allowances		<u>(306,932)</u>
Net operating revenue		<u><u>\$ 47,513,008</u></u>

Phison Electronics Corp.
Statement of Operating Costs
For the year ended December 31, 2023
(Expressed in Thousands of New Taiwan Dollars)

Item	Amount
Raw materials	
Beginning balance of raw materials	\$ 14,757,068
Add: Raw materials purchased	28,277,846
Less: Others	615,140
Ending balance of raw materials	<u>15,903,013</u>
Direct raw material	26,516,761
Direct labor	13,537
Manufacturing overhead	<u>8,272,434</u>
Manufacturing cost	34,802,732
Add: Beginning balance of work-in -process	2,423,833
Beginning balance of semi-finished goods	2,972,532
Work-in-process and semi-finished goods purchased	144,361
Less: Ending balance of work-in -process	5,137,785
Ending balance of semi-finished goods	3,085,446
Others	<u>252,181</u>
Cost of finished goods	31,868,046
Add: Beginning balance of finished goods	130,882
Finished goods purchased	573
Less: Ending balance of finished goods	105,482
Others	<u>7,874</u>
Cost of finished goods	31,886,145
Add: Merchandise purchased	<u>700</u>
Total cost of sales	<u><u>\$ 31,886,845</u></u>

Phison Electronics Corp.

Statement of Operating Expenses

For the year ended December 31, 2023

(Expressed in Thousands of New Taiwan Dollars)

Item	Marketing expenses	General and administrative expenses	Research and development expenses	Expected credit loss (gain)
Payroll expense	\$ 297,673	512,177	6,747,197	-
Promotion service	586,834	-	-	-
Mask expense	-	-	763,471	-
Commission expense	92,628	-	-	-
Amortization	-	45,245	469,213	-
Depreciation	3,751	78,115	353,601	-
Labor expense	95	54,920	41,763	-
Sample expense	58,437	-	-	-
Impairment loss	-	-	-	(50,759)
Others (individual amount does not exceed 5% of the account balance)	119,088	130,837	1,933,859	-
Total	\$ 1,158,506	821,294	10,309,104	(50,759)

Phison Electronics Corp.

Chairman: Wee Kuan Gan



PHISON

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